nsfgroup

Non-Standard Finance plc
Annual Report & Accounts 2021

nsfgroupplc.com

Contents

1 The Home credit division went into administration on 15 March 2022 and is no longer part of the Group (see note 34 to the financial statements)

Overview

Our purpose

Helping those excluded by mainstream lenders to meet their financial needs

What we do

We provide unsecured credit to those who are unable or unwilling to borrow from mainstream lenders and we aim to meet customers face-to-face but can also conduct our business remotely. Whilst expensive to operate, our approach often means we can lend when others can't (or won't)

How we do it

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

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
Workforce	We aim to ensure that our workforce is well-trained, professional and highly motivated to succeed
Regulators	Maintaining good relations with regulators helps us to identify and resolve issues, ensuring the delivery of good customer outcomes
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 aim to 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 40 to 50.

2021 overview

Whilst the Group saw a return to positive normalised operating profit in 2021, the fallout from the pandemic and ongoing regulatory issues meant that the Group reported a pre-tax loss, the home credit division was put into administration and guarantor loans is now in a managed run-off. However, our branch-based lending business is emerging from the pandemic and, having completed a detailed regulatory review, was not required to pay any customer redress. As soon as practicable, we plan to execute a substantial capital raise in order to fund agreed customer redress in guarantor loans, strengthen our balance sheet and transform the Group's future prospects. Should such a capital raise be unsuccessful or take longer than expected to execute, then there would be a material risk of the Group going into insolvency. However, the Directors continue to believe there is a reasonable prospect of resolving this position and that therefore the Group remains a going concern.

Financial summary

Reported results

Combined loan book

£208.0m

(19)% **(2020: £258.2m)**

Revenue

£131.4m

(19)% **(2020: £162.7m)**

Loss before tax

£(29.6)m

(78)% **(2020 loss before tax: £(135.7)m)**

Basic and fully diluted (loss) per share

(9.50)p

(78)% **(2020: (43.39)p)**

Dividend per share

nil

(0)% **(2020: nil)**

Normalised results[1]

Combined loan book

£208.0m

(19)% **(2020: £258.2m)**

Revenue

£131.4m

(20)% **(2020: £164.1m)**

Loss before tax

£(16.7)m

(53)% **(2020 loss before tax: £(35.2)m)**

Basic and fully diluted (loss) per share

(5.36)p

(52)% **(2020: (11.25)p)**

Dividend per share

nil

(0)% **(2020: nil)**

Key developments

- The uncertain macroeconomic and regulatory environment meant that the net loan book[2] reduced by 28%
- Regulatory reviews resulted in the guarantor loans division being placed into managed run-off
- Following the impact of the pandemic and regulatory issues, the home credit division went into administration on 15 March 2022
- In sharp contrast, with no requirement for customer redress, our branch-based lending business continued to recover with a return to profitability at the normalised operating level[1]
- Cash balances increased to £114.6 million (2020: £78.0 million)
- Whilst the Group 's loan to value ratio was higher as at the quarter date on 31 March 2022 than the level permitted under its loan to value covenant , it remains a going concern and has received waivers to enable a substantial capital raise in the second half of 2022 which, if successful would be used to cure the current breach, fund customer redress and strengthen the Group's balance sheet
- Should a capital raise fail to take place or be significantly delayed there would be a material risk of the Group becoming insolvent

1 See glossary of alternative performance measures and key performance indicators in the Appendix.
2 For a reconciliation of net loan book growth see table in the 2021 financial review on page 28.

The leader in branch-based lending

Our proven business model and strong market position means we are well-placed to deliver attractive long-term returns

Our business approach

When lending to non-standard credit customers, we know that understanding our customers' needs is paramount: we follow a detailed process designed to help ensure loans are affordable and if a customer gets into difficulty, we try and find a solution that works for all. We aim to meet our applicants face-to-face as we believe that this helps to establish a strong relationship with the customer, a key feature of our business model. However, where that is not possible, we rely on a tailored customer journey using both web and phone that we continue to evolve and improve.

Our culture and values

Having a positive business culture supported by clear values has allowed us to continue to support our customers and workforce through what has been an unprecedented shock for all areas of the UK economy.

Our values

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

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.

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

4. Clear communication
We listen carefully to those dealing directly with our customers; we are well-informed and believe it's our duty to speak up when we disagree, or believe something is not right; we celebrate success and don't blame others when something goes wrong, always learning from our mistakes.

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

Our 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

We believe that, meeting the customer face-to-face is an important part of our underwriting process and helps us to 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.

Branch-based lending is the Group's core lending activity

National network

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

75

Locally-based branches[1]

Well-trained staff

Our staff received over 10,500 hours of training in 2021 as we are determined to continue to improve the quality of our service to customers.

472

Staff[1]

Customers

Our customers are the key to our long-term success. Whilst the pandemic impacted our scale as lending volumes reduced, we are determined to rebuild the loan book that was £157.1m at the end of 2021.

66,000

Customers[1]

1 *As at 31 December 2021.*
2 *See glossary of alternative performance measures and KPIs in the Appendix. A reconciliation of the calculation of combined net loan book is set out on page 28*

Strategic report
Chairman's statement

Introduction

The continued impact of the pandemic, together with a series of significant regulatory challenges, impeded the positive recovery in the Group's financial performance in 2021 that was driven in large part by a much improved result from Everyday Loans, the Group's branch-based lending business. Resolving the Group's outstanding regulatory issues has been a more detailed process and taken longer than expected that has delayed our plans to complete a substantial capital raise ('Capital Raise'). Placing our guarantor loans business into managed run off and our home credit business into administration (see below) were particularly challenging. However, I wish to convey my sincere thanks to the management teams and colleagues that have displayed immense resilience and professionalism in the most difficult of circumstances.

As detailed in the Group Chief Executive's review, developing a redress methodology for certain customers of the Group's guarantor loans business and having to place home credit into administration, were painful but necessary steps taken over the past twelve months. They were however, in the best interests of stakeholders overall and have helped to unblock the path towards the execution of the Capital Raise (see below) which, if successful, the Board expects will be used to fund customer redress, strengthen the Group's balance sheet and significantly improve its prospects.

Whilst the Group has obtained waivers from its lenders in relation to the administration of the home credit division, as at the date of signing the financial statements, its loan to value ratio was higher as at the quarter date on 31 March 2022 than the level permitted under its loan to value covenant following large interest payments made during the first quarter of 2022. To address this, the Group has also received waivers and extensions from its lenders in order to avoid a covenant breach so that it can proceed with the planned Capital Raise and it is the Directors' reasonable expectation that the Group and Company can continue to operate and meet its liabilities as they fall due for the next 12 months. On that basis, the Directors continue to adopt the going concern basis in preparing these accounts.

Below I have provided an overview of the Group's performance in 2021, the regulatory issues faced, the planned Capital Raise and other matters that are also covered in more detail in the Group Chief Executive's review on pages 11 to 15 and the financial review on pages 26 to 39, as well as the consolidated financial statements on pages 109 to 161.

2021 results

The financial results for 2021 were a significant improvement on 2020 and were [slightly] ahead of our previous expectations, albeit that the Group again reported a pre-tax loss. Once again, the full year results were impacted by a number of non-operating items, further details of which are set out below. While the recovery in market demand was somewhat softer than we had expected with the result that reported revenues were down 19% to £131.4m (2020: £162.7m), cost savings and enhancements to our lending processes and systems that helped to deliver a marked reduction in impairment meant that the Group returned to profitability and delivered a reported operating profit[1] of £7.1m (2020: operating loss of £24.5m).

A small reduction in finance costs meant that on a normalised basis[1], the Group produced a much reduced loss before tax of £16.7m (2020 loss before tax: £35.2m) and a loss per share of 5.36 pence (2020 loss per share of 11.25 pence). Exceptional charges of £12.9m (2020: £97.8m) included an increase in the estimated costs of customer redress in guarantor loans and the write-down of assets and the recognition of liabilities in the home credit division , that resulted in a statutory loss before tax of £29.6m (2020 loss before tax: £135.7m) and a statutory loss per share of 9.50 pence (2020: statutory loss per share of 43.39 pence). Further details on the Group's financial performance in 2021 are contained in the Group Chief Executive's review on pages 11 to 15 and the financial review on pages on pages 26 to 39.

[1] *See glossary of alternative performance measures and KPIs in the Appendix.*

Reviews into branch-based lending and home credit

As explained in the Chief Executive's review, the conclusion from the two independent reviews was that while there was no requirement for customer redress in branch-based lending, after lengthy discussions with the FCA, the directors of the Group's home credit business, Loans at Home, reluctantly concluded that it was no longer viable and so the business was put into administration on 15 March 2022. Whilst deeply saddened and disappointed with this outcome, the Boards of Loans at Home and of NSF are clear that this was the only option available in order to preserve value for creditors. As the operations and activities of Loans at Home are separate from the rest of the Group and following the receipt of certain waivers from the Group's lenders, the administration of Loans at Home will have minimal impact on the rest of the Group's business.

Redress programme for certain guarantor loans customers

Following the FCA's detailed review of the Group's proposed redress methodology for certain customers of its guarantor loans business, the Group is continuing to work with the FCA on finalising the operational mechanics of the programme. The Board is hopeful that this will soon be finalised in order to provide certainty for investors so that it can then proceed with the Capital Raise. However, should the Group fail to reach agreement with the FCA regarding the mechanics of the programme such that there remains significant uncertainty regarding the quantum of potential redress liabilities, the Group may be forced to consider other options that can reduce such uncertainty, including a scheme of arrangement. Whilst such schemes are complex, time consuming and not guaranteed to be successful, the Board believes that were such a scheme to be pursued, it would stand a reasonable chance of success and would, along with needing to extend lending facilities, allow it to proceed with its planned capital raise (as described in further detail below). The Board therefore believes that it remains a going concern. The proceeds of the planned capital raise will be used, among other things, to fund redress payments to eligible GLD customers.

Capital raise, balance sheet and funding

Whilst disappointed that the Group's home credit business has been forced into administration, having concluded that there was no need for any customer redress in branch-based lending and pending finalisation of the redress methodology in guarantor loans, the Board is progressing plans for a substantial capital raise (the 'Capital Raise') and hopes to announce the terms of such an exercise during the second half of 2022. The Group's lenders have provided appropriate waivers until 15 June 2022, with a mechanism for this date to be extended further with lender support, so that the Group has sufficient time to execute the Capital Raise as planned.

If successful, the Capital Raise will reduce high levels of gearing, fund the payment of redress to certain customers of the Group and underpin the future growth of its branch-based lending business. In addition, provided the Group is able to obtain extensions to the term of its existing debt facilities, there would be no need for access to further debt funding in the short term, given the significant cash balances at the Group's disposal and it is hoped that in due course, the Group would be better placed to broaden its source of debt funding.

However, as the Group's loan to value ratio at 31 March 2022 was higher than the level permitted under its loan to value covenant following large interest payments made during the quarter, if the Group cannot obtain waivers from its lenders for potential future covenant breaches beyond 15 June 2022 and obtain extensions to the term of its existing debt facilities on terms acceptable to investors ahead of the Capital Raise completing, if it fails to reach agreement with the FCA with respect to the redress programme in guarantor loans, or if the outcome of any discussions with the FCA are such that the amount of redress is significantly higher than previously estimated, there is a risk that the Capital Raise may not be concluded or cannot be concluded in a timely manner. If either were to occur, or if the Group was otherwise unable to raise additional capital, in the event of a further covenant breach and without further waivers and/or extensions from the lenders, there is a material risk of the Group entering insolvency. However, the Directors continue to believe there is a reasonable prospect of resolving this position.

Business strategy

Whilst the shape and scale of the Group have changed significantly over the past 12 months, our purpose remains unchanged: through our continuing operations[1] we remain committed to meeting the needs of and helping those consumers who are either unable or unwilling to borrow from mainstream lenders. Non-standard consumer finance is a large market and the FCA identified that more than 14.2 million people have low financial resilience and may therefore find it more difficult to access mainstream credit[2]. At the same time, the supply of regulated non-standard consumer credit has reduced as a number of providers have either closed or exited the market.

Given the scale and market position of Everyday Loans, we believe that, subject to the successful completion of the Capital Raise, the Group is well-placed to benefit from an increasing proportion of previously mainstream credit customers being driven into the non-standard sector following a significant tightening of lending criteria by mainstream lenders as well as the exit of a number of providers from the market.

[1] *The home credit division was put into administration on 15 March 2022 and no longer forms part of the Group. Whilst the Group's guarantor loans business remains open, it has been placed into a managed run-off and will not write any new loans in the future.*
[2] *Financial Lives Survey - FCA, 11 February, 2021*

In order to fulfil our purpose, our business strategy comprises three elements:

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

Branch-based lending is the driving force behind the Group's performance and the Board's primary focus is on capitalising on the core strengths of Everyday Loans - its network, its people and its proven business model. We continue to believe that there is a significant opportunity to grow the business through organic expansion and productivity gains through careful investment in technology and people.

Whilst the execution of this strategy is contingent on raising additional equity capital, which as explained in the Chief Executive's review, is dependent on a number of factors, the Board remains confident of completing the Capital Raise as planned.

Further details on each of the three elements of our business strategy can be found on pages 16 to 17.

Regulation

We remained in close and regular contact with the FCA during 2021 as we sought to conclude on each of the outstanding regulatory issues facing the Group. We have also continued to keep abreast of the latest regulatory developments, participate in industry forums and engage with other key stakeholders for whom regulation of the non-standard consumer finance sector is important.

These include the Financial Ombudsman Service ('FOS') that continues to perform an important and valuable service for consumers in ensuring that they receive a good service and that complaints are handled appropriately by regulated firms. We are continuing to engage actively with FOS, the FCA and HM Treasury to seek to ensure that we are in step with their latest thinking about what good looks like and are grateful for their continued support and advice.

Whilst considerable macroeconomic uncertainties remain, the Board is hopeful that, having completed a detailed regulatory review with no requirement for customer redress for branch-based lending and upon finalisation of the operational mechanics of the redress programme in guarantor loans, that there will be a period of relative stability in terms of regulatory change, enabling the branch-based lending business to rebuild its loan book.

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

Environmental, Social and Governance ('ESG')

ESG matters have become increasingly important to a broad range of key stakeholders. Sarah Day, the Group Company Secretary is responsible for managing these risks as we prepare to meet our disclosure obligations in the 2022 Annual Report. We have also considered a number of other related standards and protocols in developing our approach to identifying, managing and measuring ESG-related risks and opportunities and have included a summary of our approach in this annual report (see page 25).

No final dividend

Despite the marked improvement in performance at the operating profit level, the Group still delivered a pre-tax loss and given the financial position of the Company and the fact that as at 31 December 2021 the Company did not have any distributable reserves and so was unable to pay cash dividends, no final dividend will be paid. Assuming that the Capital Raise is completed successfully, the Company will undertake a process to seek to create positive distributable reserves so that, when and if appropriate, the Board can consider the payment of cash dividends to shareholders at some point in the future.

Outlook

The outlook for the Group is entirely dependent upon completing the Capital Raise. If successful, such a capital raise would fund the payment of customer redress and significantly strengthen the Group's balance sheet. The Board believes that the Capital Raise is the best course of action in order to avoid insolvency, to safeguard the interests of shareholders and other stakeholders and to underpin future growth.

Whilst disappointed that the home credit division has gone into administration, the fact that this will have minimal impact upon the rest of the Group and given there was no requirement for customer redress for branch-based lending, as soon as the redress mechanics in guarantor loans are finalised, we can move ahead with the Capital Raise. The Board is therefore progressing the work necessary to ensure that the Capital Raise can be completed as soon as practicable.

The Board believes that if a satisfactory outcome regarding the redress mechanics in guarantor loans is reached, the Group can obtain waivers from its lenders for any potential future covenant breaches beyond 15 June 2022 and/pr prior to the Capital Raise completing, and assuming the proposed extension to the term of the Group's existing facilities by its lenders is concluded on terms acceptable to investors (which itself is likely to be dependent on a successful capital raise), the Group and Company can reasonably expect to raise sufficient new capital to enable them to continue to operate and meet their respective liabilities as they fall due for the next 12 months. The Board has therefore adopted the going concern basis of accounting. The Board's position is, in part, informed by the fact that Alchemy remains supportive of a capital raise subject to: an outcome of the Group's engagement with its lenders that is acceptable to Alchemy; Alchemy's analysis of the outcome of the Group's discussions with the FCA regarding the regulatory position of the Group's divisions and the implications of that on (and Alchemy's assessment of) the Group's business plan and financial projections; and greater levels of certainty around redress and claims.

Whilst the fallout from the Ukrainian crisis means that macroeconomic uncertainty remains high, recent trading in branch-based lending and guarantor loans has been in-line with management's expectations. Lending volumes in January, February and March 2022 were a little higher than expected and collections and impairment performance has also been better than expected, delivering a promising start to the year.

Our focus in 2022 is to recover the ground lost due to the pandemic and following the enormous structural changes to our business over the past two years. As outlined in the 2021 financial review, this recovery will require that we restore the momentum in our branch-based lending business through a combination of investment in staffing, technology and process-driven productivity improvements against a backdrop of recovering demand for non-standard consumer credit.

Given the Group's pre-eminent position in branch-based lending, the Board continues to believe that, subject to funding, the current business environment represents a significant opportunity for NSF. In the past, when UK consumers have faced periods of macroeconomic difficulty and stress, the non-standard consumer lending sector enjoyed a marked increase in demand as the number of consumers that were unable to access mainstream credit increased. At the same time, we have seen a significant reduction in the supply of regulated non-standard consumer credit that may provide an additional opportunity for the Group to take market share as we continue to serve the very large numbers of UK consumers that are unable or unwilling to access regulated mainstream credit.

Charles Gregson
Non-Executive Chairman
29 April 2022

Market review

DEMAND FOR NON-STANDARD FINANCE IS EXPECTED TO RECOVER FURTHER IN 2022

1 Demand dynamics

There is a large demand for non-standard finance. Even before the pressures of the pandemic, Brexit and inflation, c.20-25% of UK adults were either unable or unwilling to borrow from mainstream financial institutions[1]. Whilst the pandemic prompted a sharp reduction in credit issuance with significant net repayments by consumers throughout 2020 and 2021, this has begun to reverse in 2022. At the same time, the proportion of the population unable to access mainstream credit is also expected to have increased[2].

Customers are low paid or on variable income

25.5%

Proportion of total jobs that are deemed to be low paid[3]

Customers have low credit status/ are credit impaired

c.0.8m

County Court Judgments per annum, up 36% versus the previous year[4]

14.2m

People have low financial resilience[2]

26%

Percentage of the population with less than £500 savings[5]

1 UK Specialist Lending Market Trends and Outlook 2019, Executive Insights Volume XX, Issue 39 – L.E.K. Consulting.

2 According to the FCA's Financial Lives 2020 Survey: the impact of coronavirus: "Between March and October 2020, the number of people with low financial resilience increased by 3.5 million from 10.7 million to 14.2 million. Those with low financial resilience now account for a quarter (27%) of adults." Also, "…roughly half of all adults who applied for a credit or loan product were declined."

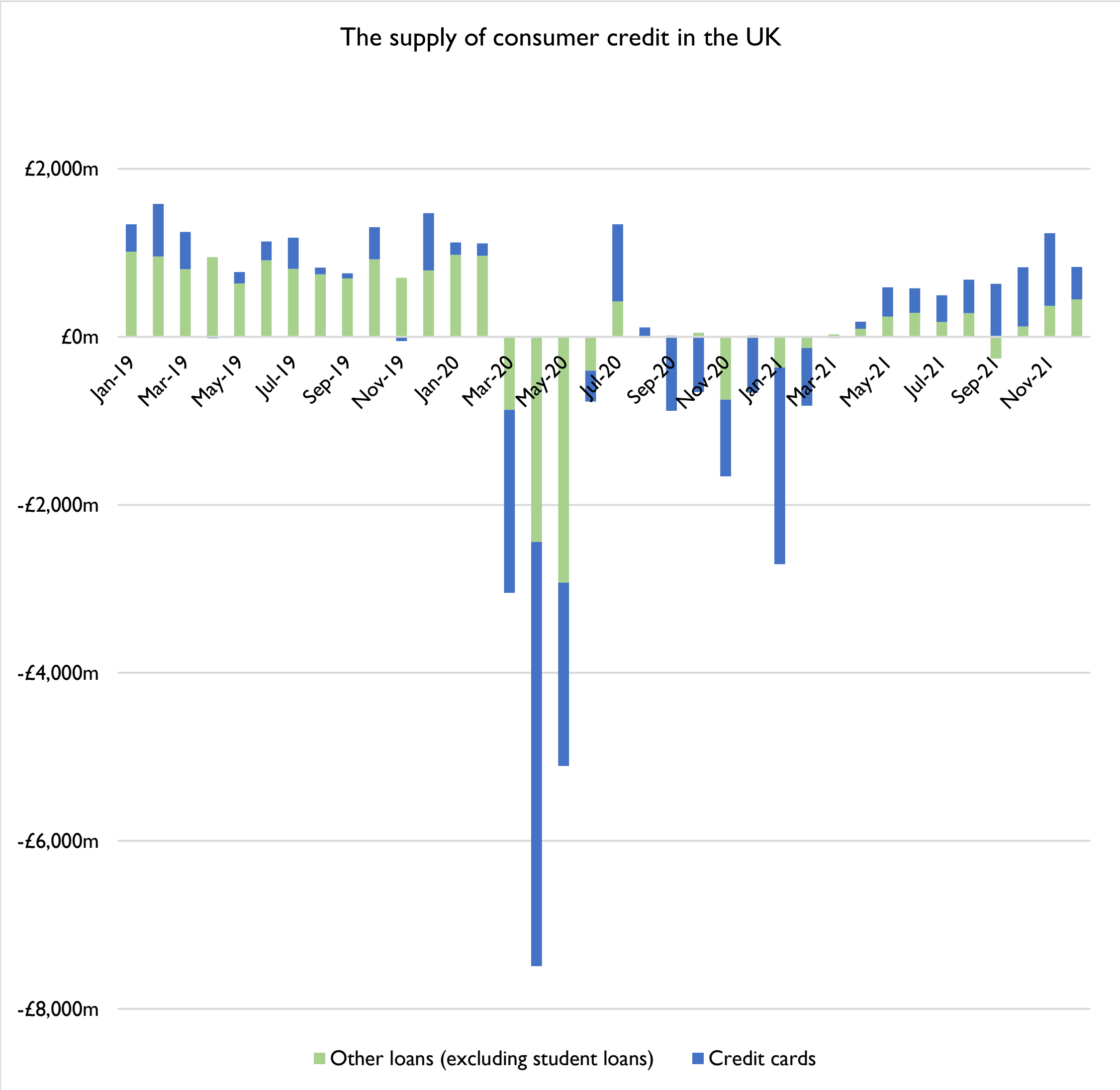
3 The percentage of workers whose gross weekly earnings are less than two thirds of the median. This is not the same as low pay on an hourly basis that is defined as the value that is two-thirds of median hourly earnings. For example, median hourly earnings for all employees in 2021 was £14.10, therefore low-pay employees included anyone earning below £9.40 per hour. High-pay employees were those earning anything above 1.5 times £14.10, which was £21.15. 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: 2021, 26 October 2021.

4 Registry Trust Limited – volume of CCJs issued against consumers in the year to 31 December 2021 for England and Wales.

5 "Nearly one in five adults have less than £100 savings, 13% have no savings at all and 26% have less than £500 put away." – The Times, 15 June 2021.

2 Supply dynamics

The UK outbreak of COVID-19 prompted a significant reduction in credit issuance in 2020 as lenders were forced to reassess their lending criteria and as consumers significantly reduced their borrowings in the face of a rapid economic slowdown. Since then, volumes of credit card lending and other loans have both increased from their lows but remain below the levels seen in 2019. Whilst the market is highly fragmented, there is a limited number of national providers of non-standard credit and several lenders have withdrawn from the market, increasing the potential for a mismatch of supply and demand if a return to economic growth is combined with a strong demand for credit growth.



A positive flow means that households are taking on more credit; a negative flow shows they are repaying credit.

Source: Bank of England – https://www.bankofengland.co.uk/statistics/visual-summaries/household-credit

3 External environment

Macroeconomic

- Having declined by an estimated 9.4% in 2020 due the pandemic, UK gross domestic product is estimated to have increased by 7.5% in 2021[1]
- Employment rates remained robust in 2021 ending the year at 75.5% which is 1.0 percentage point lower than the period before the pandemic struck in March 2020[2]
- The rate of unemployment decreased to 4.1% with fewer people unemployed than in December 2019[2]
- Inflation (consumer price index including owner occupiers' housing costs) increased throughout 2021, driven by supply constraints due to the pandemic as well as Brexit, reaching 4.8% in the year to December 2021 and is expected to rise further in 2022[3]
- This impacted pay growth that was 4.3% in December 2021, down from its peak of 8.8% in June 2021 but up from -1.3% in June 2020[4]
- The long-term impact of the pandemic and the current conflict in Ukraine remains unclear and uncertainty over the pace of recovery is expected to continue to affect the UK economy in 2022 and potentially in 2023
- Whilst Brexit may have had no material direct effect on most of the Group's customers, all of whom are UK-based, it is affecting inflation and is likely to remain a factor in shaping the current and future shape and dynamics of the UK economy

1 ONS – GDP Monthly estimate UK: December 2021, 11 February 2022.
2 ONS – Labour market overview: January 2022, released 18 January 2022.
3 ONS – Consumer price inflation, UK: December 2021, released 19 January 2022.
4 ONS – Whole Economy Year on Year Three Month Average Growth (%): Seasonally Adjusted Total Pay Excluding Arrears, released 15 February 2022

Competition

- The market is highly fragmented with a limited number of large, national firms
- Many mainstream lenders left the market post-2008 together with a number of high-cost lenders in 2019. Increased regulatory burdens and the impact of the pandemic have also prompted the closure and/or exit from the non-standard lending sector by a number of lenders
- Technology evolution may mean that new business models emerge, including models such as 'buy-now, pay later' that currently operate outside the regulatory perimeter

Regulation

- The UK's strict regulatory framework is designed to ensure a level playing field for all operators
- Following a detailed independent review, there was no need for customer redress in branch-based lending
- Firms have provided significant forbearance to customers experiencing difficulty as a result of the pandemic
- Social distancing measures during 2020 and 2021 meant that the Group had to adapt its face-to-face approach in order to keep lending and collecting

Complaint handling

- An increase in customer complaints, driven in large part by claims management companies, has prompted an increase in complaint handling costs for a number of firms

4 Our branch-based lending division has a national network through which we seek to deliver great outcomes for our customers

Branch-based lending

#1
In the market[1]

75
branches

66,000
customers

1 Everyday Loans received the Non-mainstream Loan Provider of the Year Award for the third year running at the Moneyfacts Consumer Awards 2022. Everyday Loans was also highly commended (runner-up) for Best Service which is judged across all sectors, including Banking, Insurance, Mortgages, Credit Cards, Mortgages and Money transfer services.

Business model

Providing affordable credit to those excluded by mainstream providers

As a face-to-face lender, social distancing measures as a result of the pandemic placed a significant strain on the business models of both branch-based lending and home credit, impacting their ability to deliver benefits for key stakeholders. However, both were able to adapt and maintain a high level of service to our customers.

Key inputs

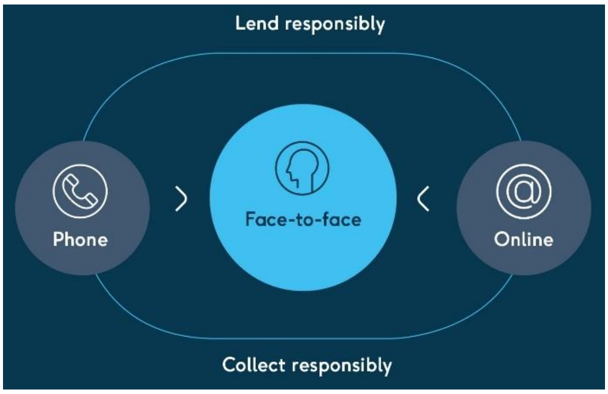
Long-term funding	Culture	Infrastructure	Compliance and risk management	Management
The Group uses equity and seeks to put in place long-term debt facilities to help fund its business	Providing customers with 'a helping hand' whilst ensuring good customer outcomes is the approach that is embedded deeply within each of our businesses	Our national branch-based lending network is well-invested and highly scalable	Managing risk is a key area of focus. We don't cut corners and know when something is not right	Attracting and retaining the best talent is key for our long-term success

What we do

Seek to understand our customers' financial and personal circumstances

Develop affordable products that meet the needs of our customers

If things go wrong, we work hard to put them right



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

Stakeholder impact

How we create value

The pandemic and regulatory issues severely impacted our performance in 2021. But, through our business model we seek to deliver benefits for each of our key stakeholders.

Customers	Our people	Communities	Shareholders
High satisfaction ratings[1]	Total training days[2]	Total workforce[3]	Loss before tax[4]
4.9/5	**1,512**	**1,598**	**£(16.7)m**
(2020: 4.9/5)	**(2020: 1,183)**	**(2020: 1,766)**	**(2020: Loss before tax of £35.2m)**

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 for Everyday Loans over the past year and is out of a maximum score of 5.
2 Despite the challenges of the pandemic, training continued throughout 2021 in branch-based lending. The total number of training days for Everyday Loans was 1,512 (2021: 1,183).
3 As at 31 December 2021 - NSF plc: 8 (2020: 11), Everyday Loans: 472 (2021: 467), Loans at Home (staff and agencies): 1,073 (2021: 1,202); and Guarantor Loans Division: 45 (2021: 87).
4 Normalised loss before tax (see glossary of alternative performance measures and KPIs in the Appendix) – as set out in the Group Chief Executive's report, shareholder returns were severely impacted during 2021.

Group Chief Executive's report

Year to 31 December	2021 £000	2020 £000	% change
Normalised revenue[1]	131,387	164,102	-20%
Reported revenue	131,387	162,665	-19%
Normalised operating profit[1]	9,299	(6,316)	247%
Reported operating profit	7,092	(24,452)	129%
Normalised loss before tax[1]	(16,680)	(35,152)	-53%
Reported loss before tax	(29,610)	(135,721)	-78%
Normalised loss after tax[1]	(16,755)	(35,152)	-52%
Reported loss after tax	(29,685)	(135,557)	-78%
Normalised earnings per share[2]	(5.36)p	(11.25)p	-52%
Reported (loss) per share	(9.50)p	(43.39)p	-78%
Full-year dividend per share	**0.00p**	0.00p	0%

1 See glossary of alternative performance measures and key performance indicators in the Appendix.
2 Basic and diluted (loss) earnings per share is calculated as normalised loss after tax of £(16.8)m (2020: £(35.2)m) divided by the weighted average number of shares in issue of 312,437,422 (2020: 312,437,422).

Context for results

The 2021 results include exceptional items totalling £12.9m relating to an increase in the estimated costs of customer redress in guarantor loans, restructuring costs and the write-down of assets and the recognition of liabilities in the home credit division. Exceptional items in 2020 totalled £97.8m and included a number of different items including provision for customer redress, goodwill impairment, the write-off of certain capitalised fees and costs related to restructuring. The 2020 reported results also include fair value adjustments, the amortisation of acquired intangibles and the write-off of goodwill assets. Normalised results are presented to demonstrate Group performance before these items.

On 15 March, 2022 it was announced that the Group's home credit division had gone into administration (see note 34 - Subsequent events).

Summary

The past year presented several challenges for the Group as we sought to resolve a number of outstanding regulatory issues, continued to deal with the ongoing impact of the pandemic on our operations whilst also managing the impact on our balance sheet that remains in a net liabilities position.

There has been a continuous dialogue with the FCA since August 2020 as we sought to address the FCA's concerns regarding a possible read-across for branch-based lending and home credit from the FCA's multi-firm review into guarantor loans and from recent decisions at the Financial Ombudsman Service. We also continued to work closely with the FCA to finalise our proposed redress methodology in guarantor loans. Whilst we did make progress in 2021, concluding that there was no requirement for customer redress for branch-based lending and with no significant amendments to our proposed redress methodology in guarantor loans (although we continue to discuss the operational practicalities of the scheme with the regulator), it became clear that Loans at Home, the Group's home credit business, was no longer viable and so it went into administration on 15 March 2022. Whilst deeply saddened and disappointed with this outcome, it was clear that administration was the only option available in order to preserve value for creditors. As the operations and activities of Loans at Home are separate from the rest of the Group, the Board of NSF confirms that, having received certain waivers from the Group's lenders (see below), the administration of Loans at Home will have minimal impact on the rest of the Group's business.

Whilst the Board remains hopeful that it can agree the operational mechanics of its proposed redress programme with the FCA, thereby clearing the way to complete a substantial capital raise, should this not be possible such that there remains significant uncertainty regarding the quantum of potential redress liabilities, the Group may be forced to consider other options that can reduce such uncertainty, including a scheme of arrangement. Whilst such schemes are complex, time consuming and not guaranteed to be successful, the Board believes that, were such a scheme to be pursued it would stand a reasonable chance of success and would, along with needing to extend lending facilities, allow it to proceed with its planned capital raise (as described in further detail below). The Board therefore believes that it remains a going concern.

As a result of the developments described above, it is expected that the Capital Raise will be launched during the second half of 2022. As the Group's loan to value ratio at 31 March 2022 was higher than the level permitted under its loan to value covenant following large interest payments made during the quarter, the Group has received the requisite waivers and extensions to avoid a covenant breach so that it can proceed with the planned Capital Raise. However, if the Group is unable to agree similar extensions or other forms of waivers for any future covenant breaches and obtain extensions to the term of its existing debt facilities on terms acceptable to investors prior to the completion of the Capital Raise then there would be a material risk of the Group entering insolvency.

The return of social distancing rules coupled with certain regional restrictions during 2021 placed additional constraints on our business model in both branch-based lending and home credit that was founded on face-to-face lending. Despite these challenges and thanks to the hard work and dedication of our staff and self-employed agents, we continued to serve the needs of our customers whilst also ensuring that the concerns raised by the FCA were taken into account in all of our lending and collections processes.

The Group's strong market position, in combination with a number of both external and internal profit drivers means that the Board is confident that, subject to the timely completion of the Capital Raise, the prospects for branch-based lending remain positive, driven by a planned recovery of ground lost over the past two years that should result in a marked improvement in the Group's financial performance. Further details regarding our future plans can be found in the 2021 financial review below.

Whilst there remain a number of material uncertainties which may cast significant doubt on the ability of both the Group and Company to continue as a going concern and remain viable, it remains the Directors' reasonable expectation that the Group and Company will raise sufficient capital in the timeframe required and will continue to operate and meet their respective liabilities as they fall due for the next 12 months and beyond. The Board has therefore concluded that, whilst a material uncertainty remains, the business is viable and remains a going concern.

If successful, the Capital Raise will reduce high levels of gearing, fund the payment of agreed redress to certain guarantor loan customers of the Group and underpin the future growth of its branch-based lending business. In addition, whilst there would be no need for access to further debt funding beyond the extension of the term of the Group's existing debt facilities in the short term given the significant cash balances that would then be at the Group's disposal, it is hoped that in due course, the Group would be better placed to broaden its sources of debt funding.

However, should the Capital Raise be unsuccessful or take longer than expected to execute, then it is expected that the Group would remain in a net liability position from a balance sheet perspective, would breach certain borrowing covenants and as a result would likely not be able to access further funding over the period of breach and would require additional waivers from its lenders. In such circumstance, there would be a material risk of the Group going into insolvency. However, the Directors continue to believe there is a reasonable prospect of resolving this position.

2021 full year results

The continued challenges presented by the pandemic meant that while the Group delivered a much improved financial performance versus the prior year, the Group was still loss-making at the pre-tax level. The re-introduction of government restrictions and a more cautious lending approach interrupted the recovery in lending which, in conjunction with a robust collections performance, meant that the combined net loan book fell by 28% to £208.0m (2020: £258.2m). A summary of the other key performance indicators for each of our businesses for 2021 is shown below:

Key performance indicators[1] **Year ended 31 Dec 21**	**Branch-based lending**	**Home credit[2]**	**Guarantor loans[3]**
Loan book growth	**(8.3)%**	**(10.8)%**	**(55.2)%**
Revenue yield	**48.8%**	**157.2%**	**32.1%**
Risk adjusted margin	**37.2%**	**131.7%**	**34.7%**
Impairments/revenue	**23.8%**	**16.2%**	**(8.1)%**
Impairments/average net loan book	**11.6%**	**25.5%**	**(2.6)%**
Cost: income ratio	**57.9%**	**91.0%**	**82.0%**
Operating profit margin	**17.1%**	**(5.7)%**	**14.8%**
Return on assets	**8.3%**	**(9.0)%**	**4.8%**

Key performance indicators[1] Year ended 31 Dec 20	Branch-based lending	Home credit[2]	Guarantor loans[3]
Loan book growth	(20.2)%	(32.5)%	(43.3)%
Revenue yield	46.5%	155.2%	35.3%
Risk adjusted margin	30.2%	118.0%	7.1%
Impairments/revenue	35.0%	23.9%	79.8%
Impairments/average net loan book	16.3%	37.2%	28.2%
Cost:income ratio	45.9%	81.8%	45.2%
Operating profit margin	14.9%	(5.7)%	(38.5)%
Return on assets	7.0%	(8.9)%	(13.6)%

1 See glossary of alternative performance measures and key performance indicators in the Appendix.
2 The home credit division went into administration on 15 March 2022 (see note 34 to the financial statements).
3 The Guarantor Loans Division was placed into managed run-off on 30 June 2021 and did not issue any new loans in 2021.

The reduction in the net loan book was the main driver behind the 20% reduction in normalised revenue before fair value adjustments to £131.4m (2020: £164.1m). However, there was also a marked improvement in impairment on the back of lower lending volumes and strong collections that meant the Group returned to positive normalised operating profit of £9.3m versus a normalised operating loss in 2020 of £6.3m. While lower debt levels meant that interest charges also reduced, the reduction in revenue meant that the Group produced a normalised loss per share of 5.36p (2020: normalised loss per share of 11.25p).

The Group's 2021 and 2020 reported, or statutory results were both affected by exceptional items, a summary of which is shown in the table below (also see note 7 to the financial statements). The 2020 results were also significantly affected by fair value adjustments and the amortisation of acquired intangibles associated with the acquisitions of Everyday Loans and George Banco. There were no such adjustments in 2021.

As a result, while reported revenue in 2021 of £131.4m (2020: £162.7m) was unaffected by fair value adjustments, there was a £1.4m reduction to normalised revenue in 2020. However, the 2021 results were impacted by a number of non-operating items including an increase in the estimated costs of customer redress in guarantor loans and the write-down of assets and the recognition of liabilities in the home credit division, further details of which are set out below. Total exceptional items in 2021 were £12.9m (see table below and note 7) which was a significant reduction from the prior year (2020: £97.8m).

Year ended 31 December **Exceptional items**	**2021** **£000**	2020 £000
Impairment of goodwill asset (non-cash) – branch-based lending	**-**	(47,107)
Impairment of goodwill asset (non-cash) – guarantor loans	**-**	–
Impairment of goodwill asset (non-cash) – home credit	**-**	(27,725)
Advisory fees	**(1,580)**	(1,444)
Write-off of capitalised fees associated with the Group's securitisation facility	**-**	(5,795)
Write down of balance sheet relating to home credit division	**(8,542)**	-
Provision for customer redress	**(2,207)**	(15,401)
Restructuring costs	**(601)**	(362)
Total	**(12,930)**	(97,834)

With no further write-off of acquired intangibles in 2021 (2020: £1.3m) the Group reported a statutory loss before interest and tax of £3.6m (2020: loss before interest and tax of £106.9m) and a statutory loss before tax of £29.6m (2020: £135.7m).

A summary of the performance of each division in 2021 is given below with further details in the 2021 financial review.

Branch-based lending

Having returned to month-on-month loan book growth in June 2021 and with the removal of most government restrictions on social contact in England in July 2021, a trend of month-on-month growth in the loan book continued until the fourth quarter when, despite a good flow of leads, lending volumes were impacted by a more cautious approach to lending as well as the emergence of the Omicron coronavirus variant. At the same time however, collections remained strong throughout 2021 and so while the number of new borrower loans booked was up 15% and the total volume of loans written was up 13%, this was not sufficient to restore annual loan book growth and the net loan book declined by 8%. The consequential 11% reduction in revenue was more than offset by a reduction in impairment and despite higher administration costs, normalised operating profit increased by 2% and despite a £4.1m reduction in finance costs, the division reported a statutory loss before tax of £0.8m (2020: loss before tax of £11.2m).

Home credit

There was a similar picture in home credit that returned to loan book growth in June 2021 and this continued through the summer. However, further government public health measures and a more cautious approach to lending meant that this was not sustained into the fourth quarter and while there was a small year-on-year increase in lending in December, the uplift was much smaller than expected with the result that the net loan book ended the year down 11%. An improvement in yield as a number of slow-paying customers dropped out of the book, whilst helpful, was not enough to offset the impact on revenue that decreased by 12%. A strong collections performance and lower levels of lending meant that impairment fell, as did administration costs with the net result that the division reported a reduced normalised loss before tax of £3.3m (2020: loss before tax of £3.7m). As noted elsewhere, after lengthy discussions with the FCA, the directors of the Group's home credit business reluctantly concluded that it was no longer viable and so the business was put into administration on 15 March 2022 resulting in an exceptional charge of £8.5m (2020: nil) and a statutory loss before tax of £11.8m (2020: loss before tax of £3.7m).

Guarantor loans

As previously announced, the Group's guarantor loans business was placed into a managed run-off and did not write any new loans in 2021 but has continued to collect-out existing loan balances. As a result, the division's loan book continued to decline ending the year at £26.8m (2020: £59.8m). This had a major impact on normalised revenues that fell by 57% but the strong collections performance meant that impairments declined significantly and the division delivered a normalised operating profit of £1.9m (2020: operating loss of £11.7m). The Group is continuing to work with the FCA on finalising the operational mechanics of the proposed redress scheme and hopes to complete this work soon so that, subject to, and as soon as possible following a successful completion of the Capital Raise, we can start to pay out redress to those customers affected. An additional exceptional provision for customer redress of £2.2m has been recorded in the 2021 accounts (2020: £15.4m) and largely represents the cost of additional penalty interest based on the Directors' best estimate based on the redress programme (see note 7 to the financial statements). The net result was that the division reported a loss before tax of £5.2m (2020: loss before tax of £36.0m).

Impairment provisioning

Given the highly dynamic external environment, the Group has continued to monitor carefully its level of loan loss provisions and in particular has considered the outputs from a continuous assessment of expected credit losses in all three divisions. The net result has been an increase in coverage ratios in branch-based lending and home credit during 2021 with the result that, on a combined basis as at 31 December 2021 and using the same methodology in previous years, the coverage ratio for the Group as a whole increased to 21.5% (2020: 19.5%). Utilising a revised methodology that the Board believes provides investors with a more relevant coverage metric that is more directly comparable with key competitors and other sector companies, the ratio also increased from 24.8% to 25.5%. Further details are set out in the 2021 financial review below.

Liquidity, funding and going concern

As at 31 December 2021 the Group had cash at bank of £114.6m (2020: £78.0m) and gross borrowings of £330.0m (2020: £330.0m). As at 31 March 2022, cash balances were £112.8m while gross borrowings remained unchanged.

The Group's active loan facilities include a £285m term loan facility that matures in August 2023 and a £45m revolving credit facility maturing in August 2022 ('Existing Facilities'), both of which remain fully drawn. Having received appropriate waivers from its lenders ensuring that the administration of Loans at Home would have minimal impact on the rest of the Group, the Board and its advisers are discussing a possible extension to the term of the Existing Facilities and the terms of any additional covenant waivers that may be required ahead of any capital raise. Any amendments to the Existing Facilities would be conditional upon the completion of the Capital Raise.

The Group also has a multi-year £200m securitisation facility that remains undrawn. Whilst current cash balances mean that there is no need for additional funding at the present time, the facility remains in place. However, in the absence of a capital raise, it is unlikely to be available for use owing to the associated covenant requirements embedded within the facility agreement and as permission from the lenders to a drawdown on the facility is unlikely to be granted. It is hoped that, following a successful capital raise, the facility will be available for future use, if so required.

Whilst the Group has obtained waivers from its lenders in relation to the administration of the home credit division, its loan to value ratio at 31 March 2022 was higher than the level permitted under its loan to value covenant following large interest payments made during the quarter. As such, the Group has received waivers and extensions from its lenders in order to avoid a covenant breach so that it can proceed with the planned Capital Raise. The Directors recognise the considerable challenges presented and the material uncertainties which may cast significant doubt on the ability of both the Group and the Company to continue as a going concern. However, despite these challenges, the Board believes that if a satisfactory outcome regarding the redress mechanics in guarantor loans is reached, and assuming the proposed extension to the term of the Group's existing facilities by its lenders is concluded on terms acceptable to investors (which itself is likely to be dependent on a successful capital raise), the Group and Company can reasonably expect to raise sufficient new capital to enable them to continue to operate and meet their respective liabilities as they fall due for the next 12 months. The Board has therefore adopted the going concern basis of accounting. The Board's position is, in part, informed by the fact that Alchemy remains supportive of a capital raise subject to: an outcome of the Group's engagement with its lenders that is acceptable to Alchemy; Alchemy's analysis of the outcome of the Group's discussions with the FCA regarding the regulatory position of the Group's divisions and the implications of that on (and Alchemy's assessment of) the Group's business plan and financial projections; and greater levels of certainty around redress and claims.

In adopting the going concern assumption in preparing the financial statements, the Directors have considered the activities of its principal subsidiaries, as well as the Group's principal risks and uncertainties as set out in the Governance Report and Viability Statement within the Group's 2021 Annual Report.

The assumption of shareholder support for a substantial capital raise, lender support for the extension of existing financing facilities and the satisfactory conclusion of regulatory and redress matters within or close to the assumptions made in the Group's base case, form a significant judgement of the Directors in the context of approving the Group's going concern status (see note 1 to the financial statements).

The Directors will continue to monitor the Group and Company's risk management, access to liquidity, balance sheet solvency and internal control systems.

If the Group cannot obtain waivers and/or extensions from its lenders for potential future covenant breaches beyond 15 June 2022 and/or ahead of the Capital Raise completing and obtain extensions to the term of its existing debt facilities on terms acceptable to investors, if it fails to reach agreement with the FCA with respect to the redress programme in guarantor loans, or if the outcome of any discussions with the FCA are such that the amount of redress is expected to be significantly higher than previously estimated, there is a risk that the Capital Raise may not be concluded or cannot be concluded in a timely manner. If either were to occur, or if the Group was otherwise unable to raise additional capital, in the event of a further covenant breach and without further waivers from the lenders, there would be a material risk of the Group entering insolvency.

Regulation

Concluding all of the Group's outstanding regulatory issues has been a key priority over the past 18 months. Whilst pleased that, following the independent reviews, there was no requirement for customer redress for branch-based lending, the Board was disappointed that Loans at Home went into administration. In guarantor loans, whilst the business is not issuing any new loans and is in managed run-off, the Group is continuing to work with the FCA on finalising the operational mechanics of its proposed redress scheme.

Other pertinent regulatory-related matters affecting the Group include complaint handling and the forthcoming introduction of a new Consumer Duty. A more detailed summary of each of these regulatory matters is set out below.

Independent reviews of branch-based lending and home credit

The Group commissioned independent reviews of both its branch-based lending and home credit businesses to consider the read-across from the multi-firm review into guarantor loans and from recent decisions at the Financial Ombudsman Service. While the review into branch-based lending concluded that there is no requirement for any customer redress, in home credit the directors of Loans at Home reluctantly concluded that the business was no longer viable and it went into administration on 15 March 2022. This outcome is included as part of the Group's assessment of the going concern status of the Group. As the operations and activities of Loans at Home are separate from the rest of the Group, the Board of NSF confirms that, having now agreed certain waivers with the Group's lenders, the administration of Loans at Home will have minimal impact on the rest of the Group's business.

Guarantor loans

Throughout 2021 the Group was actively engaged with the FCA in order to finalise its proposed redress methodology for guarantor loans customers that may have suffered harm and work is continuing to finalise the operational mechanics of the scheme. The Board is hopeful that this will soon be finalised in order to provide certainty for investors so that it can then proceed with the Capital Raise that, if successful, will be used to fund agreed customer redress as well as strengthen the Group's balance sheet and transform its prospects. Having made a £15.3m provision for redress in the 2020 full year results, this was increased by a further £2.2m in 2021, largely due to increased interest costs as the payment of redress would take place later than previously expected. It is expected that the redress programme for guarantor loans customers will commence as soon as practicable following a successful completion of the Capital Raise which is anticipated to take place in the second half of 2022.

Complaint handling
While the overall number of complaints received by the Group increased in 2021, there were very different dynamics at each of the three divisions with the number of complaints increasing in branch-based lending (9%) and home credit (113%) whilst in guarantor loans the number of complaints received fell (18%). The increase in home credit was seen as exceptional and was driven by a single claims management company that lodged a large number of complaints in a single month. Subsequent investigation found that a large proportion of the claims lodged by the CMC had in fact been lodged without the customer's consent or knowledge and so have been withdrawn. Since then, complaint volumes have returned to previous levels and have remained broadly flat. There has however been a marked uptick in the cost of complaints as FOS accelerated its processing of previously lodged complaints with the result that the outstanding backlog of FOS cases has been reduced substantially.

Consumer Duty
The most significant regulatory development over the past year has been the proposed introduction of a new consumer duty. Having already consulted once on the new duty, the FCA issued a further consultation that closed on 15 February 2022. The shape of the new duty applies to many areas of financial services, including consumer credit. While the FCA has helpfully taken on board a number of comments made by sector firms, concerns remain that while the focus is on consumer outcomes, there is no certainty on what "good compliance" looks like. Many are also nervous about the basis upon which 'fair value' will be assessed and also the short period of time before this new obligation comes into effect (April 2023). Industry has raised these issues as part of the consultation and hopes that these concerns will be addressed in the FCA's next response.

Further details on the consumer duty and the other pertinent regulatory developments during 2021 and into 2022 are available on the Group's website: **www.nsfgroupplc.com.**

Current trading and outlook, no final dividend
Whilst the fallout from the pandemic, Brexit and more recently the Ukrainian crisis means that macroeconomic uncertainty remains high, recent trading in branch-based lending and guarantor loans has been slightly ahead of management's expectations. Whilst lending volumes in the first quarter of 2022 were a little better than expected, collections and impairment performance has been much better with the result that the Group's overall early performance for the year to date has been promising.

Given the financial position of the Company and the fact that as at 31 December 2021 the Company did not have any distributable reserves, no final dividend has been declared. Assuming the Capital Raise is successful, the Company intends to create additional distributable reserves so that, when and if appropriate, the Board can consider the payment of cash dividends to shareholders at some point in the future.

The outlook for the Group is entirely dependent upon concluding the discussions with the FCA and completing the Capital Raise as planned. If successful, such a capital raise would fund the payment of agreed customer redress, strengthen the Group's balance sheet and significantly reduce the prospect of any future covenant breach. The Board believes that the Capital Raise is the best course of action in order to avoid insolvency, to safeguard the interests of shareholders and other stakeholders and to underpin future growth.

However, should the Capital Raise be unsuccessful or take longer than expected to execute, then it is expected that the Group would remain in a net liability position from a balance sheet perspective, would remain in breach of its borrowing covenants and as a result would likely not be able to access further funding over the period of breach and would require additional waivers from its lenders. In such circumstance, there would be a material risk of the Group going into insolvency. However, the Directors continue to believe there is a reasonable prospect of resolving this position.

Assuming the Capital Raise is completed as planned, our focus in 2022 is to recover the ground lost due to the pandemic and following the enormous structural changes to our business over the past two years. As outlined in the 2021 financial review, this recovery will be dependent on us restoring the momentum in our branch-based lending business through a combination of investment in staffing, technology and process-driven productivity improvements and a steady recovery in demand for non-standard consumer credit.

Given the Group's pre-eminent position in branch-based lending, the Board continues to believe that, subject to funding, the current business environment represents a significant opportunity for NSF. In the past, when UK consumers have faced periods of macroeconomic difficulty and stress, the non-standard consumer lending sector saw a marked increase in demand as the number of consumers that were unable to access mainstream credit increased. At the same time, we have seen a significant reduction in the supply of regulated non-standard consumer credit that may provide an additional opportunity for the Group to gain market share as we continue to serve the very large numbers of UK consumers that are unable or unwilling to access regulated mainstream credit.

Annual General Meeting
The AGM of the Company is scheduled to take place on 26 May, 2022. A separate notice of meeting is being sent to shareholders with the 2021 Annual Report and is available from the Group's website: **www.nsfgroupplc.com.**

Jono Gillespie
Group Chief Executive
29 April 2022

Strategic framework

Our business strategy comprises three elements, each of which remains central to our long-term success in branch-based lending:

Strategic priorities		2020-2021 performance*
01. Being a leader	We aim to be the best at what we do – not just from a customer's perspective, but also from that of our other key stakeholders including employees, our regulators and our communities. We are the clear market leader in providing unsecured loans to the credit impaired through a branch-based network.	**NET LOAN BOOK -** £157.2m **TOTAL NUMBER OF CUSTOMERS** 66,000
02. 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 our people, distribution networks, our technology and our brand. Whilst the impact of the pandemic meant that we made some adjustments to our infrastructure to better suit the prevailing circumstances, investing in our core assets and processes (such as creditworthiness and affordability) remains central to our long-term strategy.	**NUMBER OF BRANCHES*** 75 **SIZE OF WORKFORCE*** 472
03. Acting responsibly	Being responsible remains at the heart of our business values and culture and we work hard to ensure that this is embedded into all of our behaviours, policies and procedures. Through responsible lending we aim to keep impairment levels low and should we fall short of expectations, we work hard to put things right so that our reputation for 'doing the right thing' is sustained.	**IMPAIRMENT AS % AVERAGE NET RECEIVABLES*** 11.6% The Group continued to support the Loan Smart charity in 2021 to help raise awareness of the dangers of illegal lending. **For more on our stakeholder engagement see pages 40 - 50**

* branch-based lending only

	2021-22 developments		2022 objectives
01. Being a leader	• The market conditions continued to test all areas of our business in 2021 • We engaged extensively with the FCA as we sought to address any concerns and resolve all outstanding regulatory issues • Underpinning our leadership position has been our previous investments in people, culture and requisite infrastructure - factors that were instrumental in enabling us to deliver a much improved financial performance in 2021, conclude that no redress was payable in branch-based lending and make progress in finalising our redress methodology in guarantor loans	• Everyday Loans developed a new credit scorecard that has been introduced since the year end and is expected to help drive better lending decisions and improve conversion • Everyday Loans extended its open banking pilot and expects to be able to offer a fully integrated solution for all applicants during 2022	• Remain flexible and adapt to what is likely to be a highly dynamic macroeconomic environment • Position Everyday Loans as the number one choice for applicants that are on average incomes, are credit impaired and seeking 2-5 year loans for up to £15,000 • Stabilise and then grow the loan book in branch-based lending • Subject to agreeing the process mechanics with the FCA, commence the execution of the redress programme in guarantor loans and continue to wind down and collect out the guarantor loans portfolio whilst controlling costs

<table>
<tr><th></th><th colspan="2">2021-22 developments</th><th>2022 objectives</th></tr>
<tr>
<td>02. Investing in our core assets</td>
<td>Branch-based lending
• We developed an enhanced creditworthiness process allowing staff to capture more detailed information to evidence that each loan issued is appropriate and meeting the needs of the customer
• We delivered over 1,500 training days in 2021, an increase of 28% over the same period in 2020
• We have extended our open banking pilot having developed a solution that is fully integrated into our existing loan management system
• A new and much improved scorecard was developed, tested and is now installed, helping to improve conversion and enhance our financial performance</td>
<td>Home credit
• We ensured that our complaint handling infrastructure meant that we could respond to all complaints within 8 weeks
• We continued to enhance our remote lending and collections processes
• Despite these initiatives it became clear that the Group’s home credit business was no longer viable and so it went into administration on 15 March 2022
Guarantor loans
• Implemented an appropriate incentive programme to help sustain a strong collections performance whilst the business is in managed run-off</td>
<td>Branch-based lending
• Grow loan book and continue to evolve our creditworthiness assessment processes
• Deliver significant productivity improvements using open banking tools and our new scorecard
• Invest further in technology and communications to generate cost savings and operational efficiencies
Guarantor loans
• Focus on collections whilst continuing to manage costs</td>
</tr>
<tr>
<td>03.Acting responsibly</td>
<td>Branch-based lending
• We improved our processes for identifying and engaging with vulnerable customers that now represent c.25% of the total
• We continued to support local communities through Loan Smart and other charities
• An independent review of lending and complaints handling completed with no systemic issues
• Staff engagement remained high despite the pandemic although staff turnover did increase in 2021
Home credit
• We maintained a higher commission rate on remote collections throughout 2021 helping to mitigate the impact of the pandemic on agents’ income</td>
<td>Home credit (continued)
• Staff engagement remained high despite the pandemic
• Improved identification and capture of customer vulnerabilities - approximately 30% of customers have one or more vulnerabilities
• Despite these initiatives it became clear that the Group’s home credit business was no longer viable and so it went into administration on 15 March 2022
Guarantor loans
• Identified a cohort of customers that may have suffered harm and designed a redress programme to be executed in 2022</td>
<td>In branch-based lending we plan to:
• further enhance complaints handling procedures and incorporate any learnings from the recent independent reviews
• develop a clear plan to implement any required changes to our processes and systems in order to comply with the new Consumer Duty by April 2023
• develop a coherent assessment, strategy and plan to identify key risks flowing from climate change and how we might mitigate our environmental impact
• continue to enhance our procedures for identifying and servicing vulnerable customers
• continue to deliver good customer outcomes by lending and collecting in a responsible way and in line with the Group’s policies and procedures</td>
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Risk management

Managing risk is a key element within our business model

The events of 2020 and 2021 brought into sharp focus a number of key risks facing the Group and highlighted their potential impact on the Group's overall operational and financial performance.

A highly uncertain macroeconomic environment and a number of business specific issues meant that the overall risk profile facing the Group remained high during 2021. Key risks included that: the costs of customer redress in guarantor loans might be higher than expected; the independent reviews into branch-based lending and home credit might identify some systemic issues, triggering a possible requirement for substantial redress to current and/or former customers; the Capital Raise is not successful, or takes longer to execute than planned; the financial performance of the Group is worse than expected; and so as a result, the Group breaches its loan covenants and the firm could become insolvent.

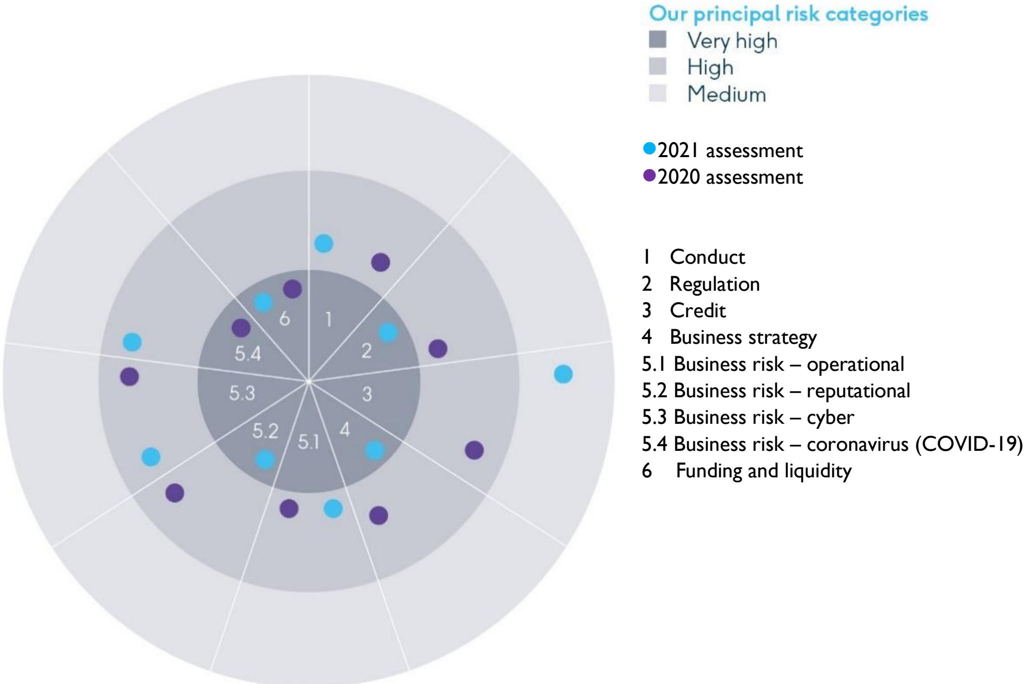
Throughout 2021, Xactium, the Group's integrated risk management system, helped the Group to record and manage such key risks as they emerged and/or evolved. The framework supported our first line risk management activity and also helped to provide executive management and the Board with clear second line oversight across the Group. It also helped the Board to identify those areas where third line oversight might be required (see definition of the three lines of defence in section 1 of the table overleaf).

As well as having a well-founded risk management framework in place, the dedication and hard work of all of our staff were instrumental in ensuring that the Group was able to continue to operate effectively under what were highly challenging conditions.

The chart below is an update to that shown in previous annual reports and illustrates the principal risk categories identified by the Board (i.e. those with the highest residual risk ratings for the Group) and how they have changed over the past year. The following pages provide further detail and seek 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.

Emerging macroeconomic risks for the Group include the cost of living crisis and climate change, both of which have the potential to impact one or more of the Group's Principal risks. An emerging specific risk for the Group relates to technology and our plans to become more agile and independent with greater control over our ability to augment and improve our lending proposition. Each of these emerging risks are described in more detail below.

For further information on our approach to risk, please see the Risk Committee report on page 79.



Principal risks

Risk definition	Mitigation	Change in 2021	Explanation
1. Conduct			
Inappropriate or sub-standard behaviour by the Group's representatives resulting in poor outcomes for customers. The Group has a strong culture, one that is owned at Board level and is committed to 'doing the right thing' and delivering positive outcomes for customers But, occasionally human and/or operational failures can result in customer detriment. Any such instances are investigated and appropriate actions taken to address them and to prevent recurrence	• We monitor of all customer complaints closely and feed back key learnings into our lending and collections practices • Despite the ongoing challenges of the pandemic, we continued to invest in developing our procedures and systems, supported by extensive training with over 4,100 training days completed across the Group in 2021 (2020: 3,600) • We monitor decisions at the Financial Ombudsman Service ('FOS') to ensure that we take note of and where relevant, incorporate any appropriate learnings for our own lending and collections practices as well as complaints handling • We have clear policies and procedures, including whistleblowing • Detailed KPIs to ensure policies on lending, vulnerable customers, collections, complaint handling and personnel management are operating effectively and as planned • We operate carefully designed and balanced incentive programmes with appropriate controls in place to ensure that required standards are met • Each of the Group's divisions has a designated executive responsible for risk and compliance that reports to their respective CEO as well as the Group's Risk Committee. This helps to ensure a consistent approach in our management of key risks, including conduct risk, across the Group • External advisers are sometimes drawn upon to support the work of the in-house internal auditor, such support has been used in the past to conduct periodic reviews of the Group's lending and collections practices • We apply diligently the 'three lines of defence': ○ policies, procedures and quality assurance in customer-facing roles; ○ compliance and conduct assurance; and ○ internal audit		During 2021, the number of complaints received by the Group from customers and complaints management companies increased by 35% compared with 2020, with the largest single increase seen in home credit. At the same time there was also a marked increase in the total number of complaints being processed by FOS, a number of which dated back several years. To address this, the Group increased significantly its resources to manage such claims and is continuing to work closely with the FCA and the FOS to ensure a consistent approach and to improve our service to customers. There have been no significant changes to the proposed redress methodology in guarantor loans. Whilst the Group is continuing to work with the FCA on finalising the operational mechanics of the scheme, the Group has made an additional provision of £2.2m in 2021 to cover the expected cost of additional interest and expects to begin a process to execute the redress of such customers following and assuming the successful completion of the Capital Raise. The Group placed its guarantor loans business into managed run-off in June 2021 and is not writing any new loans. As explained in the Chairman's statement and the Group Chief Executive's review, while the conclusion in branch-based lending was that there is no requirement for any customer redress, the Directors of Loans at Home Limited ('Loans at Home') concluded that the Loans at Home business was no longer viable and it went into administration on 15 March 2022.

Risk definition	Mitigation	Change in 2021	Explanation

2. Regulation

Risk definition	Mitigation	Change in 2021	Explanation
All authorised firms are subject to a rigorous approval process as well as ongoing supervision by the FCA. Non-compliance can result in fines, the payment of redress to customers or loss of authorisation to operate. Decisions by the FOS may change the way in which FCA rules are interpreted, increasing the likelihood that complaints may be upheld and increasing the total cost of redress to customers that may have suffered harm. A list of the key regulatory developments over the past year is available on the Group's website: **www.nsfgroupplc.com.**	• The Group aims to maintain an open and active dialogue with the FCA as well as industry peers • We undertake diligent monitoring/assessments of all regulatory change both in-house as well as through external advisers and trade associations • We have an active regulatory affairs programme that seeks to identify and address the concerns of key stakeholders • A continuous process of investment, quality assurance and internal audit reviews seeks to ensure we meet all of our regulatory obligations • Following the FCA's multi-firm review into guarantor loans the Group developed a redress methodology for certain customers that may have suffered harm • The Group also commissioned a detailed and independent review of its lending, collecting and complaints handling activities in both branch-based lending and home credit during 2021 and shared the findings with the FCA		The Group's lending operations are fully authorised by the FCA and the Group is committed to the highest standards of regulatory conduct. If our interpretation of what processes are required falls short of the regulator's expectations, we seek to address those shortcomings promptly and effectively through active engagement and we are determined to ensure a positive working relationship with the regulator so that we can improve our processes and overall business approach. The forthcoming Consumer Duty is a key area of focus for the Group. Whilst the final regulations and expectations of the regulator are still being considered, based on the FCA's latest guidance, the Group is developing a clear action plan to identify changes that may be required and to ensure that they can be designed and fully implemented in accordance with the timescales set out by the FCA. 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 Group continues to monitor complaints so that it can adjust its lending and collections practices as well as its approach to complaint handling.

3. Credit

Risk definition	Mitigation	Change in 2021	Explanation
Any marked increase in the rates of impairment or defaults by the Group's customers could impact the performance of the Group.	• We monitor detailed weekly and monthly management information on historical and expected future credit performance • In response to the pandemic, each business adapted its lending criteria to the new business environment whilst also ensuring that appropriate forbearance is offered to those in difficulty • Continuous process of review and refinement of credit scorecards, our creditworthiness assessment process and lending criteria • There are regular credit committee reviews of policies and outcomes • While the Group's loans tend to be short-term in nature, the Group is reviewing how climate change may impact the credit performance of the Group's customers over the short, medium and long term		Whilst the impact of COVID-19 increased credit risk significantly in 2020, appropriate adjustments to our lending approach meant that the quality of new lending improved during the second half of 2020 and into 2021. At the same time, customers experiencing financial difficulty as a result of the pandemic were either offered forbearance or charged off and so the rate of impairment began to fall. In branch-based lending, an enhanced creditworthiness process is providing a marked improvement in the quality of our lending decisions, supported by a new lending scorecard and open banking that are expected to help increase productivity. The Group's guarantor loans division has been placed into managed run-off and is not writing any new loans whist the home credit division has been placed into administration. While the macroeconomic outlook remains uncertain, we remain cautious and continue to maintain an appropriate level of loan loss provisions.

Risk definition	Mitigation	Change in 2021	Explanation
4. Business strategy			
A risk that the Group's strategy fails to deliver the outcomes expected. Changes to the regulatory or fiscal framework and/or a failure to execute and integrate acquisitions (including technology), or to execute the Group's strategy as planned, may increase the risk of financial loss. The events of 2020 and 2021 severely impacted the Group's financial performance and contributed to a significant strain being placed on the Group's balance sheet. As a result, the Groups guarantor loans business is now in run-off and the home credit division has gone into administration and there are material uncertainties as to the Group's ability to remain a going concern and fund its strategy as planned.	• With support from the Group's largest shareholder, the Board is focused on executing a substantial capital raise in the second half of 2022 • Alchemy's support remains subject to: an outcome of the Group's engagement with its lenders that is acceptable to Alchemy; Alchemy's analysis of the outcome of the Group's discussions with the FCA regarding the regulatory position of the Group's divisions and the implications of that on (and Alchemy's assessment of) the Group's business plan and financial projections; and greater levels of certainty around redress and claims. • The Board has significant and relevant experience of the non-standard sector and conducts a regular review of all aspects of the Group's strategy • We undertake a detailed review of monthly management information on operating performance • We monitor closely key market dynamics, competitor behaviour and performance • The Board is reviewing how climate change may impact its business strategy and is developing strategic objectives and targets for climate-related risks and opportunities		It is expected that, if successful, the Capital Raise would fund the payment of customer redress and strengthen the Group's balance sheet significantly, underpinning the future growth plans of the branch-based lending business. However, execution of the Capital Raise remains dependent on a number of factors such as securing the requisite support from Alchemy and other investors; obtaining appropriate extensions to the Group's existing debt facilities and/or additional waivers (as required) from the Group's lenders if the Capital Raise is subject to further delay; and will also be subject to prevailing market conditions. As a result, there remains a material uncertainty as to whether the Capital Raise will be executed as planned. If the Capital Raise is successful then, as set out in the Group Chief Executive's report, the Board believes that a major opportunity exists for Everyday Loans to restore its loan book to previous levels whilst also realising substantial operational efficiencies on the back of recent investments in systems, credit control and process improvements. Should the Capital Raise be unsuccessful or take longer than expected to execute, then it is expected that the Group would remain in a net liability position from a balance sheet perspective, would be in breach of its borrowing covenants, if tested and as a result would likely not be able to access further funding over the period of breach and would require additional waivers from its lenders. In such circumstance, there would be a material risk of the Group going into insolvency. However, the Directors continue to believe there is a reasonable prospect of resolving this position. As the guarantor loan book is in managed run-off and the home credit division is in administration, the Group is now focused on branch-based lending, creating opportunities to streamline central functions further and reduce costs. Whilst engagement to date indicates that Alchemy remains supportive of the Group's overall strategy, this may change in the absence of a marked recovery in the Group's operational, financial and regulatory performance as well as the Group's share price.

Risk definition	Mitigation	Change in 2021	Explanation
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 • fraud • process failure and/or human error • restrictions on being able to conduct business face-to-face • operational resilience • failure to recruit and retain key staff • underperformance by key staff • disaster recovery and business continuity • large numbers of upheld customer complaints • the managed run-off of the Group's guarantor loans business may not perform as expected	• 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 • The vast majority of the Group's technology has been successfully migrated into the cloud, increasing reliability and security • IT policies and procedures are in place to mitigate technology-related risks including disaster recovery plans and regular penetration testing • Policies, procedures and extensive training are in place to identify, investigate crime and report fraud • Staff 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 (including Loans at Home up until 15 March 2022 when it went into administration) • Detailed business continuity plans have been prepared and adopted by each business division • The Group has enhanced its complaint handling procedures and is able to flex its resourcing in this area, if required • The Group is assessing how climate change may impact its operational risks and/or present future business opportunities • An assessment of operational resilience has been conducted and a report is issued to the divisional boards each month		The introduction of an enhanced creditworthiness process in branch-based lending has increased the level of detail captured during the lending process. While this impacted conversion, the Group has invested in a number of tools to help increase operational efficiency including open banking and a new credit scorecard. In response to the pandemic, the use of electronic signature by branch-based lending applicants remains higher than prior to the pandemic (c.30%) and while the relaxation of COVID-related measures has meant that this reduced in 2021, it still remains well above that seen in 2019 (c.10%). By facilitating lending without having to meet the customer face-to-face, customers are being offered an alternative journey that allows us to still write the loan and provide additional convenience to the customer. Branch-based lending and guarantor loans have disaster recovery plans in place and in response to the pandemic, each is able to operate remotely thereby safeguarding the health and safety of staff and self-employed agents, as well as helping to mitigate the impact on business performance. 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. As noted above, whilst the number of complaints has increased, the Group continues to monitor the nature and number of complaints, including decisions at the Financial Ombudsman Service, so that it can adjust its lending and collections practices as well as its approach to complaint handling.
5.2 Business risk (reputational)			
Lending money at comparatively high rates of interest means that non-standard consumer finance can attract a higher level of media and political scrutiny than certain other business sectors. Whilst the Group is committed to meeting all of its regulatory obligations, including the new Consumer Duty and the delivery of positive customer outcomes, its reputation may become tarnished by a failure to do so, or by failures or poor business practices of other sector firms. This in turn could have an impact on the Group's financial performance. The Group is assessing how its approach to tackling climate change and the related disclosures made may influence its standing among key stakeholders and in particular how its reputation may be damaged by a perceived failure to comply with such requirements.	• As a listed company the Group is highly transparent with full disclosure regarding its business and financial performance • The Group conducts an active regulatory affairs programme both directly and via trade associations to ensure that all stakeholders, not just the providers of debt and equity funding, have an accurate picture of what the Group is trying to achieve, our ethos, culture and business strategy • The Group encourages all areas of the business to minimise the use of natural resources and is developing a strategy to meet the requirements of the Taskforce on Climate-Related Financial Disclosures ('TCFD') that will apply to all standard listed companies with accounting periods starting on or after 1 January 2022. As part of this exercise, the Group is also considering the recommendations of the Sustainable Accounting Standards Board ('SASB').		Whilst pleased that no systemic issues were found in branch-based lending, the findings of the FCA's multi-firm review into guarantor loans, where substantial customer redress is now due and the fact that home credit has gone into administration, were extremely disappointing. As soon as the operational mechanics of the redress scheme in guarantor loans are finalised, and assuming the Capital Raise has been completed successfully, we hope to then begin executing the programme as planned. However, should the Group fail to reach agreement with the FCA regarding the mechanics of the programme such that there remains significant uncertainty regarding the quantum of potential redress liabilities, the Group may be forced to consider other options that can reduce such uncertainty, including a scheme of arrangement, so as to allow it to proceed with its planned capital raise. Such options, if deployed, may affect the Group's standing and reputation. Whilst the pandemic hindered face-to-face meetings, the Group has continued to try and 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 40 to 50).

Risk definition	Mitigation	Change in 2021	Explanation

5.3 Business risk (cyber)

Risk definition	Mitigation	Change in 2021	Explanation
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 • There are regular internal audits and external third-party reviews of cyber security status across all businesses • Full disaster recovery plans have been developed and are in place for each of the Group's operating divisions • Much of the Group's technology infrastructure is now cloud-based thereby delivering a number of operational benefits including enhanced levels of security		Whilst increased criminal activity together with the increasing importance of data and data analytics means that this risk has been identified separately from operational risk and is rated as being high, the Group has taken a number of steps to help mitigate any potential impact, including the migration of the vast majority of its operational systems and infrastructure into the cloud.

5.4 Business risk (COVID-19)

Risk definition	Mitigation	Change in 2021	Explanation
A large pandemic such as COVID-19, coupled with restrictions on face-to-face contact as required by HM Government during 2020 and 2021, may cause significant disruption to the Group's operations and severely impact the level of supply and demand for the Group's products. 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 • While face-to-face contact remains our preferred model, branch-based lending is able to lend and collect remotely, without the need for face-to-face contact with customers • The Group's staff are well-versed in the procedures involved during lockdowns helping to minimise the risk of additional disruption should there be further lockdowns in the future • Enhanced creditworthiness assessments and revised lending procedures have helped to improve the quality of lending since the start of the pandemic • It is expected that the planned Capital Raise, if successful, together with the Group's cash balances and long-term debt funding, will help to mitigate any impact of potential future waves of COVID-19 infection. If required, the Group is able to generate positive cash flow by reducing significantly its level of lending		COVID-19 continued to affect the Group's performance in 2021, having first impacted the UK economy in March 2020. Whilst government restrictions continued to impact lending and collections activity, together with an increase in expected credit losses due to the pandemic, the Group reduced operating losses in 2021 and continues to believe that the impact upon the economy as a whole may prompt an increase in demand for its products and services over the medium term. However, as it remains unclear as to when the situation may begin to normalise and how the business might then 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 ('EPF') contributed to a significant increase in provisions and lower net book values in both 2020 and 2021. Any reintroduction of EPF or similar measures could impact the future financial performance of the Group.

6. Funding and liquidity

Risk definition	Mitigation	Change in 2021	Explanation
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 intends to complete a substantial capital raise during the second half of 2022 • Excluding any proceeds from such capital raise, as at 31 March, 2022 the Group had cash at bank of £112.8m and gross debt of £330m • As part of any such capital raise, the Group also expects to extend the maturity of its existing debt facilities • Cash and covenant forecasting is conducted on a monthly basis as part of the regular management reporting exercise • The Group's short-term loans to customers provide a natural hedge against medium-term borrowings		As at 31 March 2022, the Group's loan to value ratio was higher than the level permitted under its loan to value covenant following large interest payments made during the quarter. However, the Group has also received waivers and extensions from its lenders to avoid a covenant breach so that it can proceed with the planned Capital Raise. If the Group is unable to agree waivers for any future covenant breaches prior to the completion of the Capital Raise and agree extensions to the term of its debt facilities, then there would be a material risk of the Group entering insolvency. As a result, whilst the Directors expect that a substantial capital raise can be completed in the required timeframe, a material uncertainty exists regarding the Group's ability to remain a going concern.

Emerging risks

Cost-of-living

The sequence of Brexit, COVID-19 and then the conflict in Ukraine has created a macroeconomic environment and outlook that is highly uncertain and the UK consumer is widely expected to experience "the largest squeeze on living standards since modern records began in the 1950s"[1]. Whilst the UK government has put in place a series of measures to try and help mitigate the impact for consumers and while the performance of non-standard lending businesses (and our branch-based lending business in particular) during previous downturns has been robust, as with every macroeconomic crisis, the potential impact on credit risk, business and operational risk, as well as financing and liquidity is highly uncertain. Drawing upon our considerable experience and longevity in the non-standard branch-based lending market, we are monitoring all of our KPIs closely and, if need be, can and will take steps to mitigate any significant impact on our financial performance.

Climate change

During 2022 the Group is preparing to meet its obligations under the requirements set out by the Task Force on Climate-related Financial Disclosures, that are due in 2023. Given the nature of the Group's business, the Board's current view, which is always subject to change, is that climate-related risks are likely to affect, to varying degrees, each of its existing principal risks and so rather than being identified as a stand-alone risk, they will be addressed as part of the disclosures relating to the Group's principal risks. However, we are expanding the range of metrics that will help us to monitor and track key climate-related risks and opportunities and our performance against clearly defined targets that will be set out in the 2022 Annual report. A summary of our proposed approach is set out on page 25.

Technology

At the heart of the Group's branch-based lending business is a loan management system that has been developed in conjunction with a long-time technology partner. Whilst based on a widely adopted platform, given the pre-eminent position of Everyday Loans in UK branch-based lending, much of the Group's systems and their functionality have evolved to become highly specialised and relatively expensive to maintain and develop. That said, it is clear that a number of the capabilities developed would add value in other areas of the UK's consumer finance market. As a result, and following discussions with our long-term technology partner, the Group intends to reorientate its technology provision in a way that will protect current service levels, reduce cost, increase agility and improve the quality and pace of future development. Everyday Loans has appointed a new Chief Information Officer who is managing the transition that will be formalised in a new long-term contract with our long-term technology partner designed to both protect the ongoing provision of all existing services whilst enabling Everyday Loans to take greater control of systems development and business change. While such a shift in service provision represents an emerging risk in 2022, given the strength of our long-standing relationship with our partner, the appointment of a highly experienced CIO and the quality and depth of our in-house IT team, we believe such risks are being and will be managed effectively.

1 "Cost of living crisis: Rishi Sunak must at the very least raise UK benefits" - Guardian, Sunday 10 April 2022

Our approach to climate-related risks and opportunities

We are seeking to embed the careful management of ESG risks and opportunities into all areas of our business

In accordance with the FCA's policy statement 21/23 issued in December 2021, the Group plans to fully comply with its obligations under the Taskforce on Climate Related Financial Disclosures ('TCFD') and is in the process of establishing an appropriate governance structure so that the identification, management and disclosure of material climate-related risks and opportunities are properly embedded across the Group. This will provide investors and other stakeholders with greater insight into the potential climate-related risks and opportunities that may impact the Company's prospects and value in the future. The Board is also reviewing the Group's business strategy so as to ensure that the impact of such risks and opportunities is taken into account and incorporated into our future plans and decision-making.

Rather than identifying climate change as a stand-alone risk, the Board considers that given its breadth and magnitude, climate change is a 'cross-cutting' risk, one that is expected to impact each of the Group's existing risk categories (conduct, credit, regulation, business operations, funding and liquidity) to varying degrees. We have initiated an assessment of the impact we believe we are having as a business, identifying those risks and opportunities that may impact our future strategy and risk management so that we can then report on those disclosures in 2023, or where not made, explain why.

Whilst complying with TCFD will require some additional work and 'good management' of ESG risks and opportunities will inevitably come with some additional cost to the Company, the Board believes that the impact of such costs can be mitigated through more efficient use of resources and enhancements to the Group's reputation among its key stakeholders and so is supportive of the goal set by the UK Government to reach 'net zero' on or before 2050 and believes that NSF can and must play its part in contributing to that objective.

The Group is putting in place a process to:

- establish a clear governance framework ensuring that the Board, management and all staff are aware of these risks and opportunities and that as an organisation we embrace the UK Government's objective to reach net zero by 2050;
- identify and quantify key risks and opportunities, including the time frames that such risks and opportunities are expected to materialise;
- establish a robust governance framework so that such issues are regularly reviewed, tracked and owned by management;
- set targets and goals for mitigating such risks and realising opportunities; and
- consider how such risks and opportunities might impact the Group's business strategy over the short, medium and long term and develop plans to mitigate these risks/realise the opportunities.

Next steps

In 2022 the Group has begun to record a variety of metrics and datapoints that it believes will help it to measure, manage and mitigate key risks and opportunities arising from climate change, as well as from social and governance-related issues. This data will also be used to determine a range of internal targets so that the Group can begin to monitor progress towards meeting its own long-term goals that will be disclosed in the 2022 Annual Report. In selecting these metrics, that include Scope 1 and Scope 2 greenhouse gas emissions, (the Group is also investigating how it can capture Scope 3 emissions), the Group has noted the cross-industry climate-related metric categories described by TCFD[1] and through monitoring during 2022, plans to refine the ways in which it determines the relative significance of such risks and opportunities so that any material risks and opportunities can then be incorporated into the Group's business strategy, risk management and financial planning processes.

Whilst the Group's core activity of providing relatively short (less than five year term), non-standard, unsecured consumer loans means that the normal time horizon of the Group's strategic plans tends to be no more than five years, the Board is mindful of the potential risks and long-term impact that climate change may have on many areas of the economy and therefore its future business and so, despite the short-term nature of its products, will also be considering the resilience of the Group's strategy to a 2°C or lower scenario.

In summary, our plan during 2022 includes the following actions:

- Continue our work to identify and confirm physical and transitional climate change risks and opportunities;
- Identify material risks and develop plans to monitor and mitigate such risks;
- Conduct scenario analysis and resilience testing on the greatest risks facing the Group;
- Develop specific targets where relevant;
- Embed climate change risk into our long-term business strategy and financial planning processes; and
- Embed findings into the Group's 2022 Annual Report disclosures enabling alignment with TCFD recommendations.

1 *"Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures"* Task Force on Climate Related Financial Disclosures - October 2021

2021 financial review

THE GROUP RETURNED TO POSITIVE OPERATING PROFIT[1] IN 2021

JONO GILLESPIE
GROUP CHIEF EXECUTIVE

Group results

Normalised revenue fell by 20% to £131.4m (2020: £164.1m) reflecting lower levels of lending by all three divisions that drove a reduction in the net loan book. The reduction in reported revenue to was slightly greater than for normalised revenue as the final portion of the unwind of the fair value adjustment made to the George Banco loan book at the time of its acquisition in August 2017 was taken through the profit and loss account in 2020 and there was no such adjustment in 2021. A marked reduction in the numbers of rescheduled and deferred loans in both branch-based lending and guarantor loans meant that modification and derecognition losses reduced substantially versus 2020. Collections remained strong in all three businesses in 2021 with the result that the absolute level of impairment more than halved versus the prior year to £24.2m (2020: £66.3m). A marked reduction in staff costs helped to offset higher complaints costs with the result that administration costs were slightly lower at £96.0m (2020: £96.4m) and the Group delivered a normalised operating profit of £9.3m versus a normalised operating loss in 2020 of £6.3m.

There were £12.9m of exceptional items (2020: £97.8m) split between £2.2m of additional customer redress in guarantor loans, almost all of which was due to additional interest as the proposed redress programme had not commenced by the year end, £1.6m of advisory fees in connection with the independent reviews and ongoing work ahead of the planned Capital Raise, £8.5m relating to the write-down of assets and the recognition of liabilities in the home credit division triggered by the business going into administration on 15 March 2022 and £0.6m of restructuring costs. The £97.8m charge in 2020 included the non-cash impairment to the remaining value of goodwill attributable to the Group's operating subsidiaries totalling £74.8m; and a charge for redress to certain customers of the Group's guarantor loans division totalling £15.4m. The Group's home credit division went into administration on 15 March 2022 - see note 34.

Whilst the strong cash flow during the period meant that cash balances increased to £114.6m (2020: £78.0m), low deposit rates meant that the impact on net finance costs was lower than might have been expected and the total charge in the period was £26.0m (2020: £28.8m).

The net effect was that the Group reported a much reduced statutory loss before tax of £29.6m (2020: loss of £135.7m and with a small tax charge the reported loss after tax was £29.7m (2020: £135.6m). The resulting reported loss per share was 9.50p (2020: loss per share of 43.39p).

Normalised figures are before fair value adjustments, the amortisation of acquired intangibles and exceptional items.

Year ended 31 December	2021 Normalised[1] £000	2021 Fair value adjustments and exceptional items £000	2021 Reported £000
Revenue	**131,387**	**-**	**131,387**
Other operating income	983	-	983
Modification loss	(2,861)	-	(2,861)
Derecognition loss	-	-	-
Impairments	(24,163)	-	(24,163)
Exceptional provision for customer redress	-	(2,207)	(2,207)
Administration expenses	(96,047)	-	(96,047)
Operating profit / (loss)	**9,299**	**(2,207)**	**7,092**
Other exceptional items	-	(10,723)	(10,723)
Profit / (Loss) before interest and tax	**9,299**	**(12,930)**	**(3,631)**
Finance cost	(25,979)	-	(25,979)
Loss before tax	**(16,680)**	**(12,930)**	**(29,610)**
Taxation	(75)	-	(75)
Loss after tax	**(16,755)**	**(12,930)**	**(29,685)**
Loss per share	(5.36)p		(9.50)p
Dividend per share	0.00p		0.00p

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

Year ended 31 December	2020 Normalised[1] £000	2020 Fair value adjustments and exceptional items £000	2020 Reported £000
Revenue	164,102	(1,437)	162,665
Other operating income	1,154	-	1,154
Modification loss	(6,282)	-	(6,282)
Derecognition loss	(2,643)	-	(2,643)
Impairments	(66,262)	-	(66,262)
Exceptional provision for customer redress	-	(15,401)	(15,401)
Administration expenses	(96,385)	(1,298)	(97,683)
Operating loss	(6,316)	(18,136)	(24,452)
Other exceptional items	-	(82,433)	(82,433)
Loss before interest and tax	(6,316)	(100,569)	(106,885)
Finance cost	(28,836)	-	(28,836)
Loss before tax	(35,152)	(100,569)	(135,721)
Taxation	-	164	164
Loss after tax	(35,152)	(100,405)	(135,557)
Loss per share	(11.25)p		(43.39)p
Dividend per share	0.00p		0.00p

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 2021. 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 Dec 2021 Normalised[1]	**Branch-based lending £000**	**Home credit £000**	**Guarantor loans £000**	**Central costs £000**	**NSF plc £000**
Revenue	**79,940**	**38,401**	**13,046**	**-**	**131,387**
Other operating income	384	587	1	11	983
Modification loss	(1,383)	-	(1,478)	-	(2,861)
Derecognition loss	-		-	-	-
Impairments	(18,994)	(6,230)	1,061	-	(24,163)
Revenue less impairments	59,947	32,758	12,630	11	105,346
Administration expenses	(46,294)	(34,962)	(10,695)	(4,096)	(96,047)
Operating profit/(loss)	**13,653**	**(2,204)**	**1,935**	**(4,085)**	**9,299**
Finance cost	(14,491)	(1,102)	(4,350)	(6,036)	(25,979)
Loss before tax	**(838)**	**(3,306)**	**(2,415)**	**(10,121)**	**(16,680)**
Taxation	48	158	299	(580)	(75)
Loss after tax	**(790)**	**(3,148)**	**(2,116)**	**(10,701)**	**(16,755)**
Normalised loss per share					(5.36)p
Dividend per share					0.00p

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

Year ended 31 Dec 2020 Normalised[1]	Branch-based lending £000	Home credit £000	Guarantor loans £000	Central costs £000	NSF plc £000
Revenue	89,788	43,834	30,480	-	164,102
Other operating income	1,125	18	-	11	1,154
Modification loss	(2,207)	-	(4,075)	-	(6,282)
Derecognition loss	(2,602)	-	(41)	-	(2,643)
Impairments	(31,449)	(10,495)	(24,318)	-	(66,262)
Revenue less impairments	54,655	33,357	2,046	11	90,069
Administration expenses	(41,236)	(35,866)	(13,773)	(5,510)	(96,385)
Operating profit/(loss)	13,419	(2,509)	(11,727)	(5,499)	(6,316)
Finance cost	(18,594)	(1,228)	(7,467)	(1,547)	(28,836)
Loss before tax	(5,175)	(3,737)	(19,194)	(7,046)	(35,152)
Taxation	-	-	-	-	–
Loss after tax	(5,175)	(3,737)	(19,194)	(7,046)	(35,152)
Normalised loss per share					(11.25)p
Dividend per share					0.00p

Reconciliation of net loan book

	2021 Normalised[1] £m	**2021 Fair value adjustments £m**	**2021 Reported £m**	2020 Normalised[1] £m	2020 Fair value adjustments £m	2020 Reported £m
Branch-based lending	**157.2**	**-**	**157.2**	171.5	-	171.5
Home credit	**24.0**	**-**	**24.0**	26.9	-	26.9
Guarantor loans	**26.8**	**-**	**26.8**	59.8	-	59.8
Total	**208.0**	**-**	**208.0**	258.2	-	258.2

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

Impairment provisioning

Following a marked increase in impairment provisioning in 2020, the Group is keen to ensure that the Group's coverage ratio, as reported, is not misunderstood because of the accounting treatment of modification and derecognition gains and losses. As a result, the Group has continued to report coverage ratios in line with previous years but has also included an additional alternative performance measure that the Board believes provides investors with a more relevant coverage metric that is more directly comparable with key competitors and other sector companies. The key difference between the two methodologies is in the way that modification and derecognition gains and losses are treated, both of which affect branch-based lending in particular and which, without appropriate adjustment, make meaningful comparisons with other sector companies much more difficult.

The elements of the disclosure which are not representative of the underlying position in branch-based lending and guarantor loans are the stage 2 coverage and the total portfolio coverage (home credit is unaffected). Branch-based lending stands out against the peer group, firstly because, using the reported presentation, it has very low coverage in stage 2 while the progression from stage 1 to stage 3 is notably different and less logical than for the peer group. This is because the current presentation nets down both the gross cash receivable ('GCR') and the provision to determine coverage. The revised methodology simply restates the coverage using both figures on a gross basis, which the Board believes to be a more appropriate and comparable presentation of provision coverage.

Using the presentation used in previous years, the Group's reported coverage ratio increased from 19.5% at 31 December 2020 to 21.5% at 31 December 2021 and is summarised in the following table

	31 Dec 2021	31 Dec 2020	*Percentage point change*
Branch-based lending	**14.0%**	7.6%	*6.4%*
Home credit	**46.7%**	49.9%	*-3.2%*
Guarantor loans	**27.8%**	26.7%	*1.1%*
Group	**21.5%**	19.5%	*2.0%*

Using the revised presentation methodology (that has no impact on the underlying level of provision included in the Group's balance sheet), the coverage ratios in both 2021 and 2020 are shown below:

	31 Dec 2021	31 Dec 2020	*Percentage point change*
Branch-based lending	**19.0%**	15.4%	*3.6%*
Home credit	**46.7%**	49.9%	*-3.2%*
Guarantor loans	**33.2%**	31.4%	*1.8%*
Group	**25.5%**	24.8%	*0.7%*

In branch-based lending, the increase in coverage reflects a rise in the rate of delinquency as a number of customers that had received COVID-related forbearance were charged off and also because of the Directors' judgement that the outlook for the division's customers was more uncertain given the prospect of rising fuel and food costs over the coming months.

In home credit, after a major increase in 2020 due to the pandemic, the coverage ratio decreased by 3.1 percentage points to 46.7% reflecting a strong collections performance during the year and the fact that the provisioning methodology used is accurately predicting the level of expected credit losses. While the uncertain macroeconomic outlook was considered as part of the overall assessment of provisions, as noted in previous annual reports, there is little or no correlation between macroeconomic indicators and expected credit losses in home credit.

Having seen the largest increase in provisioning in 2020, in 2021 the Group's guarantor loans division saw its coverage ratio increase slightly as while the collections performance has been in-line with expectations, as with branch-based lending, the outlook for the division's customers was more uncertain given the prospect of rising fuel and food costs over the coming months.

Further details regarding the Group's approach to provisioning are set out in note 1 to the financial statements.

Divisional review

Branch-based lending

Year ended 31 December	2021 Normalised[1] £000	2021 Fair value adjustments and exceptional items £000	2021 Reported £000
Revenue	**79,940**	-	**79,940**
Other operating income	384	-	384
Modification loss	(1,383)	-	(1,383)
Derecognition loss	-	-	-
Impairments	(18,994)	-	(18,994)
Revenue less impairments	**59,947**	-	**59,947**
Administration expenses	(46,294)	-	(46,294)
Operating profit	**13,653**	-	**13,653**
Exceptional items		-	-
Profit/(loss) before interest and tax	**13,653**	-	**13,653**
Finance cost	(14,491)	-	(14,491)
Loss before tax	**(838)**	-	**(838)**
Taxation	48	-	48
Loss after tax	**(790)**	-	**(790)**

Year ended 31 December	2020 Normalised[1] £000	2020 Fair value adjustments and exceptional items £000	2020 Reported £000
Revenue	89,788	-	89,788
Other operating income	1,125	-	1,125
Modification loss	(2,207)	-	(2,207)
Derecognition loss	(2,602)	-	(2,602)
Impairments	(31,449)	-	(31,449)
Revenue less impairments	54,655	-	54,655
Administration expenses	(41,236)	-	(41,236)
Operating profit	13,419	-	13,419
Exceptional items	-	(6,017)	(6,017)
Profit/(loss) before interest and tax	13,419	(6,017)	7,402
Finance cost	(18,594)	-	(18,594)
Profit/(loss) before tax	(5,175)	(6,017)	(11,192)
Taxation	-	-	-
Profit/(loss) after tax	(5,175)	(6,017)	(11,192)

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

In branch-based lending, the key performance drivers that underpin the operational and financial performance of the business include network capacity, lead volume and quality, network productivity and impairment management. A summary of how these factors were affected during 2021 is summarised below.

Network capacity – Given the continued uncertainty regarding the impact of the pandemic on the UK economy during 2021 and the outlook for consumer credit generally, we remained cautious on expanding our footprint and opened just one of the branches that had been mothballed in 2020, taking the total number to 75. However, given a more cautious lending approach as the economy slowed and certain sectors were particularly hard hit, coupled with a desire to both manage costs and also stay within our targeted ratio of network staff to active customers, staffing levels in the network reduced during the first half of 2021, falling from 326 in December 2020 to 306 at the end of June. A number of these departures were prompted by network staff reassessing their careers in the light of the pandemic. We began to rebuild during the second half of 2021 and the network staffing levels increased to reach 343 by the year end. Head office staffing levels also declined during the year from 114 in December 2020 to 104 in December 2021, partly due to similar reasons as in the network but also as we sought to increase efficiency levels within head office.

The introduction of further government restrictions during the year and our determination to remain cautious did impact the level of lending in 2021 which was lower than we had previously hoped for. As a result, there was a 4% decline in the number of active customers that fell to 66,000 (2020: 68,100) and the net loan book fell by 8% to £157.1m (2020: £171.5m), some 27% below what it had been at the end of 2019 (2019: £214.8m).

Lead volumes and quality – Our ability to continue to attract leads remained strong and the total number of gross new borrower leads processed in 2021 increased from 1.8 million in 2020 to 2.1 million in 2021 - an increase of 20% (albeit that this level of increase was flattered somewhat by the fact that in April 2020 we accepted no leads at all in the immediate aftermath of the first lockdown). The quality of the leads remained good and new borrower applications to branch ('ATBs') also increased by a similar percentage to over 403,800 (2020: 339,100). Our mix of leads and loans written is supported by the strength and longevity of our relationships with a number of financial brokers that in aggregate provided approximately 91% of gross leads (2020: 94%) and accounted for approximately 52% of completed loans (2020: 57%). Direct applications, renewals and applications from former customers made up the balance and while they represented only 9% of all leads, they accounted for approximately 48% of the total number of loans written, with a much higher conversion rate than for leads introduced by financial brokers.

Productivity – whilst our more cautious approach to lending and the introduction of a more detailed creditworthiness process meant that conversion rates for new borrowers fell to 6.5% (2020: 6.8%) the increase in applications and ATBs meant that the number of new borrower loans booked increased to 26,448 (2020: 23,019), the total number of loans booked increased to 37,150 (2020: 33,499) and the total value of loans issued increased by 17% to £117.8m (2020: £104.3m). Whilst a return to lending growth is encouraging, the volume of lending remained significantly below the £169.9m achieved in 2019.

Delinquency management – The unprecedented levels of forbearance offered to customers in 2020 and into 2021 began to unwind towards the end of the first half of 2021. By the end of 2021, customers that had requested COVID-related forbearance either returned to their regular payments, continued with their rescheduled payments or were written-off. At the same time, the quality of new lending remained high as we maintained a rigorous lending process that also benefited from a new and enhanced creditworthiness assessment that was introduced during the year. As a result, after the sharp increase in the previous year due to the pandemic, the rate of impairment reduced from 16.3% of average net receivables to 11.6% and from 35.0% to 23.8% of normalised revenue. Whilst pleased that the rates of impairment started to return to more normalised levels, they remained higher than that seen prior to the pandemic.

2021 results

Revenue was 11% lower at £79.9m (2020: £89.8m) primarily due to the 8% reduction in the net loan book. Other income was slightly lower with a reduced volume of debt sales and the absence of any furlough support from HM Government that had been received in 2020. Modification and derecognition gains / losses reduced significantly in 2021 as the impact of the pandemic in 2020 was not repeated. Lower rates of delinquency together with lower charge-off led to a 40% decrease in impairments to £19.0m (2020: £31.4m).

Despite a steady reduction in staff numbers during the first half of 2021 (although this was reversed in the second half as we sought to fill vacancies and increase capacity), the return to bonus payments for staff, higher complaint handling costs that were in large part due to a significant reduction in the backlog of historic FOS complaints and increased marketing expenses meant that administration costs increased to £46.3m (2020: £41.2m). However, given the marked reduction in impairments and despite the reduction in revenue, normalised operating profit increased from £13.4m to £13.7m.

There were no exceptional charges in 2021 while the £6.0m charge in the prior year related to the £5.8m write-off of capitalised fees associated with the Group's securitisation facility and restructuring costs of £0.2m.

Strong cash generation as a result of a healthy collections performance and lower lending volumes meant that finance costs reduced from £18.6m to £14.5m with the result that the division produced a much reduced normalised loss before tax of £0.8m (2020: loss before tax of £5.2m). Given the absence of any exceptional items in 2021, the reduction in the reported loss before tax was even more significant from £11.2m to £0.8m.

Key performance indicators

While the write-off a number of loans due to the pandemic and lower numbers of rescheduled and deferred loans helped to drive an increase in revenue yield to 48.8% (2020: 46.5%), the 8% decline in the net loan book was the principal reason behind the decline in revenue. The increased quality of our new lending together with strong collections helped to reduce impairment as a percentage of revenue with the result that the risk adjusted margin increased back to levels above that achieved in 2019 at 37.2% (2020: 30.2%; 2019: 36.1%). Including modification and derecognition losses, the impairment as a percentage of revenue fell from 40.4% to 25.5%.

Despite the fact that the increase in costs coupled with lower revenue meant that the cost:income ratio increased to 57.9% (2020: 45.9%), normalised operating profit margin increased to 17.1% (2020: 14.9%) although this remains well below the 31.9% achieved in 2019.

Year ended 31 December Key Performance Indicators[1]	**2021** **Normalised**	2020 Normalised
Number of branches	**75**	74
Period-end customer numbers (000)	**66.0**	68.1
Period-end loan book (£m)	**157.2**	171.5
Average loan book (£m)	**163.7**	193.0
Loan book growth (%)	**(8.3)%**	(20.2)%
Revenue yield (%)	**48.8%**	46.5%
Risk adjusted margin (%)	**37.2%**	30.2%
Impairments/revenue (%)	**23.8%**	35.0%
Impairments (including modifications)/revenue	**25.5%**	40.4%
Impairment/average loan book (%)	**11.6%**	16.3%
Cost:income ratio (%)	**57.9%**	45.9%
Operating profit margin	**17.1%**	14.9%
Return on asset (%)	**8.3%**	7.0%

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

Actions and plans for 2022

Assuming that the Capital Raise can be completed as planned, we continue to believe that there are significant opportunities for our branch-based lending business. Whilst the UK's recovery from the pandemic has taken longer than most previously expected and against an uncertain macroeconomic backdrop, our investment over the past few years in new systems and improved operational processes and procedures, together with a planned return to full network capacity in terms of staffing, underpins our confidence in being able to deliver significant loan book growth. This will be a combination of recovering ground lost during the pandemic but also through productivity improvements and operational efficiencies. However, it will not mean that we will compromise on our commitment to continue to meet the highest standards of responsible lending, ensuring that we continue to deliver good outcomes for all our customers, including those that may be vulnerable.

Whilst the evolution of our credit risk assessment process is continuous, the benefits of a more extensive creditworthiness process together with an enhanced credit scorecard should help to maintain a strong collections performance even against a backdrop of growing lending volumes.

Home credit[1]

Year ended 31 December	2021 Normalised[2] £000	2021 Fair value adjustments and exceptional items £000	2021 Reported £000
Revenue	**38,401**	-	**38,401**
Other income	587	-	587
Impairments	(6,230)	-	(6,230)
Revenue less impairments	**32,758**	-	**32,758**
Administration expenses	(34,962)	-	(34,962)
Operating loss	**(2,204)**	-	**(2,204)**
Exceptional items	-	(8,542)	(8,542)
Loss before interest and tax	**(2,204)**	**(8,542)**	**(10,746)**
Finance cost	(1,102)	-	(1,102)
Loss before tax	**(3,306)**	**(8,542)**	**(11,848)**
Taxation	158	-	158
Loss after tax	**(3,148)**	**(8,542)**	**(11,690)**

Year ended 31 December	2020 Normalised[2] £000	2020 Fair value adjustments and exceptional items £000	2020 Reported £000
Revenue	43,834	-	43,834
Other income	18	-	18
Impairments	(10,495)	-	(10,495)
Revenue less impairments	33,357	-	33,357
Administration expenses	(35,866)	-	(35,866)
Operating profit	(2,509)	-	(2,509)
Exceptional items	-	-	-
Profit before interest and tax	(2,509)	-	(2,509)
Finance cost	(1,228)	-	(1,228)
Profit before tax	(3,737)	-	(3,737)
Taxation	–	-	-
Profit after tax	(3,737)	-	(3,737)

1 The Home credit division went into administration on 15 March 2022 and is no longer part of the Group (see note 34)
2 See glossary of alternative performance measures and key performance indicators in the Appendix.

Following extensive discussions with the FCA regarding the conclusions of the review into home credit, the Directors of Loans at Home Limited ('Loans at Home') concluded that the Loans at Home business was no longer viable and so the business was placed into administration on 15 March, 2022. Whilst deeply saddened and disappointed with this news, the Boards of both Loans at Home and NSF were clear that this outcome was the only option available in order to preserve value for creditors. As the operations and activities of Loans at Home are separate from the rest of the Group, the Board of NSF has confirmed that, having now received certain waivers from the Group's lenders, the administration of Loans at Home will have minimal impact on the rest of the Group's business.

2021 results
The impact of a lower average net loan book together with a flat average yield meant that revenue was 12% lower at £38.4m (2020: £43.8m). A continued strong collections performance in conjunction with lower levels of new lending meant that in absolute terms, impairments fell by 41% to £6.2m, which is a record low for the business (2020: £10.5m). Despite the drop in revenue, impairment as a percentage of revenue also reduced to reach a record annualised low of 16.2% (2020: 23.9%).

Lower staff costs and a reduction in complaint handling costs contributed to an 3% reduction in administration costs to £35.0m (2020: £35.9m) that in turn helped to reduce the normalised operating loss from £2.5m to £2.2m. While strong cashflow helped to reduce finance costs to £1.1m (2020: £1.2m), an exceptional charge of £8.5m (2020: nil) relating to the write-down of assets and the recognition of liabilities as a result of the business going into administration on 15 March 2022 meant that the reported loss before tax was £11.8m (2020: loss before tax of £3.7m).

Key performance indicators

The further reduction in impairment fed through into a much improved risk adjusted margin that increased by over 10 percentage points versus the prior year. Despite concerted efforts to continue to manage our cost base, the fall in revenue meant that the cost:income ratio increased significantly to 91.0% (2020: 81.8%), impacting operating profit margins and the return on asset.

Year ended 31 December Key Performance Indicators[1]	**2021 Normalised**	2020 Normalised
Period-end customer numbers (000)	**70.5**	72.1
Period-end loan book (£m)	**24.0**	26.9
Average loan book (£m)	**24.4**	28.2
Loan book growth (%)	**(10.8)%**	(32.5)%
Revenue yield (%)	**157.2%**	155.2%
Risk adjusted margin (%)	**131.7%**	118.0%
Impairments/revenue (%)	**16.2%**	23.9%
Impairments (including modifications)/revenue	**16.2%**	23.9%
Impairment/average loan book (%)	**25.5%**	37.2%
Cost to income ratio (%)	**91.0%**	81.8%
Operating profit margin	**(5.7)%**	(5.7)%
Return on asset (%)	**(9.0)%**	(8.9)%

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

Having gone into administration on 15 March 2022, Loans at Home is no longer part of the Group.

Guarantor loans

Year ended 31 December	2021 Normalised[1] £000	2021 Fair value adjustments and exceptional items £000	2021 Reported £000
Revenue	**13,046**	-	**13,046**
Other income	1	-	1
Modification loss	(1,478)	-	(1,478)
Derecognition loss	-	-	-
Impairments	1,061	-	1,061
Revenue less cost of sales	**12,630**	-	**12,630**
Exceptional provision for customer redress		(2,207)	(2,207)
Administration expenses	(10,695)	-	(10,695)
Operating loss	**1,935**	**(2,207)**	**(272)**
Other exceptional items	-	(601)	(601)
Loss before interest and tax	**1,935**	**(2,808)**	**(873)**
Finance cost	(4,350)	-	(4,350)
Loss before tax	**(2,415)**	**(2,808)**	**(5,223)**
Taxation	299	-	299
Loss after tax	**(2,116)**	**(2,808)**	**(4,924)**

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

Year ended 31 December	2020 Normalised[1] £000	2020 Fair value adjustments and exceptional items £000	2020 Reported £000
Revenue	30,480	(1,437)	29,043
Other income	-	-	-
Modification loss	(4,075)	-	(4,075)
Derecognition gain	(41)	-	(41)
Impairments	(24,318)	-	(24,318)
Revenue less cost of sales	2,046	(1,437)	609
Exceptional provision for customer redress	-	(15,401)	(15,401)
Administration expenses	(13,773)	-	(13,773)
Operating profit/(loss)	(11,727)	(16,838)	(28,565)
Other exceptional items	-	-	-
Profit/(loss) before interest and tax	(11,727)	(16,838)	(28,565)
Finance cost	(7,467)	-	(7,467)
Profit/(loss) before tax	(19,194)	(16,838)	(36,032)
Taxation	-	-	-
Profit/(loss) after tax	(19,194)	(16,838)	(36,032)

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

Following completion of the FCA's detailed review of the Group's proposed redress methodology for certain customers of its Guarantor Loans Division, whilst there were no material amendments, the Group is continuing to work with the FCA on finalising the operational mechanics of the scheme. The Group's Guarantor Loans Division was placed into a managed run-off in June 2021 and it did not issue any new loans in 2021 and so the financial performance of the business has been driven by collections from the outstanding loan book.

With no new lending in 2021, the number of active loans declined from 26,227 in December 2020 to 14,470 at the end of December 2021 and the net loan book also fell sharply as collections remained strong throughout the period. As at 31 December 2021, the net loan book had declined by 55% to reach £26.8m at 31 December 2020 (2020: £59.8m).

2021 results
With no new lending and a declining loan book, normalised revenue fell by 57% to £13.0m (2020: £30.5m). Collections however remained strong helping to drive a significant reduction in impairment resulting in a credit of £1.1m (2020: charge of £24.3m) - the prior year having been particularly high as a result of the pandemic that had had a disproportionate impact on young adults that made up a significant proportion of the guarantor loans customer base. Provision coverage is being monitored on an account by account basis during the collect out and using the same methodology as in previous years the provision coverage increased from 26.7% at the end of 2020 to 27.8% at the end of 2021. Using the revised methodology described in the Group Chief Executive's review, the provision coverage increased from 31.4% at the end of 2020 to 33.2% at the end of 2021.

Our continued focus on managing our costs meant that administration costs fell by 22% to £10.7m (2020: £13.8m) thanks to lower staff costs, lower complaint handling costs and lower professional fees. The net result was that the business returned to generating a normalised operating profit of £1.9m (2020: operating loss of £11.7m). Strong cash flow meant that finance costs were lower at £4.4m (2020: £7.5m) resulting in a much reduced normalised loss before tax of £2.4m (2020: loss before tax of £19.2m). There was an exceptional charge of £2.8m (2020: £15.4m) that comprised an additional £2.2m charge for penalty interest on the customer redress already provided for due to the delay in execution and £0.6m related to redundancy costs following the decision to put the division into managed run-off (see note 24 to the financial statements for more detail regarding the customer redress provisions). With the absence of any fair value adjustment to revenue (2020: £1.4m), the net result was that the reported loss before tax was £5.2m (2020: loss before tax of £36.0m).

Key performance indicators
The absence of any lending in 2021 together with a robust collections performance saw the loan book reduce by over 55% (2020: (43.3)%) and it was this that prompted a marked decline in revenue. However, lower levels of lending led to a favourable impact on impairment that was also helped by a robust collections performance that flattered both yield and risk adjusted margin. While the drop in revenue meant that the cost:income ratio increased to 82% (2020: 45%), the major reduction in impairment meant that the net effect was that the division's operating profit margin returned to positive territory at 14.8% (2020: negative 38.5%) and return on assets was also positive, albeit modest at 4.8% (2020: negative 13.6%).

Year ended 31 December Key Performance Indicators[1]	**2021 Normalised**	2020 Normalised
Period-end customer numbers (000)	**14.5**	26.2
Period-end loan book (£m)	**26.8**	59.8
Average loan book (£m)	**40.6**	86.2
Loan book growth (%)	**(55.2)%**	(43.3)%
Revenue yield (%)	**32.1%**	35.3%
Risk adjusted margin (%)	**34.7%**	7.1%
Impairment/revenue (%)	**(8.1)%**	79.8%
Impairment (including modifications)/revenue	**3.2%**	93.3%
Impairment/average loan book (%)	**(2.6)%**	28.2%
Cost:income ratio (%)	**82.0%**	45.2%
Operating profit margin (%)	**14.8%**	(38.5)%
Return on assets (%)	**4.8%**	(13.6)%

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

Collect-out of Guarantor Loans Division
Having concluded that shareholder interests will be best served by placing the division into a managed run-off and ultimately closing the business, the collect-out of the outstanding loan book is progressing well and as planned.

Central costs and exceptional items

Year ended 31 December	2021 Normalised[1] £000	2021 Fair value adjustments and exceptional items £000	2021 Reported £000
Revenue	**-**	**-**	**-**
Other income	11	-	11
Administration expenses	(4,096)	-	(4,096)
Operating loss	**(4,085)**	**-**	**(4,085)**
Exceptional items	-	(1,580)	(1,580)
Loss before interest and tax	(4,085)	(1,580)	(5,665)
Finance cost	(6,036)	-	(6,036)
Loss before tax	**(10,121)**	**(1,580)**	**(11,701)**
Taxation	(580)	-	(580)
Loss after tax	**(10,701)**	**(1,580)**	**(12,281)**

Year ended 31 December	2020 Normalised[1] £000	2020 Fair value adjustments and exceptional items £000	2020 Reported £000
Revenue	-	-	-
Other income	11	-	11
Administration expenses	(5,510)	(1,298)	(6,808)
Operating loss	(5,499)	(1,298)	(6,797)
Exceptional items	-	(76,416)	(76,416)
Loss before interest and tax	(5,499)	(77,714)	(83,213)
Finance cost	(1,547)	-	(1,547)
Loss before tax	(7,046)	(77,714)	(84,760)
Taxation	-	164	164
Loss after tax	(7,046)	(77,550)	(84,596)

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

A number of initiatives were taken during 2021 to reduce central costs including the relocation of the Group's London office to just outside Wakefield, a reduction in staffing levels and general cost efficiencies. As a result, normalised administrative expenses fell by 26% to £4.1m (2020: £5.5m). There was no amortisation of acquired intangible assets as these had all been written down in prior years (2020: £1.3m). Finance costs increased to £6.0 (2020: £1.5m) due to the higher cash balances held at the Group level and lower inter-company interest charges from subsidiaries.

Exceptional costs of £1.6m (2020: £97.8m) comprised advisory fees and this total was a major reduction from the previous year that had included the following items: the impairment of the remaining goodwill assets relating to the Group's operating subsidiaries totalling £74.8m; £1.6m of advisory fees; the write-off of £5.8m of capitalised fees associated with the Group's securitisation facility; a charge for redress totalling £15.4m; and £0.2m of restructuring and redundancy costs that took place during the year. The increase in finance costs reflects the repayment of intercompany borrowings by subsidiaries with no corresponding repayment of external debt, the balances being held in cash.

Balance sheet

As at 31 December 2021, the Group had increased its cash balances to £114.6m (2020: £78.0m) while gross debt remained unchanged at £330.0m. However, following the write-off in 2020 of all of the remaining goodwill assets associated with the Group's operating subsidiaries, the exceptional provision for redress and the write-down of assets and the recognition of liabilities in the home credit division associated with that business going into administration as well as the further losses incurred in 2021, the Group's balance sheet remained in a negative net tangible assets position. A summary of the Group's balance sheet as at 31 December 2021 is shown below:

Year ended 31 December	**2021 £000**	2020 Restated £000
Loan book	**207,984**	258,201
Fair value	**-**	-
Adjusted loan book	**207,984**	258,201
Cash	**114,577**	77,956
Trade receivables and other assets	**4,003**	3,630
Property, plant and equipment, intangibles and right of use assets	**14,574**	24,593
Payables and provisions	**(44,018)**	(38,440)
Lease liability	**(9,545)**	(10,889)
Debt	**(328,762)**	(326,587)
Tangible net (liabilities)/assets	**(41,187)**	(11,536)
Goodwill and acquired intangibles	**-**	-
Net (liabilities)/assets	**(41,187)**	(11,536)

The clear priority for the Group is to complete the Capital Raise that, if successful, is expected to, amongst other things, fund the payment of customer redress, strengthen the Group's balance sheet and restore it to a positive net assets position. However, the Directors note that a material uncertainty exists regarding the successful execution of a capital raise, current and future impacts of COVID-19 and the impact of potential levels of redress and claims across the Group, each of which may cast significant doubt on both the Group's and the Company's ability to continue as a going concern.

Principal risks

The principal risks facing the Group are set out on pages 19 to 23 of the 2021 Annual Report and are summarised below:

Liquidity, going concern and solvency – while as at 31 March 2022 the Group had c.£112.8 in cash, the Directors note that the Group's loan to value ratio at 31 March 2022 was higher than the level permitted under its loan to value covenant following large interest payments made during the quarter. At the same time, material uncertainties exist regarding the successful execution of a capital raise, the ability of the Group to obtain extensions to the term of its existing debt facilities on terms acceptable to investors, current and future financial performance and the impact of potential levels of redress and claims across the Group. Whilst the Group has received waivers and extensions from its lenders in order to avoid a covenant breach so that it can proceed with the planned Capital Raise, without further waivers and/or extensions for any future covenant breaches and extensions to the terms of its existing facilities, the impact on liquidity and solvency under both the base case and downside scenarios may cast significant doubt on both the Group's and the Company's ability to continue as a going concern. In such circumstance, there would be a material risk of the Group going into insolvency. However, the Directors continue to believe there is a reasonable prospect of resolving this position;

Regulation – the Group faces significant operational and financial risk through changes to regulations, changes to the interpretation of regulations or a failure to comply with existing rules and regulations. Whilst the reviews of each of the Group's divisions concluded that no redress was payable in branch-based lending, the home credit division went into administration on 15 March 2022. Following the FCA's detailed review of the Group's proposed redress methodology for certain customers of its guarantor loans business, the Group is continuing to work with the FCA on finalising the operational mechanics of the redress programme. The Board is hopeful that this will soon be finalised in order to provide certainty for investors so that it can then proceed with the Capital Raise. However, should the Group fail to reach agreement with the FCA regarding the mechanics of the programme such that there remains significant uncertainty regarding the quantum of potential redress liabilities, the Group may be forced to consider other options that can reduce such uncertainty, including a scheme of arrangement. Whilst such schemes are complex, time consuming and not guaranteed to be successful, the Board believes that, were such a scheme to be pursued it would stand a reasonable chance of success and would, along with needing to extend lending facilities, allow it to proceed with its planned capital raise (as described in further detail below). The Board therefore believes that it remains a going concern. The proceeds of the planned capital raise will be used, among other things, to fund redress payments to eligible GLD customers. The current provisions for redress represent the Directors' best estimate of the total cost of redress, based upon detailed methodology and analyses developed in conjunction with its advisers, there is a risk of a less favourable outcome;

Conduct – risk of poor outcomes for our customers or other key stakeholders as a result of the Group's actions;

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 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, increasing numbers of customer complaints, 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; and

- **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.

Emerging risks that may impact the future performance of the Group include the anticipated increase in the cost of living, climate change and technology where we plan to become more agile and independent with greater control over our ability to augment and improve our lending proposition. Further details are included on page 25 of the 2021 Annual Report.

On behalf of the Board of Directors
Jono Gillespie
Group Chief Executive
29 April 2022

Stakeholder management and our commitment to Section 172

Our approach to stakeholder engagement

The Group's Board of Directors and senior management team continue to believe that sustainability and operational resilience are key factors in ensuring the delivery of attractive long-term financial returns.

The Group's long-term success is underpinned by a broad range of relationships that have been established with a number of key stakeholder groups, each of which plays a vital role in enabling us to achieve our operational and financial objectives. Whilst the pandemic continued to hamper our ability to have face-to-face meetings through much of 2021, within the confines of government guidelines and our desire to ensure that the health and safety of our customers and workforce remained a priority, we continued to engage with our key stakeholders throughout 2021.

Our approach to stakeholder management
Our overall approach to stakeholder management is underpinned by a clear focus on maintaining a strong and positive business culture – something that the Board recognises as being essential for 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) to (f).

Discharging our responsibilities under Section 172
To discharge our responsibilities under these requirements, we have provided a summary of each of our key stakeholder groups on the following pages, why they are important to us, how we have engaged with them in 2021 and the key issues that have been raised and addressed.

We have also provided some examples on page 50 of where decisions have been taken or where future actions were proposed as a result of our engagement during 2021.

The Board considers that this section of the Annual Report (pages 40 to 50) constitutes its disclosure against the requirements of Section 172(1) of the Companies Act 2006.

What is Section 172(I) all about?

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:

(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 a variety of stakeholders including 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 considered and treated fairly.

Engaging with our stakeholders

1. Providers of funding

Why we engage

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.

Key issues

- The financial and operational performance of the Group and each of its subsidiaries
- Capital structure, solvency, liquidity and financial KPIs
- Major strategic and regulatory developments
- Corporate governance
- Risk management

How we engage

- Debt providers receive regular management reports and engage directly with the Group Chief Executive as well as the wider finance team
- Regular public disclosures issued via a Regulatory News Service
- Other relevant information is available via **www.nsfgroupplc.com**.
- Meetings with senior management both online and where possible, face-to-face
- The Chairman and Non-Executive Directors are also available for meetings
- The Group is covered by a small number of equity research teams and aims to maintain strong relationships with each of them as well as other analysts covering the sector

Resulting actions and outcomes

- Publication of financial reports via RNS and the Group's website
- Board receives regular updates on key market developments, including feedback received from both equity investors and lenders to the Group
- Board receives copies of published research
- Taking these views into account is an essential part of the business management process at NSF
- The Group continued to receive the support of its lenders throughout 2021

Engaging with our stakeholders

2. Customers

Why we engage

Our customers are at the centre of our business model (see page 10). Should we deliver a poor service or treat our customers unfairly, we are unlikely to meet our long-term financial and strategic objectives.

Key issues

- We aim to design and tailor our products to meet our customers' needs at a price they can afford
- Ensuring we lend and collect responsibly and in compliance with latest FCA rules and guidance and take account of the latest decisions at the Financial Ombudsman Service
- Having an effective complaint handling process

How we engage

- Face-to-face contact represents an important part of the lending process in branch-based lending, providing immediate feedback on how we are performing and how we might improve. Whilst COVID-19 increased the appeal of remote channels for many customers, we continue to believe that meeting face-to-face is an important opportunity to gain a deeper understanding of the customer needs whilst also building a long-term relationship
- We also engage extensively via telephone, email and web
- Third-party customer satisfaction surveys and online recommendation engines[1]
- We also work hard to ensure that if something goes wrong, our complaint handling processes deliver fair and appropriate outcomes. Numbers of complaints and root cause analysis are data points that we track and monitor closely

Resulting actions and outcomes

- Updated processes and systems embedding the latest FCA guidance on COVID-related forbearance
- Amended face-to-face lending processes to comply with government guidelines
- Key learnings from regulatory and assurance reviews are captured and once understood and assessed, are embedded into our policies and procedures, training, organisation structure and incentive arrangements
- All complaints are tracked, analysed and fed back into business practice and the Group's 'good customer outcomes dashboard'. Upheld decisions by the FOS are also taken into account (see Principal risks on page 38)
- Everyday Loans has received a number of awards in recognition of its focus on consumers[2]

1 *For the third year running, Everyday Loans was awarded with the top accolade by Feefo in 2021: the Platinum Trusted Service Award. This accolade is an independent seal of excellence that recognises businesses for consistently delivering exceptional experiences, as rated by customers. Feefo gives Platinum Trusted Service awards to businesses that have achieved an average service rating of greater than 4.5 stars out of 5 for more than three consecutive years. As all reviews on the Feefo platform are verified as genuine, this accreditation is a true reflection of Everyday Loans' commitment to providing outstanding service to its customers. Separately, Everyday Loans is also rated by TrustPilot;*

2 *Everyday Loans received the Non-mainstream Loan Provider of the Year Award for the third year running at the Moneyfacts Consumer Awards 2022. The Moneyfacts awards are based primarily on reviews provided by our customers who are solicited directly by Moneyfacts and asked to complete a survey questionnaire.*

Engaging with our stakeholders

3. Regulators

Why we engage

Maintaining a regular and open relationship with regulators is key. Through our engagement we aim to respond promptly to questions and ensure the regulator remains well-informed about our own performance, market dynamics and how any existing or proposed regulatory changes may impact consumers and the workings of the non-standard finance market more generally. As outlined in the Chairman's statement and the Group Chief Executive's review, during the last couple of years, the level of engagement has been extensive as we sought to resolve a number of outstanding regulatory issues.

Key issues

- Completing the regulatory reviews into both branch-based lending and home credit
- Finalising the proposed redress methodology for certain customers of the Group's guarantor loans business
- Sustaining a positive business culture
- Creditworthiness and affordability – ensuring that appropriate and proportionate checks are conducted at the point of lending
- Vulnerable customers – ensuring their circumstances are taken into account throughout the customer lifecycle
- Claims management – proper handling of claims in a timely manner with root cause analysis and noting any implications from recent and relevant FOS cases

How we engage

- We maintain a regular dialogue with the FCA, as part of its ongoing supervision process
- We also engage at a more strategic level through periodic face-to-face meetings and by responding to relevant consultations, policy documents and research
- We continue to keep the FCA and other regulatory bodies, including HM Treasury, fully informed regarding the Group's broader perspective and strategic plans

Resulting actions and outcomes

- Culture is monitored closely at both subsidiary and NSF Board level through a series of measures that are reviewed as part of a continuous assessment process
- A 'three lines of defence' model is in place to identify, manage and address any potential regulatory risks
- Following the FCA's review into each of the Group's divisions, while no redress was required in branch-based lending, the Group's home credit business went into administration on 15 March 2022. The Group is continuing to work with the FCA on finalising the operational mechanics of the proposed redress methodology for certain customers of its guarantor loans business
- We also take note of other sector developments to ensure that any implications for our own business are assessed and any adjustments to processes and procedures made
- We respond to periodic information requests from the FCA, which continues to track the performance and dynamics of the non-standard finance market

Engaging with our stakeholders

4. Partners and suppliers

Why we engage

The different business models and customer demographics of our business divisions mean that, for most suppliers, relationships are managed at a divisional rather than Group level. 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.

Key issues

- Maintaining an effective procurement process
- Ensuring that the quality of the services being supplied meets the standards expected
- Confirmation that suppliers are also fulfilling their broader obligations of good business practice including issues such as diversity, gender pay, modern slavery and anti-bribery and corruption
- We monitor supplier payment terms to ensure we pay them within the constraints of the Prompt Payment Code

How we engage

- We have clear procurement policies in each of our business divisions with proper oversight over all material contracts
- Each division seeks to maintain strong relationships through regular meetings and 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

Resulting actions and outcomes

- 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

Engaging with our stakeholders

5. Workforce

Why we engage

As a relationship lender, our workforce (which historically also included self-employed agents in home credit) is a key enabler in the execution of our business strategy and in the deployment of our business model.

Key issues

- Despite the challenges of the past couple of years, our staff appear to be generally happy in their work
- Areas for management focus include work/life balance, opportunities for career progression, remuneration and benefits, management processes as well as ideas to improve working practices and profitability
- Promotion of a positive business culture and our core values and behaviours through a variety of different channels

How we engage

- Comprehensive induction process for new joiners
- Continuous programme of training and development for staff
- Online training modules provide a clear audit trail for each participant
- Regular intranet communications and engagement surveys
- Regular meetings by senior management online as well as face-to-face, whenever possible
- Management conferences and workforce forums

Resulting actions and outcomes

- Whilst most businesses are now 'back in the office', there is still a proportion of staff that are continuing to work from home with reduced levels of personal contact with colleagues. As a result, we continue to work hard to ensure that all staff remained connected to the business through regular video/phone calls as well as through other channels (newsletters, intranet, email)
- We continue to review best practice and monitor government advice as we seek to ensure that appropriate safeguards are in place to ensure a safe working environment for our people
- A number of staff were made redundant in 2021 and we always approach such situations professionally and sensitively
- We seek to maintain regular contact with all staff, including those that may be working from home to identify any mental health or other issues

Diversity and gender pay

Gender mix

As an equal opportunities employer, our workforce has a healthy gender mix. 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 2021	**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	23	15	38
Total number of employees	**456**	**393**	**849**

April 2020	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	28	15	43
Total number of employees	506	433	939

As noted in the financial review on pages 26 to 39, a number of steps were taken in 2021 that resulted in reduced staffing levels during the year (albeit that the total number of staff in branch-based lending actually went up year-on-year following a major recruitment drive to fill vacancies in the fourth quarter of 2021).

Diversity

The Group has adopted an equality and diversity policy, promoting the equality of opportunity for all employees, dignity at work through eliminating occurrences of unlawful discrimination and through the promotion of a harmonious working environment in which all persons are treated with dignity and respect. Breaches of the policy are regarded as misconduct, which could lead to disciplinary proceedings.

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 2021 (hourly pay) and bonus paid in the 12 months to 5 April 2021. We are pleased to have continued to make progress on reducing the gap during 2021 and a summary of the figures for 2021 is as follows (the comparative figures for 2020 are also included for reference):

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

2021[2]	**Mean**	**Median**
Hourly pay gap	**13.98%**	**4.25%**
Bonus pay gap	**21.03%**	**-1.54%**

2020[2]	**Mean**	**Median**
Hourly pay gap	15.24%	7.67%
Bonus pay gap	22.86%	2.65%

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 2021 and 2020 (hourly pay) and bonus paid in the 12 months to 5 April 2021 and 2020.

Proportion of males and females receiving a bonus payment

	Male	Female
2021	**69%**	**64%**
2020	74%	64%

Why do we have a gender pay 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, although there has been a notable improvement versus last year (approximately 64% of senior roles were held by men (2020: 67%) and 36% were held by women (2020: 33%) 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.

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

2021	**Q1**	**Q2**	**Q3**	**Q4**
Male	47%	53%	55%	61%
Female	53%	47%	45%	39%
2020	**Q1**	**Q2**	**Q3**	**Q4**
Male	43%	54%	56%	63%
Female	57%	46%	44%	37%

Whilst we are pleased to have made progress in 2021, 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' 2021 figures[1] put the mean salary gap at 15.9% for financial institution managers and directors. Whilst as a Group we were below this level in 2021, we remain committed to continuing to reduce this further through a series of actions as follows:

- improving our recruitment targeting to ensure a diverse range of applicants is 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 our workforce, 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. Whilst the current share price means that the Scheme is not currently attractive for staff, if a capital raise is completed as planned then the Board intends to put in place a replacement scheme for staff.

1 ONS: Gender Pay Gap in the UK: 2021, 2 November 2021.

Engaging with our stakeholders

6. Environment

Why we engage

It is clear that environmental, social and governance ('ESG') issues are becoming increasingly important for many of our key stakeholders including customers, staff, investors and HM Government.

Key issues

- Determining our impact on the environment as well as how the environment might create additional risks (see Principal Risks on page 19), as well as opportunities for the Group
- Formulating a strategy to address and manage such risks and opportunities, including targets and milestones over the short, medium and long term
- Use of energy and natural resources as well as the level of CO_2 and other emissions produced directly and indirectly
- Supply chain, workforce management
- Preparing disclosures to assist stakeholders in assessing the potential impact of such risks and opportunities on the current and future prospects of the Group

How we engage

- Whilst we are a small company compared with many others and given the nature of our business, we do not believe that we have a material impact on the environment. However, we are keen to minimise any impact that our activities might have on our stakeholders
- The Group qualified for the Energy Savings Opportunity Scheme ('ESOS'), established by the Energy Savings Opportunity Scheme Regulations 2014.
- Having implemented a strategy to comply with the ESOS requirements, since confirmed by a third-party review and submitted to the Environment Agency, a further audit will be conducted in two years' time

Resulting actions and outcomes

- A full period of office working meant that resource usage increased although a smaller car fleet in home credit meant that mileage and CO_2 emissions reduced in 2021
- We are developing a strategy and plan to enhance our assessment and disclosure of ESG targets and related issues so that we will comply with future regulations and to help drive better decisions and long-term performance
- An update on the estimated volume of CO_2 production from car mileage and volume of water and electricity used during 2021 together with comparisons with 2020 across all three business divisions is summarised below

2021	**CO_2 production**	**Electricity usage**	**Gas usage**	**Water usage**
Total usage in 2021	**145,863KG**	**1,344,366KWH**	**105,650KWH**	**7,931m3**
Total reported revenue	**£131.4m**	**£131.4m**	**£131.4m**	**£131.4m**
Intensity metric (per £m of reported revenue)	**1,110KG**	**10,232KWH**	**804KWH**	**60m3**

2020	CO_2 production	Electricity usage	Gas usage	Water usage
Total usage in 2020	260,030KG	1,112,632KWH	116,393KWH	8,595m3
Total reported revenue	£162.7m	£162.7m	£162.7m	£162.7m
Intensity metric (per £m of reported revenue)	1,599KG	6,840KWH	716KWH	53m3

Our approach to TCFD

As described on page 25, the Group intends to fully comply with its obligations under the Taskforce on Climate Related Financial Disclosures ('TCFD') and is in the process of establishing an appropriate governance structure so that the identification, management and disclosure of material climate-related risks and opportunities are properly embedded across the Group (this is in addition to other social and governance-related risks that are already being captured and monitored). This will provide investors and other stakeholders with greater insight into the potential climate-related risks and opportunities that may impact the Company's prospects and value in the future. The Board is also reviewing the Group's business strategy so as to ensure that the impact of such risks and opportunities is taken into account and incorporated into our future plans and decision-making. As well as assessing the overall impact of climate change on each of the Group's principal risks, the Group intends to prepare additional disclosures to provide stakeholders with key metrics and targets against which the Group's future progress can be measured.

Engaging with our stakeholders

7. Communities and charity

Why we engage

A key feature of our business is that we seek to meet our customers face-to-face through extensive national networks. As a result, being a valued member of the communities where we have a physical presence is key. At 31 December 2021 the Group had around 810 staff, 780 self-employed agencies and over 150,000 customers being served from c.140 locations across the UK[1] and so is already embedded within the communities where our employees, customers, suppliers, regulators and other key stakeholders are based.

Key issues

- Providing credit to many that have perhaps been excluded by mainstream providers can be an important lifeline and places a significant responsibility on us to get things right
- If we make poor lending decisions this can harm customers, trigger a need for customer redress, damage our reputation in the community and damage our long-term business prospects

How we engage

- Our cultural focus of 'doing the right thing' is embodied by our staff and self-employed agents
- As well as being a stand-out employer providing quality services to our customers, we also aim to put something back into local communities through both physical as well as financial contributions
- We support debt-related charities such as Loan Smart and also ask our staff which other charities they would wish to support at the beginning of each year

Resulting actions and outcomes

- In 2021 the Group donated a total of £16,050 (2020: £132,260) to a range of charities
- As well as financial donations, our staff also take part in community-based events such as the 'Bite back action week' that took place in Milton Keynes in November 2021. A series of local events, in conjunction with Loan Smart, Milton Keynes Council, Thames Valley Police and the Illegal Money Lending Team were organised to help raise awareness about the dangers of using illegal lenders as an alternative source of credit

1 Note these figures include Loans at Home that went into administration on 15 March 2022

Our engagement in action

How we considered some of our key stakeholders in 2021

Throughout the past year a number of Board decisions focused on addressing issues that had impacted or could impact our key stakeholders. Some examples are summarised below.

Providers of funding

Whilst the Group continued to trade within its financial covenants throughout 2021, given the challenges faced, we have maintained a regular dialogue with each of our lenders. This has ensured they remain fully up to speed with the latest developments and we remain confident of being able to secure their continued support, including future waivers, if required, as we make further progress towards launching the Capital Raise as planned.

Customers

Whilst the impact of additional restrictions on face-to-face contact certainly affected our branch-based and home credit businesses, we continued to actively engage with our customers and undertook customer surveys in both branch-based lending and home credit to get direct and unattributable feedback on our performance. In 2021, 90% of Everyday Loans customers were either very or somewhat satisfied[1] while 85% feel that Everyday Loans either exceeded or met their expectations well[2].

Regulators

We remained actively engaged with the FCA on a number of issues during 2021. In addition to our regular reporting and filing obligations that continued in 2021, we also sought to agree a proposed redress methodology for customers that may have suffered harm in guarantor loans and commissioned independent reviews into both branch-based lending and home credit. Working closely with the FCA we responded to their questions and also amended certain of our processes and procedures in accordance with their recommendations.

Workforce

Right from the beginning of 2021, with the introduction of a third national lockdown on 6 January 2021, the Group needed to remain flexible and had to adapt its operational approach so as to meet the requirements of staff, self-employed agents, customers as well as the rules set by the UK government. While our branch network remained open throughout, as the economy began to open up more staff returned to their regular place of work and operations began to normalise. The advent of the Omicron variant during the fourth quarter however saw the return of a number of public health measures that once again interrupted our operational performance. Throughout the period, our dedicated staff and self-employed agents remained committed to serving their customers whilst adapting to the ever shifting business environment. We continued to keep our people appraised of the latest developments through regular newsletters, the Group's intranet as well as through employee forums during which staff are able to ask questions and provide direct feedback to senior management. Key topics raised included flexible working and further support on mental health, both of which prompted decisions to be taken on both to further safeguard and improve the wellbeing of our colleagues.

Suppliers

Throughout 2021, we worked closely with one of our lead brokers to try and develop what we hope will become a fully-tailored Open Banking solution for our branch-based lending business. The early stages of the project required extensive investment from both sides and also drew upon the strength of our long-standing relationship as we collaborated to build a value-enhancing solution. Having started as a reasonably rudimentary and labour-intensive process, we are now at a stage where it has evolved sufficiently that it is being piloted across the branch network and has the potential to deliver a fully-integrated and automated solution that we believe will benefit both our brokers as they are better able to identify suitable applicants, as well as our own business as conversion improves and productivity increases.

Communities and charities

Responding to a request for support, a number of locally-based staff from branch-based lending together with staff and agents from our home credit division joined the Loan Smart Charity, Milton Keynes Council, Thames Valley Police, The Illegal Money Lending Team of England and Sofea Community Larders to help raise awareness about the dangers of using unregulated lenders in a series of events that took place in and around Milton Keynes during the first week of November 2021. The events were a great success and also provided some valuable intelligence on loan shark activity in the area. Iain Stewart, the MP for Milton Keynes South, also attended one of the events that took place at Milton Keynes College.

1 *Everyday Loans survey conducted by QuMind "How satisfied are you with your loan from Everyday Loans?" (2021 n=281)*
2 *Everyday Loans survey conducted by QuMind "After taking out your loan, to what extent have Everyday Loans and the loan provided met your expectations?" (2021 n=208)*

Corporate Governance
Chairman's introduction

Dear Shareholder,

I am pleased to present our 2021 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 57 to 80.

As summarised in my Chairman's statement on pages 4 to 6, 2021 continued to present a number of significant challenges for the Group. It is in such circumstances that governance and oversight become even more important and so, despite these additional challenges, the Board remains committed to applying the highest standards of corporate governance. Whilst the Group had a standard listing on the Main Market of the London Stock Exchange throughout 2021, the Board continued to comply with the UK Corporate Governance Code wherever possible (even though there was no obligation to do so) and has taken steps to implement the Revised Code published in July 2018 (together, the 'Code')[1]. The Board also took note of the Financial Reporting Council's Annual Review of the Code that was published on 1 January 2020.

As explained throughout this Annual Report, the Board is committed to raising additional equity capital through a substantial capital raise as soon as practicable that, if successful, together with the current cash balances, will mean that many constraints on our ability to operate effectively and execute our business strategy will be removed and the prospects for the Group significantly improved. However, as highlighted in my statement on pages 4 to 6, material uncertainty exists regarding, inter alia, the Group's ability to successfully complete a capital raise as planned.

The performance of the Board and its committees is explained in the following sections of this Annual Report and for the purposes of this report, are benchmarked against the Code. If a provision of the Code has not been met, the details are highlighted together with an explanation under the heading: 'Statement of compliance with the Code' on page 53 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 40 to 50). 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. In next year's Annual Report, we will also begin to disclose more details on how we are addressing environmental, social and governance risks, so that we can meet our forthcoming obligations under the Taskforce for Climate-related Financial Disclosures.

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

Key developments

The key developments have already been covered in both my Chairman's statement and in the Group Chief Executive's Report on pages 11 to 15 and whilst pleased to see a return to positive normalised operating profit, the scale and pace of recovery in the Group's financial performance in 2021 was held back by the continued impact of the pandemic as well as a series of significant regulatory challenges. A much improved result from Everyday Loans was the driving force behind the improvement in normalised operating profit although the reduction in total revenue meant that the Group reported a pre-tax loss in 2021. Resolving the Group's outstanding regulatory issues has been a more detailed process and taken longer than expected and has required an enormous effort over the past year. At the same time, dealing with the fallout from having placed our guarantor loans business into managed run off and our home credit business into administration (see below) has also been particularly challenging. However, I wish to convey my sincere thanks to the management teams and colleagues that have displayed immense resilience and professionalism in what have been and remain highly difficult circumstances.

Our key priority has been to finalise our redress methodology for certain customers of the Group's guarantor loans business and to determine whether or not there might be any need for customer redress in branch-based lending or home credit. Resolving these issues has always been a pre-requisite for the execution of a substantial capital raise which the Board continues to believe is in the best interest of all stakeholders as it will, amongst other things, fund the customer redress due, strengthen the Group's balance sheet and significantly improve its future prospects.

As set out in my statement, as well as the Group Chief Executive's review on pages 11 to 15, whilst the conclusion of the review into branch-based lending (Everyday Loans) was that there is no requirement for any customer redress, in home credit the conclusion was that there may have been harm and, following extensive discussions with the FCA about how this should be defined and the implications for future lending, the Directors of SD Taylor Limited (trading as 'Loans at Home') reluctantly concluded that the Loans at Home business was no longer viable and Loans at Home went into administration on 15 March 2022. The Boards of Loans at Home and of NSF were clear that this was the only option available in order to preserve value for creditors. As the operations and activities of Loans at Home are separate from the rest of the Group and having agreed certain waivers with the Group's lenders, the administration of Loans at Home will have minimal impact on the rest of the Group's business.

Separately, following the FCA's detailed review of the Group's proposed redress methodology for certain customers of its guarantor loans business, the Group is continuing to work with the FCA on finalising the operational mechanics of the scheme. The Board is hopeful that this will soon be finalised in order to provide certainty for investors so that it can then proceed with the Capital Raise that, if successful, will be used to fund customer redress as well as strengthen the Group's balance sheet and transform its prospects.

If successful, the Capital Raise will reduce high levels of gearing, fund the payment of redress to certain customers of the Group and underpin the future growth of its lending operations. Whilst the Group has obtained waivers from its lenders in relation to the administration of the home credit division, its loan to value ratio at 31 March 2022 was higher than the level permitted under its loan to value covenant following large interest payments made during the quarter. The Group has received the requisite waivers and extensions to avoid a covenant breach so that it can proceed with the Capital Raise as planned. However, should the Capital Raise be unsuccessful or take longer than expected to execute, then it is expected that the Group would remain in a net liability position from a balance sheet perspective, would breach certain borrowing covenants and as a result would likely not be able to access further funding over the period of breach and would require additional waivers from its lenders. In such circumstance, there would be a material risk of the Group going into insolvency. However, the Directors continue to believe there is a reasonable prospect of resolving this position.

The fact that we have been able to continue to drive our business forward in the face of these developments has been underpinned by the strong and positive business culture to which, as a Board, senior management team and workforce, we remain committed. Whilst further restrictions on social distancing made face-to-face contact difficult, we continued to make full use of available technologies to stay connected with our people and remain fully informed of developments as they evolved. Our efforts were rewarded with high levels of staff engagement in 2021, a result that was borne not just from our efforts in the past year but also from the considerable investment and commitment made in previous years. At a practical level, whilst a number of staff returned to their regular place of work, we continued to ensure staff that were working remotely received regular calls from their managers to discuss any welfare-related or other issues and to ensure they remained firmly connected to the business.

Whilst the ongoing nature of the regulatory issues facing the Group has meant that there has been little in the way of news flow for investors, we have continued to maintain our regular calendar of financial reporting and hope to return to increased direct shareholder contact once the regulatory issues are resolved and the Capital Raise is under way.

Whilst it was anticipated that the Board evaluation process for 2021 would be conducted by an external party, given the current uncertainties facing the Group and the likelihood of a review of Board composition and process following a successful capital raise, the Board adopted a revised approach for the evaluation process in 2021. Individual feedback was obtained from each Board member and this, coupled with dialogue with Cenkos, the Group's financial advisor and broker, was drawn upon to develop key topics to consider when reviewing the Board composition and processes post-capital raise.

2021 saw a number of changes at Board level, with Heather McGregor stepping down from the Board at the 2021 AGM, having not stood for re-election, John van Kuffeler departing from the Board on 31 August 2021 and Jono Gillespie being appointed as Chief Executive Officer. I would like to thank Heather and John for their commitment and service to the Board. As set out in the Nominations & Governance Committee report, the Board plans to seek to appoint a further Independent Non-Executive Director during 2022, following a successful capital raise and is currently considering the appointment of an Executive Director to increase the executive bandwidth of the Board.

During the year, the Board appointed PKF Littlejohn as external auditors for the Group, the Audit Opinion and report on pages 103 to 108 being their first full year audit of the Group.

Given the changed composition of the Executive and management team, the increased flexibility of homeworking experienced during the pandemic and a desire to reduce costs, the Board took the decision in September 2021 to move the Head Office to a location outside of London. Non-Standard Finance plc is now based at Nostell Business Park, near Wakefield.

Whilst committed to ensuring that colleagues have the opportunity to hold even a small stake in the ultimate parent of the firm where they work, the Board acknowledges that the current share price means that membership of the Group's sharesave scheme is low and having aimed to address this in 2021, it has not been possible to do so given the other challenges faced. The Group plans to address this matter in 2022 following a successful completion of a capital raise.

Plans for 2022
In 2022, the Board's ongoing focus remains on ensuring that the Group emerges from the pandemic, resolves any outstanding regulatory issues and successfully completes a capital raise so that it can fund the customer redress due, strengthen its balance sheet and take advantage of what we believe could be a significant market opportunity in branch-based lending.

Whilst completing the Capital Raise is the Board's number one priority, as noted in each of the respective committee reports in this Annual Report, there are a number of specific objectives that each committee plans to achieve in 2022. These include, but are not limited to: the appointment of an independent Non-Executive Director and a review of the composition of the Board.

Charles Gregson
Non-Executive Chairman
29 April 2022

NSF is committed to high standards of corporate governance

Statement of compliance with the Code

As in previous years, during 2021 the Company sought to implement and comply with the revised UK Corporate Governance Code , 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 believes that a high standard of governance was achieved throughout 2021, 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 81 to 97. The Board determines that Charles Gregson would be an independent Non-Executive Director if he did not hold Founder Shares. 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 non-compliance with this provision justified.

Provision 11 – The Company does not comply with provision 11 of the Code as both Charles Gregson and Toby Westcott are deemed not to be independent, meaning that half the Board (excluding the Chair) were not independent Non-Executive Directors.

Provision 17 – The Company does not fully comply with provision 17 of the Code as the Nomination & Governance Committee had 50% rather than a majority of independent Non-Executive Directors until the departure of Heather McGregor on 30 June 2021 and thereafter less than 50%.

Provision 20 – The Company does not fully comply with provision 20 as open advertising has not generally been used for the appointment of the Chair and Non-Executive Directors. Given the specialist nature of the business, appointments have usually been made through searches or, more latterly in the case of Toby Westcott, as a result of dialogue with a key shareholder.

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 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). 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.

Non-compliance during 2021 with the provisions identified above were deemed justified given the circumstances currently faced by the Company and following the departure of Heather McGregor and the appointment of Toby Westcott during the year. However, the Board believes that Toby Westcott's addition to the Board has broadened its experience significantly and this has prompted a more complete discussion around matters raised. Whilst Heather McGregor's departure from the Board on 30 June 2021 reduced further the proportion of independent Non-Executive Directors on the Board and on each of its committees, the Board is confident that both the Board and its committees remain effective.

On completion of a successful capital raise, the Board intends to undertake a formal review of the Board composition and appoint a further independent Non-Executive Director, considering each of these matters and taking into account the latest Board evaluation feedback.

Board of Directors

John de Blocq van Kuffeler, 73
Group Chief Executive
Appointed 8 July 2014 / **Resigned** 31 August 2021
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[1]:
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.

[1] up to 31 August 2021

Jono Gillespie, 49
Group Chief Executive Officer
Appointed 1 April 2020 (became Group Chief Executive on 31 August 2021)
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, 63
Senior Independent Non-Executive Director
Appointed 9 May 2017
Committees A (Chair) / N / R / RC

Skills and experience:
Niall 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 Bank Ltd.

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.

Charles Gregson, 74
Non-Executive Chairman
Appointed 10 December 2014
Committees A / N (Chair) / R / RC (Chair from July 2021)

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:
Independent Non-Executive Director of ED&F Man (Capital Markets) Limited and Chair of the Audit, Risk and Compliance Committee

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 (six years).

Professor Heather McGregor CBE, 60
Independent Non-Executive Director
Appointed 10 December 2014 / **Resigned** 30 June 2021
Committees A / N / R (Chair until 30 June 2021) / RC (Chair until 30 June 2021)

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, a CIMA Advanced Diploma in Management Accounting 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[1]:
Executive Dean of Edinburgh Business School, the business school of Heriot-Watt University. Non-Executive Director and member of the Audit Committee, International Game Technology PLC. Non-Executive Director and Chair of the Audit and Risk Committee, Lowell Financial UK. 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, before joining 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.

[1] up to 30 June 2021

Toby Westcott, 44
Nominee Non-Executive Director
Appointed 1 October 2020
Skills and experience:
Toby is a Partner at Alchemy, an investor in debt and equity special situations across Europe, where he has focused predominantly on investing in the financial services sector. He has a degree in Mathematics from the University of Warwick and is a Chartered Accountant.

Current external appointments:
Member/Partner of Alchemy Special Opportunities LLP, and holds various other positions and directorships relating to Alchemy and its investments.

Background and previous appointments:
Toby joined Alchemy in 2008 from Hawkpoint Partners where he specialised in mergers and acquisitions in the financial services sector, advising Alchemy on several transactions. Prior to that Toby worked in the corporate finance team at Grant Thornton.

Committees A / N / R (chair from 1 July 2021) / RC

Sarah Day, 50
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 established the UK Consumer Credit Division Governance and Company Secretarial function.

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

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

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 current Director will offer themselves for re-election at the next Annual General Meeting taking place at 0930 am on 26 May 2022.

Corporate governance report
Governance at a glance

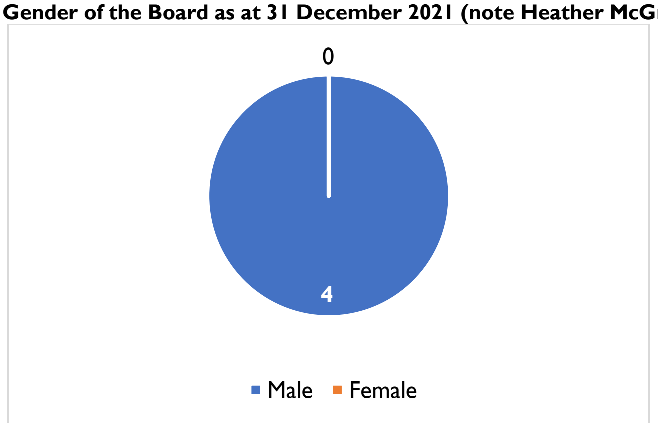
Board skills and experience

	Sector	Operational	Financial	Strategy	Risk	Information technology	People and general management
John de Blocq van Kuffeler (until 31 August 2021)	✓	✓	✓	✓	✓	✓	✓
Jono Gillespie	✓	✓	✓	✓	✓	✓	✓
Charles Gregson	✓	✓	✓	✓	✓		✓
Heather McGregor (until 30 June 2021)	✓	✓	✓	✓	✓		✓
Niall Booker	✓	✓	✓	✓	✓	✓	✓
Toby Westcott	✓	✓	✓	✓	✓		✓

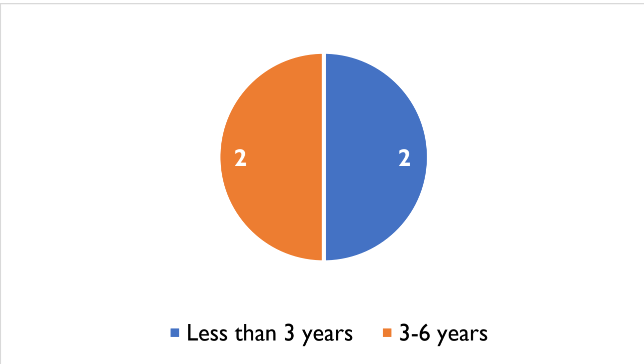
Board changes in the year
During the course of the year, the membership of the Board of Directors changed with the appointment of Jono Gillespie as CEO on 31 August 2021 and the departure from the Board of both Heather McGregor (30 June 2021) and John van Kuffeler (31 August 2021).

Board composition and diversity
(based on those who were Board members for the whole of 2021 and 2020)

Gender of the Board as at 31 December 2021 (note Heather McGregor stepped down on 30 June 2021)



Tenure of Directors



Board time	
Number of Board meetings in 2021	16
Number of Board meetings in 2020	25

'Site' visits (in addition to Board meetings) – due to COVID-19, no physical site visits took place during 2020 following the first national lockdown announcement on 23 March 2020. However, various meetings and forums were attended virtually by a number of Directors and these are also included within the figures below.

(based on those who were Board members for the whole of 2021)

7	0	1
Visits to Everyday Loans	Visits to Guarantor Loans	Visits to Loans at Home

Board 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 2021
See pages 54 and 55

Meetings held in 2021:
16 (of which 10 were scheduled meetings and 6 related to ad-hoc matters such as the response of the business to the pandemic and regulatory matters).

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, setting the company purpose, core values and standards and overseeing the Group's business culture;
- 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 including solvency and going concern;
- 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
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.
The membership of the Nomination & Governance Committee and its report is on page 68.

Audit Committee
Key objectives: To assist the Board in discharging its duties and responsibilities for financial reporting and internal financial control.
The membership of the Audit Committee and its report is on page 70.

Risk Committee
Key objectives: To assist the Board in fulfilling its oversight responsibilities with regard to the Group's risk appetite and overall risk management.
The membership of the Risk Committee and its report is on page 79

Remuneration Committee
Key objectives: Recommending to the Board the remuneration of the Chairman, Executive Directors, Company Secretary and senior management.
The membership of the Remuneration Committee and its report is on page 81

Disclosure Committee
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 Disclosure Committee is the Group Chief Executive (and prior to his appointment as Group Chief Executive, the Chief Financial Officer) and the Company Secretary.

Activities covered during 2021
During 2021 the Board had 10 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 six unscheduled meetings, some of which were called at short notice, to consider, challenge and facilitate the Group's response to the pandemic, regulatory matters and matters relating to the raising of additional equity capital. Attendance at scheduled meetings was 100% for all Board members, with the exception of one meeting not attended by Charles Gregson due to medical reasons.

A summary of the topics covered during the course of 2021 is set out on page 62.

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 six times to review and approve external announcements). The terms of reference for each committee are available from the Company's registered office address and also from 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 also a Group Risk Committee that oversees all divisions regarding Group risk oversight (see Risk Committee report on page 79).

Board and committee meetings

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

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.

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.

During 2021, both Heather McGregor and John van Kuffeler stood down from the Board. The Nomination & Governance Committee will seek to appoint an additional Independent Non-Executive Director following a successful capital raise and are considering the appointment of an additional executive director to increase the bandwith of the executive team.

Board performance review

While the Group did not conduct an external performance review in 2021, 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 2022 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
Jono Gillespie	16/16					5/5
John de Blocq van Kuffeler (until stepping down on 31 August 2021)	10/11					5/5
Charles Gregson	15/16	3/3	11/11	4/4	4/4	
Toby Westcott	14/16	3/3	9/11	4/4	4/4	
Niall Booker	15/16	3/3	11/11	4/4	4/4	
Heather McGregor	8/8	2/2	7/7	2/2	2/2	

Attendance at scheduled Board meetings was 100% with the exception of Charles Gregson, where non-attendance at one scheduled meeting was due to medical reasons. Non-attendance at ad-hoc meetings was due to short notice of meetings and other diary commitments.

Independent advice

All Directors have access to advice from professional advisers, as and when required and at the Company's expense, 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. With the appointment of Toby Westcott to the Board in October 2020, in order to ensure that no conflicts of interest arise with respect to the appointment of a nominee director, the Board adopted specific guidance notes detailing how Board matters which may cause a conflict of interest should be addressed, which may include requiring the nominee director to be excluded from the meeting for the duration of relevant agenda items. All Board members declare their interests at the start of each Board meeting and also when agenda items which may give rise to conflicts are about to be discussed.

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 and balance sheet position on a monthly basis;
- the receipt of regular reports which provide an assessment of key risks and controls and how effectively they are working;
- annual Board review of the Group's business strategy, including reviews of the material risks and uncertainties facing the business (although there was no such review in 2021 due to the pressures of the pandemic and the ongoing process to resolve the Group's outstanding regulatory issues, it is anticipated that this will be reinstated during the second half of 2022);
- 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;
- ensuring there are documented policies and procedures in place; and
- continued support and advice from Grant Thornton and other advisers to help facilitate management and monitoring of solvency risk.

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 18 to 24) ensuring a robust assessment of the emerging and principal risks.

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 70 to 78) 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 risk management section of this report on pages 18 to 24, the Audit Committee report on pages 70 to 78 and the Risk Committee report on page 79 to 80.

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 2021, four of whom have served throughout the financial year (Jono Gillespie, Charles Gregson, Niall Booker and Toby Westcott), Heather McGregor stood down from the Board on 30 June 2021 and John van Kuffeler stood down on 31 August 2021. 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, regulatory, 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 and One Nominee Director
Niall Booker
(Senior Independent Director)
Heather McGregor
(until 30 June 2021)
Toby Westcott
(Nominee)</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 appropriate
• 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 Senior Independent Director 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
• engaging with major shareholders to obtain a balanced understanding of their issues and concerns</td></tr>
<tr><td>Group Chief Executive
John van Kuffeler
(until 31 August 2021)
Jono Gillespie
(from 31 August 2021)

Executive Director
Jono Gillespie (until appointment as Group Chief Executive on 31 August 2021)</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 determined Niall Booker and Heather McGregor (until her departure from the Board on 30 June 2021) to be independent Non-Executive Directors. The Board's assessment is based on the fact that Niall Booker and Heather McGregor received no additional benefits from the Group, had not previously held an executive role within the Group and had 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 81 to 97. The Board determines that Charles Gregson would be an independent Non-Executive Director in the event that had not held Founder Shares. The Board also does not consider Toby Westcott to be independent due to his connection to Alchemy Special Opportunities Fund IV L.P. that has a shareholding in the Group of 29.95%.

Board activities in 2021

1. Strategic

- Review of strategic initiatives
- Ongoing consideration of the impact of the pandemic on the customer-facing operating models of the business as well as staff and self-employed agents
- Review of the component parts and structure of the Group in the context of ensuring shareholder value was maximised
- Consideration of strategic options for the Group
- Review of collect-out for guarantor loans
- Review of competitor analysis
- Oversight of customer redress
- Oversight of rescheduling activity, creditworthiness workstreams, and open banking in branch-based lending

2. Financial

- Review and approval of subsidiary and Group budgets and quarterly forecasts
- Review of business balanced scorecards to assist with ongoing monitoring of business performance
- Review of distributable reserves forecast
- Review and renewal of securitisation facilities, review of covenant compliance
- Consideration of the Group's capital structure and the process required to raise new equity, review of solvency and going concern
- Approval of Treasury Strategy
- Approval of Tax Risk Strategy
- Approval of full-year and half-year results , ensuring 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 entity's position, performance, business model and strategy
- Appointment of PKF Littlejohn LLP as external auditor

3. Internal controls and risk management

- Approval of Group Risk Appetites and Risk Management Framework
- Monitoring and oversight of risks posed by the pandemic, regulatory issues and external environment
- Approval of corporate policies
- Annual review of information security, and data protection
- Oversight of health and safety
- Review of Money Laundering Reporting Officer reports
- Director & Officer Insurance renewal
- Oversight of business continuity arrangements, wind down plans, and operational resilience
- Oversight of the requisite processes for the identification and treatment of vulnerable customers
- Oversight of 'fit and proper' assessment criteria for Senior Management Functions and certified personnel in accordance with SMCR
- Oversight of enhancements with regard to dealing with customers with vulnerabilities
- Appointment of Protiviti to support the work of the internal audit function

4. Governance and stakeholder management

- Approval of Matters Reserved for the Board and Board Committee Terms of Reference
- Approval of Division of Responsibilities for Chairman and Group Chief Executive
- Approval of Accountabilities, Delegations & Mandates Register
- Approval of stakeholder management strategy and consideration of stakeholders in decision-making
- Review of Corporate Governance Framework evaluation results
- Review of Board evaluation results
- Consideration of Board composition and succession planning
- Review of Governance Committee structure
- Regulatory updates
- Liaison with regulator (including trading performance, pandemic-related updates, proposed redress methodology in guarantor loans, initiation of independent third party reviews in branch-based lending and home credit)
- Stakeholder engagement including updates on investor views
- Approval of resolutions and corresponding documentation for AGM
- Appointment of Cenkos Securities plc as financial adviser and broker to the Company

5. People and culture

- Appointment of Jono Gillespie as Group Chief Executive
- Resignation of John van Kuffeler and Heather McGregor from the Board
- Remuneration decisions relating to Non-Executive Directors
- Approval of Executive Director and senior management non-financial bonus targets
- Oversight of corporate culture throughout the Group, particularly given the impact of the pandemic and ongoing remote/blended working
- Ongoing consideration of the impact of the pandemic on the workforce, with particular reference to mental wellbeing
- Review of senior management composition across the Group
- Review of Group Life Plan

Matters for 2022

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 2022 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 funding structures of the Group	■	■			■
Develop a process to create distributable reserves		■		■	
Engage in a process to raise additional capital		■		■	
Review of the financial performance of the Group	■	■	■		
Review of management performance and divisional 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 including planning and strategy to implement the new Consumer Duty			■		
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, ESG-related performance and strategy (in line with TCFD), and community activities reporting				■	■
Review of matters reserved for the Board and the Board's 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				■	
Review of final redress methodology and implementation of redress programme in guarantor loans				■	
Review of the Group's approach to addressing the requirements of the new Consumer Duty			■	■	■

Our positive business culture is founded on a clear purpose

Our purpose remains focused on helping UK consumers to meet their financial needs. It is driven by our firm belief that everyone should have access to credit they can afford and not just those that have prime or near prime credit ratings. Our business model seeks to provide affordable credit to those who are unable or unwilling to borrow from mainstream lenders - a population that was already large but which we believe will have expanded during the pandemic and the ensuing cost of living crisis.

Central to our model is a focus on ensuring that we deliver our loan products and services in the right way so that we can continue to deliver great outcomes for our customers as well as broader benefits for our other key stakeholders (see 'Business Model' on page 10 and 'Stakeholder management and our commitment to Section 172' on pages 40 to 50). This has been particularly challenging given the impact of the pandemic and as the Group has sought to resolve a number of regulatory issues. Having a strong and positive business culture has been vital in ensuring that we were able to address these challenges and progress towards completing a substantial capital raise.

Our business structure is designed 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 is key and forms a cornerstone of the Group's overall governance framework with a clear commitment to develop a strong and positive culture, drawing upon some key values and behaviours that are common across the Group and that have been identified as being key to our long-term success:

- Doing the right thing
- Honesty and integrity
- Shared purpose delivered through teamwork
- Clear communication
- Entrepreneurial leadership

The Group has developed a series of processes and metrics to both assess and monitor a broad range of factors including good customer outcomes and overall satisfaction and engagement levels among the workforce. Each of these measures feeds into a 'good customer outcomes' ('GCO') dashboard that is prepared and then reviewed on a monthly basis (see below). As we do so, we recognise that 'measuring culture' is an inexact science and so we are careful not to focus on any individual metric alone but rather view each one in the context of the picture as a whole. The assessment of the governance framework (including culture) is then reported to the respective subsidiary boards with oversight of the results at a Group level.

Engagement outside of the Boardroom

Recognising the value of experiencing our products and services first hand, through periodic visits to our office locations, for a number of years the Board has sought to spend some time during the year visiting our offices and branches in order to meet staff and, where possible, customers to hear about the particular issues faced and to take on board their own aspirations and objectives. Such insight provides a much deeper understanding of the dynamics, challenges and opportunities for our business than can be obtained through management reports or third hand accounts. Despite the continued impact of the pandemic during 2021 that made organising face-to-face meetings with staff and customers more difficult, each of the Directors did manage to spend some time with a number of our branch-based lending staff during the year. These meetings were complemented by attendance at employee forums by Heather McGregor (up until her departure on 30 June 2021) and by Sarah Day (after 30 June 2021).

Following the relocation of the Group's head office to Wakefield in September 2021 and as the country has gradually opened up with the easing of COVID restrictions, the Board is determined to recommence its previous practice of holding some Board meetings at regional locations, thereby providing the Board with additional perspective and the chance to meet local employees directly (see Governance at a glance on page 57). Unfortunately, this was not possible in 2021 where all plc Board meetings, other than the meetings that took place in November 2021 and December 2021, were held via video conferencing. As we look forward, the intention for 2022 is that Board meetings will be a mixture of in-person and online meetings to be held at various subsidiary locations or at the head office following the easing of restrictions at the start of the year.

Reporting against a good customer outcomes dashboard

As noted above, the delivery of good customer outcomes is a key objective for all FCA-regulated consumer lending businesses and this will be further enhanced through the introduction of the FCA's new Consumer Duty that is expected to come into force in 2023. Whilst we are already developing a detailed workplan to address the expected requirements of the new Consumer Duty when finally introduced, we are continuing to track a number of performance measures that combine to form our GCO dashboard. This allows executive management and the Board to monitor key performance metrics and identify potential issues before they become significant. During 2021, the GCO dashboard continued to be one of five key components within an overall Groupwide balanced scorecard, providing the Board with a clear overview of the performance of each of the subsidiary operations as well as at plc level. The balanced scorecard includes an assessment of financial performance, good customer outcomes and regulatory risk (including complaints and resolution activity), credit, strategic developments, people and culture, technology and other risks that will soon be expanded to include environmental, social and governance-related risks and opportunities as we develop our approach to these issues (see page 25).

Stakeholder engagement

The Board receives regular updates on insights and feedback from key stakeholders. The Directors also, where possible, make a point of engaging directly with certain stakeholders through face-to-face meetings that provide a deeper understanding of our relationships and their importance to the Group. In addition to such regular, but relatively informal assessments of stakeholder needs, the Board also undertakes a formal review each year to ensure it has a clear view of stakeholder views 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 broad range of indicators to help enable and focus discussion where and when necessary. Customer listening groups and independent 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. Engagement surveys are conducted annually in the Group's operational businesses. Results and commentary are reviewed by the Board. Online forums and blogs enable colleagues to 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.
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 relevant details of engagement with industry trade associations, 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. By maintaining a positive relationship with a number of sell-side analysts, the Group seeks to ensure 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 each of the subsidiary boards.

Workforce engagement

We recognise that our workforce is central to us being able to drive our business model (see page 10). Members of the Board monitor and review the results of annual staff surveys closely and also receive direct feedback from employee forums (see below).

As noted above, wherever possible (although COVID-related restrictions during 2021 made this more difficult), 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 customers on a daily basis. HR Directors within each operation of the Group 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 the first half of 2021, Heather McGregor as Non-Executive Director with responsibility for workforce engagement (Code provision 5) attended Employee Forums in each of the operational subsidiaries (which were held online due to the pandemic). Heather was therefore able to hear from employees directly and this was then fed back into Board discussions, which this year was particularly focused on assessing how each business was dealing with the pandemic. Following Heather's departure from the Board, this role was taken on by Sarah Day, the Group Company Secretary.

The Group employs a variety of different means to engage and interact with its workforce and these are described below.

1. Employee and self-employed agent engagement surveys

Annual surveys are seen by the workforce as a key thermometer of engagement both in terms of response rate and overall scores. They also provide the Board with a regular assessment of how staff are feeling and their general wellbeing. Despite the enormous challenges presented by the pandemic during 2020 and 2021, the key results from the latest surveys show that colleagues have continued to 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'. Once the surveys are complete, we 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 can then assess and where appropriate, action. Up until she left the company at the end of June 2021, Heather McGregor reviewed all freeform comments received to ensure that there is a comprehensive review and no material feedback is overlooked. Since Heather left the Board, this role has been performed by Sarah Day, the Group's Company Secretary, who provides a summary to the Board.

92% of our staff in branch-based lending feel encouraged to 'do the right thing'[1]

2. Employee forums

Having been forced to move online in 2020 due to the pandemic, during 2021 these meetings started to return to a face-to-face format, although most meetings were still held online. Even through an online medium, they have however, played an important role both in maintaining contact between management and staff and also between staff, many of whom have worked remotely, sometimes for extended periods. Topics covered by the forums have included the ongoing regulatory reviews, culture, financial performance, business improvements, impact of the pandemic, communications and consultation. As noted above, following the departure of Heather McGregor from the Board, Sarah Day, who has taken on responsibility for workforce engagement (Code Provision 5), will attend at least one forum for each division over a rolling 12-month period.

3. Ad hoc events

To complement the feedback from surveys and forums, when circumstances allow, members of the Board also look to attend subsidiary management conferences and culture development programmes. At the same time, subsidiary members of staff are invited to attend NSF level stakeholder events including Board meetings as well as results presentations and investor days (although there was no investor day in 2021). Such events help to ensure a regular two-way flow of communication between the parent and its subsidiaries and enhances the level of understanding between the two.

4. Site visits

Prior to the pandemic, members of the Board 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. Challenges with social distancing meant that during the pandemic, contact has been maintained largely via video calls with senior management as well as online attendance at employee forums as noted above. However, as noted above, some physical meetings did take place during the year and these proved popular with both staff and Board members.

6 site visits were conducted by Board members during 2021 (in addition to Board meetings)

5. Other initiatives

Senior managers are 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 by using an intranet-based recognition scheme. As an online process, there is the additional benefit that the recognition is immediate and can also be 'liked' and 'commented' upon by fellow colleagues.

Given the events of the past 18 months, the wellbeing of our workforce remains a key area of focus for the Board. As well as continuing to maintain regular contact with staff that may be working remotely by phone and online, we also conducted regular assessments of how staff were coping through the use of mood surveys that provided management with a useful guide as to how the workforce is feeling and to identify any issues that might be a cause for concern. Our trained mental health first aiders remained available throughout the year to help support staff if required. Taken together, these initiatives have helped to support our people regardless of whether they are working from home or back at their regular place of work.

1 Everyday Loans Employee Survey - n=294 out of 320 surveyed

Board evaluation

The annual assessment of the Board's performance gives each of the Directors an opportunity to reflect on the effectiveness of the Board's activities, the range of discussions, the quality of decisions, and also affords an opportunity for each Director to consider their own performance and contribution. The Board believes strongly that this process provides an important and valuable feedback mechanism that enhances the overall effectiveness of the Board.

Usually, NSF operates a rolling three-year cycle of evaluation with an external review being conducted every third year. However, despite being the third year of the cycle, given the material uncertainties facing the Group and the changes expected following completion of a planned capital raise, the planned external review was replaced with an internal process. The Board also determined that it was appropriate to use the evaluation exercise to undertake some forward planning as to what an effective Board would look like post such a capital raise. The findings of the review were discussed with the Group's external financial advisor, Cenkos, to provide a level of independent assessment.

Induction and professional development
In line with Company policy, 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, if required.

Directors are encouraged to spend time in the Group's 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 2021 the Chairman reviewed and agreed training and development needs with each Director, taking into account their individual qualifications and experience.

Whilst a training programme was devised during the year, due to the continuation of restrictions due to the pandemic, the majority of the training material was delivered remotely for individual study. Topics covered during 2021 included ESG matters and directors' duties (including insolvency responsibilities).

The Board receives regular and detailed reports from senior management on the performance of each of the Group's operating activities and other information as is deemed 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 regular basis covering macroeconomic factors which supplement the horizon scanning carried out by the Directors themselves.

Information and support
Shareholders are kept informed of all material business developments via the Group's 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.

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 shared with the Board.

The Group Chief Executive and Chief Financial Officer (currently fulfilled by the same individual) 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.

At various points throughout the year, the Group Chief Executive, Chief Financial Officer and Director of Investor Relations and Communications met with shareholders, where possible in person or online, on request, or via organised investor roadshows supported by the Group's brokers.

Annual General Meeting
The 2022 AGM of the Company is scheduled to be held at 9.30 am on 26 May 2022 and a separate notice of meeting is enclosed with this Annual Report and is available from the Group's website: **www.nsfgroupplc.com**.

Sarah Day
Company Secretary
29 April, 2022

Nomination & Governance Committee report
for the year ended 31 December 2021

Membership and attendance

3 | **The Committee met on three occasions during the year ended 31 December 2021**

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 (until 30 June 2021)	2/2
Toby Westcott	3/3

The principal purpose of the Nomination & Governance Committee (the 'Committee') is to both monitor the balance of skills, knowledge, experience and diversity on the Board and to recommend any changes to the composition of the Board. The Committee's remit also includes more general governance matters such as succession planning, cultural matters, customer experience and the continued oversight of the Senior Managers and Certification Regime ('SMCR'). With the pandemic, the Committee provided an invaluable forum for updates regarding staff welfare and mental wellbeing during what has been (and continues to be) a difficult time for many members of the Group's workforce.

Membership
Throughout the period, the Committee was not in compliance with Provision 11 of The Code which requires that the Committee be comprised of a majority of independent Non-Executive Directors. However, the Committee believes that Toby Westcott's addition to the Committee has broadened its experience significantly and this has prompted a more complete discussion around matters raised. Whilst Heather McGregor's departure from the Board (and Committee) on 30 June 2021 reduced further the proportion of independent Non-Executive Directors on the Committee, the Board is confident that the Committee still fulfils an effective role. It is planned to appoint a further independent Non-Executive Director following a successful completion of a capital raise. The members of the Committee are: myself, Charles Gregson (Chairman), Niall Booker, Heather McGregor (until 30 June 2021) and Toby Westcott, each of whose biographical details are set out on pages 54 to 56.

Meetings and attendance
The table above details the attendance record of Committee members. The Group Chief Executive (and prior to his appointment as Group Chief Executive, the Chief Financial Officer) and Company Secretary also attended Nomination & Governance Committee meetings.

Role and responsibilities
During 2021, the Nomination Committee supported 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;
- reviewing and considering the performance and effectiveness of the Committee through the results of the Board evaluation process;
- supporting the Board in ensuring that the Group conducts and develops its business responsibly and consistently in accordance with the Company's purpose, customer objectives, values and corporate culture;
- reviewing whether the culture of the organisation is evolving appropriately to meet the changing expectations of key stakeholders; and
- identifying and highlighting areas where more effort may be required and/or changes to decision-making processes.

The latest 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 2021:
- 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;
- oversight of the cultural development in each operational subsidiary through regular updates from HR Directors;
- oversight of customer experience through regular updates from subsidiary CEOs;
- oversight of the provisions in place with regard to vulnerable customers specifically; and
- oversight of the roll out of SMCR processes in place around the group and also consultation regarding the appointment of individuals with Senior Management Function ('SMF') responsibilities in operational subsidiaries.

Diversity
The search for Board candidates is conducted and appointments are 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.

Wherever possible, NSF seeks to develop talent in-house, drawing upon the particular experience gained from working in the non-standard consumer credit sector. Such an approach is supported by our desire to ensure that, where possible, individuals that are appointed to senior, approved or certified roles within our operations have an in-depth knowledge of both the Group's business and the wider sector. The promotion of Jono Gillespie to the role of Group Chief Executive in August 2021, having joined Loans at Home as CFO in 2016 and then more latterly been appointed to the plc Board as Group CFO, also illustrates our commitment to developing talent within the Group. Prior to joining the Group, Jono was at Provident Financial plc where he had held a number of senior management positions in the Consumer Credit Division including CFO (six years) and Chief Information Officer (four years) and so has extensive financial and technology-related experience from working in the sector for many years.

At the same time, the Group is also determined to ensure that an appropriate level of diversity, including gender diversity, exists throughout the business. While the Board endorses the aspirations of the Davies Review on Women on Boards and the Parker review on ethnic diversity and while it remains keen to increase diversity, the Board is not committing to any specific targets. Until 30 June 2021, the Group had one female Director (Heather McGregor) and a female Company Secretary although since Heather's departure, there has been no replacement and so the Board is now all male. The Committee will give due consideration to Board balance and diversity when recommending new appointments to the Board. While our subsidiary Boards are predominantly male, throughout 2021 Loans at Home had one female Board member and both Everyday Loans and Loans at Home had a female Company Secretary, helping to ensure a variety of viewpoints are considered and that there supporting robust debate and challenge. We continue to seek to increase the level of diversity at subsidiary Board level, to ensure that there is diverse representation 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 2021 included Directors' duties and responsibilities, ongoing updates regarding Operational Resilience and an update on ESG matters.

Board evaluation and individual performance review
It is pleasing to report that all matters identified in the 2020 external Board evaluation were addressed in 2021, despite the challenges posed by the pandemic and ongoing material uncertainties.

Usually, NSF operates a rolling approach to evaluation with an external review being conducted every third year. In 2021, following the three-year cycle, the planned externally conducted review was replaced with an internal process. Given the current material uncertainties and the planned capital raise, the Board determined that it was appropriate to use the evaluation exercise to undertake some forward planning as to what an effective Board would look like post-capital raise. The findings of the review were discussed with Cenkos, the Group's external financial advisors, to provide a level of independent assessment.

Board composition
During 2021 the Committee continued to review 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.

The composition and membership of the Board remains under regular review by the Nomination Committee. Following the departure of Heather McGregor and John van Kuffeler from the Board, the Nominations Committee has determined that a review of Board membership should take place following a successful capital raise so as to ensure that the Group continues to be overseen by a Board with an appropriate range of skills.

The Board determined that the valuable insight gained through Heather's attendance at Employee Forums should continue and therefore the role of employee representative at the Board along with the role of Group Whistleblowing Champion has been undertaken by Sarah Day since 30 June 2021.

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 2022
The main areas of focus for the Committee in 2022 include: an ongoing evaluation of Board composition; succession planning (including the appointment of a new Non-Executive Director and enhancing the bandwidth of the executive team); a review of the Committee's terms of reference; a review of Board effectiveness as well as considering the prevailing culture of the business, the customer journey of each business and how ESG factors might affect the Group and its stakeholders. The Board will also consider the ongoing potential negative impact of the pandemic upon the wellbeing of employees.

Charles Gregson
Chair of the Nomination & Governance Committee
29 April 2022

Audit Committee Report

for the year ended 31 December 2021

Membership and attendance

11	**The Committee met on 11 occasions during the year ended 31 December 2021.**

Director	Attendance and total number of meetings that the Director was entitled to attend
Niall Booker (Chairman)	11/11
Charles Gregson	11/11
Heather McGregor (until 30 June 2021)	7/7
Toby Westcott	10/11

Membership

The Audit Committee (the 'Committee') comprised four Non-Executive Directors until 30 June 2021, when Heather McGregor stepped down from the Board. Since 30 June 2021, there have been three Non-Executive Directors on the Committee, one of whom is 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 and also (from 30 June 2021) due to there being only one independent Non-Executive Director on the Committee. With regard to the membership of the Chairman, given 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. Regarding the number of independent Non-Executive Directors, given the current material uncertainties faced by the Group (as outlined in further detail below), it is not felt appropriate to appoint another Non-Executive Director at the current time. However, the Board does expect to appoint further Non-Executive Directors following a successful capital raise. All three current 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, Heather McGregor (until 30 June 2021) and Toby Westcott each of whose biographical details are set out on pages 54 to 56.

Meetings and attendance

The Committee met on 11 occasions during the year ended 31 December 2021, 9 of which were scheduled meetings and 2 of which were additional meetings (Toby Westcott was unable to attend one of the additional meetings due to diary constraints).

As Chair of the Committee, I met regularly for discussions with the internal and external auditor and also provided the opportunity to meet without executive management present, when required.

Committee meetings are attended by the Chief Financial Officer (who became Group Chief Executive Officer on 31 August 2021), the Company Secretary and the Group Chief Risk Officer. 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. As a result of the challenges facing the Group as well as the COVID-19 pandemic, a number of additional Audit Committee meetings were convened, sometimes at short notice. Attendance at scheduled meetings was 100% for Committee members.

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 2021 the Committee determined that the following aspects of the financial statements were of significant interest:

1. 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. Further detail regarding the assumptions used in the impairment judgements is set out in note 2 to the financial statements.

1.1. IFRS 9 – macroeconomic scenarios and weighting

The Committee has received regular updates from management to ensure that the assessment of the macroeconomic environment was regularly reviewed and that the accounting standard continued to be applied appropriately.

As part of the year end macroeconomic review of the branch-based lending and guarantor loans divisions, the Committee reviewed analysis which indicated that, based on historical evidence, there was no strong correlation between the delinquency performance and traditional macroeconomic indicators. However, recognising that there remains potential for macroeconomic factors such as fuel and food price inflation to pose challenges to their customers' ability to pay, the Group has included a macroeconomic overlay to reflect the increased risks associated with its customers under the current economic environment.

The home credit division has a history of very low, or zero, correlation between macroeconomic factors and the probability of default, therefore no macroeconomic overlay was applied. This approach remains valid notwithstanding the impact of COVID-19 and is unchanged from previous years for home credit.

1.2. IFRS 9 – provisioning model at branch-based lending and guarantor loans divisions

In the prior year, the provisioning approach utilised by management included the use of probability of default ('PD') derived from risk models which were especially volatile due to the impacts of COVID-19. In the current year, management developed its own internal provisioning model which is based on future cash flows informed by observed historical data, including the impact of COVID-19, on customer repayment behaviours, updated as management considers appropriate to reflect current and future conditions, as well as the consideration of the performance of previously rescheduled loans. As a result, certain amendments to the IFRS 9 accounting policy to reflect the current year methodology were approved. The Committee recognises that judgement is applied to the determination of provisions which includes whether past performance provides a reasonable estimate of future losses. As with the prior year, in 2021 more reliance has been placed on judgement than prior to 2020, given past customer performance may not be indicative of future performance as a result of the pandemic. The Committee considered the assumptions made by management throughout the year and the actual customer repayment behaviours over the last year in order to form a judgement as to whether overall provisioning was appropriate.

2. Going concern basis of preparing the financial statements

During the year, the Committee assessed the forecast levels of net debt, headroom on existing borrowing facilities (which comprise a £285m term loan and a £45m revolving credit facility ('RCF'), both of which are fully drawn) and compliance with debt covenants. As part of its going concern assessment, the Committee reviewed both the Group's access to liquidity and its future balance sheet solvency for at least the next 12 months.

Background

The Group's guarantor loans division ('GLD') was placed into a managed run-off in June 2021. Throughout 2021, the Group was actively engaged with the FCA in order to finalise its proposed redress methodology for certain customers of GLD. Whilst there have been no significant amendments to the methodology since 2020, with the movement in provision from the prior year primarily attributable to additional penalty interest accrued as a result of the delays in commencing the programme, the Group is currently working with the FCA in order to finalise the operational mechanics of the redress programme. Therefore, as the redress programme has yet to be agreed in its entirety with the FCA, there remains uncertainty as to the costs of such programme and, although the Directors believe their best estimate represents a reasonably possible outcome, there is a material risk of a less favourable outcome. The Directors note that should the Group not be able to reach agreement with the FCA regarding the mechanics of the programme such that there remains significant uncertainty regarding the quantum of potential redress liabilities, the Group will need to consider other options that can reduce such uncertainty, including a scheme of arrangement to compromise redress liabilities, so as to allow it to proceed with its planned capital raise (as described in further detail below) the proceeds of which will be used, among other things, to fund redress payments to eligible GLD customers.

As noted in the prior year, the Group commissioned independent reviews of both its branch-based lending and home credit businesses to ensure that there were no implications for either division as a result of the multi-firm review into guarantor loans, or from recent decisions at the Financial Ombudsman Service. Whilst the review into branch-based lending (Everyday Loans) concluded that there was no requirement for any customer redress, in home credit the conclusion was that there may have been harm. Following extensive yet ultimately inconclusive discussions with the FCA about how harm should be defined and the implications for future lending, the directors of S.D Taylor Limited (trading as 'Loans at Home') reluctantly concluded that the Loans at Home business was no longer viable, leading to the business being placed into administration on 15 March 2022. The boards of Loans at Home and of NSF were clear that this was the only option available in order to preserve value for creditors. As the operations and activities of Loans at Home are separate from the rest of the Group, having received certain waivers from the Group's lenders, the administration of Loans at Home will have minimal impact on the existing funding arrangements of the Group.

Going concern assessment
In light of having completed the independent review in relation to the branch-based lending division, the ongoing discussions regarding the redress programme with respect to GLD, and the fact that the home credit division has been put into administration, the Group has produced two reasonably possible scenarios as part of its going concern assessment:

(i) the base case scenario includes a substantial equity injection in 2022 (the 'Capital Raise'); assumes the receipt of waivers from lenders for covenant breaches prior to the Capital Raise completing; assumes that there is no change to the estimate of the amount of redress payable in guarantor loans (other than additional interest); and assumes the extension of the Group's debt facilities on acceptable terms;

(ii) the downside scenario applies stresses in relation to the key risks identified in the base case and does not include the Capital Raise.

A summary of the key assumptions used in the scenarios can be found in the viability statement on page 75.

Whilst the Group has obtained waivers from its lenders in relation to the administration of the home credit division (Loans at Home), its loan to value ratio was higher as at the quarter date on 31 March 2022 than the level permitted under its loan to value covenant following large interest payments made during the quarter. However, the loan to value covenant will not be formally tested, and no covenant breach or event of default will arise, until the Group provides its compliance certificate for the March 2022 quarter date. The Group has received a waiver and extension to the date on which it is required to supply this compliance certificate until 15 June 2022, with a mechanism for this date to be extended further with lender support. However, if the Group is unable to agree similar extensions or other forms of waivers for any future covenant breaches prior to the completion of the Capital Raise and obtain extensions to the term of its existing debt facilities on terms acceptable to investors, then the likelihood of the Group ending up in the downside scenario would be increased, and there would be a material risk of the Group entering insolvency.

Under the base case scenario and assuming successful completion of the Capital Raise, the Group would be in a net asset position from a balance sheet perspective; achieving this outcome however is dependent upon a number of factors including:

- the Group receiving extensions to the testing dates or other form of waivers from its lenders for future covenant breaches beyond 15 June 2022 and/or prior to completion of the Capital Raise;
- the Group having raised sufficient additional capital and secured extensions to the term and/or refinancing of the Group's debt facilities;
- the Group having reached a conclusion in regards to the GLD redress programme with the estimated costs not varying materially from management's best estimate;
- the assumptions not varying materially from the base case; and
- any mitigating actions which could be implemented to offset any adverse movement from the base case (such as reductions to costs which are within management's control, for example employee and marketing expenses).

In the absence of the Capital Raise, the Group is forecast to remain in a net liability position from a balance sheet perspective over the next 12 months and beyond.

Under the downside scenario it is expected that the Group would not comply with its loan to value covenant at subsequent quarter dates during the next 12 months and as a result, additional extensions of those testing dates or other forms of waivers would be required from its lenders (and, depending on the terms of those waivers) the Group may not be able to access further funding. If such waivers or extensions were not forthcoming, or if the Directors were not otherwise able to identify an alternative course of action which, if successfully implemented, would enable them to conclude that there was a reasonable prospect of the Group returning to a net asset position such that the Group will be able to meet its liabilities (including to redress creditors) as they fall due, there would be a material risk of the Group going into insolvency.

The Directors acknowledge the considerable challenges presented by uncertainty around the GLD redress programme (as the operational mechanics have not yet been finalised with the FCA) and the continued impact of COVID-19 and other macroeconomic uncertainties on the financial performance of the Group and so have concluded that there exists a material uncertainty around the going concern status of the Group. The Directors recognise that the Capital Raise is dependent on a number of factors including (i) the costs associated with the GLD redress programme being within levels that are acceptable to potential investors; (ii) the Group's lenders continuing to grant appropriate extensions to the testing dates or other forms of waivers for covenant breaches prior to the Capital Raise completing and; (iii) the Group obtaining extensions to the term of its existing debt facilities on terms acceptable to investors,. The Directors continue to maintain a regular dialogue with key stakeholders including the FCA, Alchemy and the Group's lenders regarding the above matters. Despite the material uncertainties associated with the forecast assumptions, the Directors note that Alchemy has confirmed its continued support for a capital raise. The Directors believe that if a satisfactory outcome regarding the redress mechanics in guarantor loans is reached, the proposed extension to the term of the Group's existing facilities by its lenders is concluded on terms acceptable to investors (which itself is likely to be dependent on a successful capital raise), and the actual outcomes do not differ materially from the assumptions outlined in the base case, the Group and Company can reasonably expect to raise sufficient new capital to enable them to continue to operate and meet their respective liabilities as they fall due for the next 12 months. The Board has therefore adopted the going concern basis of accounting. The Board's position is, in part, informed by the fact that Alchemy remains supportive of a capital raise subject to: an outcome of the Group's engagement with its lenders that is acceptable to Alchemy; Alchemy's analysis of the outcome of the Group's discussions with the FCA regarding the regulatory position of the Group's divisions and the implications of that on (and Alchemy's assessment of) the Group's business plan and financial projections; and greater levels of certainty around redress and claims.

Conclusion
On the basis of the above analysis, the Directors note that material uncertainties exist regarding the impact of discussions with the FCA regarding the GLD redress programme, the successful and timely execution of the Capital Raise, the agreement of extensions to the testing dates or other forms of waivers from lenders in relation to potential future covenant breaches prior to completion of the Capital Raise, the Group obtaining extensions to the term of its existing debt facilities on terms acceptable to investors, and the current and future impact of COVID-19 and other factors on the macroeconomic outlook (such as inflation, any other unforeseen economic consequences of the conflict in Ukraine and their potential impact on customer repayment behaviours). The Directors note that, should the Group not be able to reach agreement with the FCA regarding the mechanics of the GLD redress programme such that there remains significant uncertainty regarding the quantum of potential redress liabilities, the Group will need to consider other options that can reduce such uncertainty, including a scheme of arrangement. Whilst such schemes are complex, time consuming and not guaranteed to be successful, the Board believes that, were such a scheme to be pursued it would stand a reasonable chance of success and would, along with needing to extend lending facilities, allow it to proceed with its planned capital raise (as described in further detail below). The Board therefore believes that it remains a going concern. The proceeds of the planned capital raise will be used, among other things, to fund redress payments to eligible GLD customers. The Directors note that certainty around the level of potential redress liabilities will likely be a key factor for Alchemy and other potential investors, in assessing whether they will, ultimately, support the Capital Raise. A successful scheme of arrangement would be subject to a number of variables, including court sanction, a positive creditor vote and the receipt of necessary waivers from lenders.

The Director's recognise as there are a high number of assumptions and variables in the modelling of the base case which are not directly within the Group's control and that, should the actual outcomes vary materially from the modelled assumptions, any consequent negative impact on the liquidity and solvency under the base case scenario may cast significant doubt on the ability of both the Group and Company to continue as a going concern. Under the downside scenario, there is a material risk of the Group going into insolvency.

In making their assessment, the Directors considered:

- the loan to value ratio being higher as at the quarter date on 31 March 2022 than the level permitted under its loan to value covenant and the likelihood of the lenders agreeing to extend the testing date or provide other forms of waivers in relation to this covenant and/or potential future covenant breaches beyond 15 June 2022 and/or prior to the Capital Raise completing;
- the ability of the Group to obtain extensions to the term of its existing debt facilities (which itself is likely to be dependent on a successful capital raise)
- the Group's current financial and operational positions;
- the status of conversations with the FCA and advisors as well as the Group's recent trading activity;
- the uncertainty around the quantum of potential redress liabilities due under the GLD redress programme and, if such uncertainty is not resolved, the potential use of a scheme of arrangement to allow the Capital Raise to proceed and fund redress payments to eligible GLD customers;
- the conditional nature of support for the Capital Raise received from Alchemy (as outlined above).;

In making their overall assessment, the Directors also considered both the balance sheet solvency and the liquidity position of the Group. In connection with the former, the Capital Raise would create a positive net asset position. In connection with the latter the Directors have taken into consideration the impact of the Capital Raise on the existing cash balances which would then be available to the business. This combination would provide ample liquidity throughout the going concern period. However the Capital Raise is dependent on the factors listed above and this dependency creates a material uncertainty. Looking at the generation of future cash, . the Directors also considered the 'reverse stress test' conducted by the Group which showed that, assuming no changes to lending levels and operating expenses, collections would have to fall by over 40% from current expected levels in the base case for the Group to then be unable to fund operating expenses and interest payments beyond the next 12 months. Based on trading performance to date, such a reduction in collections, with no mitigating actions being taken such as a reduction in costs, was thought by the Directors to be unlikely. However, the Directors also recognised that, in the absence of the lenders granting the necessary extensions to the testing dates or other forms of waivers in respect of potential future covenant breaches, cash balances may not be available to the Group or Company. With regard to the balance sheet solvency of the Group, the Directors noted that under the base case scenario the Group returns to a net asset position and remains there for the going concern period, however this remains dependent on the injection of additional capital into the Group. As noted above, if the Capital Raise is not achieved and the Directors cannot otherwise identify an alternative means of returning to a net asset position such that there is a reasonable prospect of the Group being capable of meeting its liabilities as they fall due, then the Group may enter insolvency.

The Directors recognise the considerable challenges presented and the material uncertainties which may cast significant doubt on the ability of both the Group and the Company to continue as a going concern. However, despite these challenges, the Directors currently have a reasonable expectation that the Group's outstanding regulatory and redress matters can be resolved close to the assumptions outlined in the base case (albeit recognising that there is a material risk in relation to this), the Group can obtain extensions to the testing dates or other forms of waivers from its lenders for potential future covenant breaches prior to completion of the Capital Raise such that it can raise sufficient equity in the timeframe required, the Group can obtain extensions to the term of its borrowings on a reasonable basis from its lenders and on terms acceptable to investors, and that potential investors remain supportive of the injection of (additional) capital. As a result, it is the Directors' reasonable expectation that the Group and Company can continue to operate and meet its liabilities as they fall due for the next 12 months. On that basis, the Directors continue to adopt the going concern basis in preparing these accounts.

As the possible outcomes detailed above remain dependent on a number of factors not directly within the Group's control, the Board will continue to monitor the Company and Group's financial position (including access to liquidity and balance sheet solvency) carefully over the coming weeks and months as a better understanding of the impact of these various factors are developed. The Board recognises the importance of the Capital Raise to mitigate the uncertainties noted above and to support the future growth prospects of the Group.

The Directors will also continue to monitor the Group and Company's risk management, response to claims and the redress programme, and internal control systems.

The same considerations are also relevant to the statement on longer-term viability as discussed on pages 75 and 76 of this report.

Significant judgement

The assumption of shareholder support for the Capital Raise, lender support for waivers and the extension of existing financing facilities on terms acceptable to investors and the satisfactory outcome of regulatory and redress matters and that the ultimate conclusions on those matters are not materially different to that envisaged under the base case, forms a significant judgement of the Directors in the context of approving the Group's going concern status.

3. GLD Redress

The Group announced on 3 August 2020 that, following its multi-firm review of the guarantor loans sector, the FCA had raised some concerns regarding certain processes and procedures at GLD and required that a programme of redress be put in place for those customers deemed to have suffered harm as a result. The Committee has undertaken an ongoing role to ensure that management has appropriately provided for the redress due.

The Group has included an exceptional provision of £16.9m as at 31 December 2021 (2020: £15.3) based on the Directors' best estimate of the full and final costs of the redress programme using the proposed methodology. The estimate includes: the sum of all redress due to affected customers, including penalty interest, of £18.1m, together with the cost of implementation of £0.4m, offset by existing impairment provisions of £1.5m, resulting in a net provision amount of £16.9m. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, the programme is yet to be finalised with the FCA and the amount will also be subject to a manual case-by-case review of customers who have incomplete electronic records that may be affected. This could result in the ultimate pay out being higher than estimated under the currently proposed methodology.

4. Independent reviews into the branch-based lending and home credit divisions

Throughout the year, the Committee considered the status of the two independent reviews commissioned by the Group in April 2021 of the lending and complaints handling activities of the branch-based lending and home credit divisions.

Whilst the review for the branch-based lending division is now complete and there is no requirement for customer redress, the conclusion in the home-credit division was that there may have been harm and, following extensive but inconclusive discussions with the FCA about how this should be defined and the implications for future lending, the Directors of SD Taylor Limited (trading as 'Loans at Home') reluctantly concluded that the Loans at Home business was no longer viable and the business was placed into administration on the 15 March 2022. The Boards of Loans at Home and of NSF were clear that this is the only option available in order to preserve value for creditors. As the operations and activities of Loans at Home are separate from the rest of the Group, having agreed certain waivers with the Group's lenders, the administration of Loans at Home will have minimal impact on the rest of the Group's business.

5. Complaints provisions

As has been the case for a number of financial services firms over the course of the year, the Group experienced an increase in the number of complaints received compared to prior years, primarily from Claims Management Companies ('CMCs'). As a result, the Group continues to recognise an additional provision in relation to potential outflows to customers related to past non-compliance with regulations relating to affordability assessments. Judgement is applied to determine the quantum of such provisions, including making assumptions regarding the extent to which the complaints already received may be upheld, average redress payments and related administrative costs. It is possible that claims could increase in the future due to unforeseen circumstances and/or if FOS were to change its policy with respect to how such claims are adjudicated. Should the final outcome of these complaints differ materially from management's current estimates, the cost of resolving such complaints could be higher than expected. It is however not possible to estimate any such increase reliably.

6. Review of the 2021 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, Everyday Loans and Guarantor Loans Division;
- review of customer receivables valuation and revenue recognition methodology including Effective Interest Rates ('EIRs');
- review of half-year results;
- consultation with the external auditor regarding the approach being taken regarding the announcement of unaudited interim results;
- review of the half-year results announcement; and
- discussion with the external auditor without any Executive Director or employee being present.

7. Review of the Annual Report and 2021 full-year financial statements

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

- reviewed the impairment of customer receivables valuation carried out by management;
- reviewed the accounting treatment proposed regarding IFRS 9;
- reviewed and approved the going concern paper which confirmed it was appropriate to prepare the Annual Report and financial statements for the year ended 31 December 2021 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;
- provided the opportunity to meet the external auditor without any Executive Director or employee being present;
- reviewed the audited results for the year ended 31 December 2021; and
- reviewed the statement on internal controls.

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

8. Internal audit function

The internal audit function, which is provided on a co-source basis with an internally appointed Head of Internal Audit supported, where necessary, 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:
- Third party procurement, & supplier management review;
- Collections including forbearance review;
- Financial crime review;
- Debt management review;
- Complaints Handling review;
- Credit Reference Agencies reporting review;
- Corporate policies and biannual attestation process; and
- Risk and compliance review.

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

9. Non-financial audit fees paid to the external auditor for the year
A review of the non-financial audit fees is undertaken by the Committee and an analysis of the non-audit fees paid to the external auditor for the provision of non-audit services is provided in note 5 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 PKF Littlejohn LLP, who have conducted the external audit since 19 July 2021.

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 5 to the financial statements.

The Committee has considered the independence of PKF Littlejohn LLP and the level of non-audit fees and believes that the independence and objectivity of the external auditor are safeguarded and remain strong.

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. The only non-audit services provided to the Group in 2021 were for the half-year review and these meet the Financial Reporting Council's ('FRC') definition of audit related services.

During 2021 the level of non-audit fees amounted to £0.05m (2021: £0.22m).

The fees paid to the external auditor are set out in note 5 to the financial statements. The fees for non-audit work carried out by the auditor in 2021 represent 9% (2020: 22%) 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.

Internal audit
During 2021, the Committee operated a co-source internal audit model, with an in-house Head of Internal Audit ensuring the development of in-depth knowledge within the third line, supported by externally sourced specialist personnel where necessary.

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.

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.

10. Viability Statement

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 assessments were plausible and the minimum three-year time period used was appropriate given the alignment with the Group's strategic plan and budgeting process. However as noted in the Viability Statement itself, the Committee felt that viability was subject to the material uncertainties referred to in respect of the Going Concern analysis.

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 at least 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 4 to 50) and taking into account the Group's principal risks and uncertainties, the cost of redress, regulatory change, the impact of COVID-19 and the broader economic environment, the activities of CMC's and their impact on complaints and how these are managed (see pages 19 to 24).

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 is built on a divisional basis using a bottom-up approach. The plan makes certain assumptions about future economic conditions, the structure of the Group, the regulatory environment, divisional performance and growth and the ability to refinance existing debt facilities as they fall due.

In adopting the going concern assumption in preparing the year-end financial statements, the Directors have considered the activities of its principal subsidiaries, as well as the Group's principal risks and uncertainties.

During the year, the Committee assessed the forecast levels of net debt, headroom on existing borrowing facilities (which comprise a £285m term loan and a £45m RCF facility, both of which are fully drawn) and compliance with debt covenants. As part of its viability assessment, the Committee also reviewed both the Group's access to liquidity and its future balance sheet solvency over the viability period.

Please refer to 'Background' in section 2 'Going concern basis of preparing the financial statements' above for detail as to key discussions with the FCA in 2021 with respect to the Group's lending divisions, which have also been considered as part of the Committee's viability assessments.

In light of having completed the independent review in relation to the branch-based lending division, the ongoing discussions regarding the redress programme with respect to GLD, and the fact that the home credit division has been put into administration, the Group has produced two scenarios as part of its going concern assessment:

(i) the base case scenario includes the Capital Raise, the receipt of waivers from lenders following covenant breaches prior to the Capital Raise completing, and the extension of the Group's debt facilities on acceptable terms;
(ii) the downside scenario which applies stresses in relation to the key risks identified in the base case and does not include the Capital Raise.

(i) Base case
The base case forecast assumes:

- the Group has obtained extensions to the testing dates and/or other forms of waivers from its lenders for potential covenant breaches to enable it to proceed with the Capital Raise;
- the extension of the Group's debt facilities on terms acceptable to investors;
- additional capital is raised during 2022 and reflects a business plan where the Group achieves further growth in later years driven by its branch-based lending division;
- that GLD remains in managed run-off, continues to perform in line with recent trends and that the ultimate cost of the redress programme does not differ materially from the Directors' best estimate as at the date of this Annual Report (other than additional interest) and/or is an amount acceptable to potential investors;
- the home credit division remains in administration.

As at the date of this Annual Report, the Group faces uncertainty regarding: the receipt of extensions to the testing dates and/or other forms of waivers from its lenders for potential future covenant breaches beyond 15 June 2022 and/or prior to completion of the Capital Raise; and the operational mechanics of the GLD redress programme which has not yet been finalised with the FCA or the level of redress if agreement is unable to be reached with the FCA and in those circumstances, the success of any proposed scheme of arrangement if pursued. Until such time as this uncertainty can be removed, the Group does not expect to be in a position to complete the Capital Raise. Assuming such uncertainty can be resolved, the Group hopes to complete the Capital Raise with support from Alchemy, its largest shareholder, and other investors. Alchemy's support for any capital raise remains subject to: an outcome of the Group's engagement with its lenders that is acceptable to Alchemy; Alchemy's analysis of the outcome of the outstanding regulatory issues faced by the Group and the implications of that on (and Alchemy's assessment of) the Group's business plan and financial projections; and greater levels of certainty around redress and claims.

In this forecast, we have taken into account:

- the potential future costs of complaints and the provision for customer redress and associated costs for GLD. The operational mechanics of the redress programme have not yet been agreed with the FCA and therefore whilst the quantum of provision for redress represents the Directors' best estimate of the ultimate cost of the redress, including penalty interest, as at the reporting date, there is a material risk of a less favourable outcome;
- the independent review into the lending and complaints handling activities of the branch-based lending division that concluded there were no systemic issues and no requirement for customer redress;
- the potential future costs of complaints across the Group;
- consideration of the macroeconomic impact on customers and loan loss provisions since the year end as a result of COVID-19 and the broader economic environment (including their respective impacts on customer repayment behaviours);
- the risk that the Group is unable to agree acceptable terms with its lenders or that they do not roll over existing loans when due and refinancing is not available; and
- no dividends are assumed to be paid over the forecast period.

Liquidity
Whilst the Group's loan to value ratio was higher as at the quarter date on 31 March 2022 than the level permitted under its loan to value covenant, the Group has agreed an extension to the testing date for this covenant until 15 June 2022 with its lenders.

There are material uncertainties regarding the assumptions and outcome of the base case scenarios in the following areas:

- the receipt of extensions to the testing dates and/or other forms of waivers from the Group's lenders for potential future covenant breaches beyond 15 June 2022 and/or prior to the Capital Raise completing;
- agreeing the operational mechanics of the GLD redress programme within sufficient timeframes such that the Group can proceed with the planned Capital Raise;
- the cost of the GLD redress programme and any future complaint and redress costs and the impact of this on the ability of the Group to raise capital (and the potential use of a scheme of arrangement should there remain material uncertainty around the quantum of potential redress payments);
- the ultimate execution of the planned Capital Raise as well as the support of Alchemy and other investors for this;
- the impacts of the macroeconomic environment, including COVID-19, inflation, the economic consequences of the conflict in Ukraine on variables such as prices, and their respective impacts on customer repayment behaviours;
- the impact of the GLD managed run-off on customer behaviour;
- the impact of the administration of the home credit division on customer and other stakeholder behaviours;
- the actions of Claims Management Companies ('CMCs') and the results of FOS decisions made which may increase the costs of complaints across the Group; and
- the expectation that debt maturing in August 2022 and August 2023 will be rolled over and/or refinanced.

The Directors considered the combination of funds received from the Capital Raise, the existing liquidity (as at 31 December 2021, cash balances were £112.8m) and the forecast net cash flows over the next three years and considered that the combination of these provided sufficient liquidity for the viability period. The Directors noted that the Capital Raise was dependent on certain factors noted above/below which creates a material uncertainty and that the ability to access the existing cash balances may over time be dependent on either waivers or the Capital Raise or both. Subject to the material uncertainty noted above the Group expects to be able to fund operating expenses and interest payments over the viability period, provided that extensions to the testing dates or other forms of waivers are agreed by its lenders should there be future covenant breaches prior to the Capital Raise completing, it obtains an extension to the term of existing debt facilities on terms acceptable to investors, and the above assumptions not being materially different from the base case. Should further extensions to the testing dates or other forms of waivers from the Group's lenders not be forthcoming, the Directors recognise access to such cash balances may be ringfenced by the lenders and therefore, in the event of a covenant breach without an appropriate waiver, a ringfencing of the Group's cash balances may be triggered and in this case, the cash would not to be available to the Group or Company which would impact on the Group and the Company's ability to continue to operate as a going concern.

Solvency
Under the base case scenario and after the Capital Raise, the Group would be in a net asset position from a balance sheet perspective; this however is dependent upon a number of factors, many of which are not under the control of the Company, including:

- the Group raising sufficient additional capital and the extension and/or refinancing of the Group's debt facilities as outlined above;
- the assumptions not varying materially from the base case; and
- any mitigating actions which could be implemented to offset any adverse movement from the base case such as a reduction in costs which are within management's control, for example employee and marketing expenses.

In the absence of the Capital Raise, the Group is forecast to remain in a net liability position from a balance sheet perspective over the next three years and beyond. It is also expected that the Group would not comply with its loan to value covenant at subsequent quarter dates and as a result, if further extensions to the testing dates or other forms of waivers are not forthcoming, there would be a material risk of the Group going into insolvency. This is considered further in the downside scenario.

Due to the ongoing regulatory and macroeconomic uncertainties, the Group notes that the potential for movement in any one or a number of the assumptions due to factors including those noted below creates a material uncertainty in the liquidity and/or solvency position of the Group.

The risks to assumptions noted below are not mutually exclusive, with an unfavourable outcome in any one of these having the potential to result in the Group being unable to raise capital and therefore ending up in the downside scenario.

Key risks to the assumptions made include:

- the agreement of extensions to the testing dates or other forms of waivers from the Group's lenders for potential future covenant breaches beyond 15 June 2022 and/or prior to the Capital Raise completing;
- higher than anticipated pay-outs required in relation to the GLD redress programme;
- the conditions for implementing a successful scheme of arrangement, should this be pursued;
- any unforeseen implications of the administration of the home credit division on the rest of the Group;
- higher than anticipated pay-outs required in relation to complaints across the Group;
- the possibility that the Group is unable to raise sufficient capital within the time frame forecast;
- the possibility that the current performance of the Group's loan book deteriorates beyond current expected delinquency trends and that recovery of sales performance is not as anticipated;
- further changes in the regulatory environment which negatively impact the Group's divisions;
- a further negative shift in the macroeconomic environment;
- additional costs relating to the managed run-off of GLD; and
- the Group is unable to agree acceptable terms with its lenders or they do not roll over existing loans when due and refinancing is not available.

(ii) Downside scenario

This scenario assumes that no additional equity is raised in 2022 and also reflects stresses to the key risks described above. Under this scenario we have assumed:

- the Capital Raise is not successful;
- the Group is unable to agree the operational mechanics of the GLD redress programme with the FCA and fails to implement a scheme of arrangement (should this be pursued) such that the Group is unable to raise sufficient capital or unable to raise sufficient capital within the required timeframes;
- higher complaint levels than expected under the base case and;
- uncertainty in the macroeconomic environment leads to higher delinquency and lower lending than expected under the base case.

Liquidity
Under this scenario it is expected that the Group would not comply with its loan to value covenant at subsequent quarter dates and would require additional extensions to the testing dates and/or other forms of waivers from its lenders. If waivers were not forthcoming, or if the Directors were not otherwise able to identify an alternative course of action which, if successfully implemented, would enable them to conclude that there was a reasonable prospect of the Group returning to a net asset position such that the Group will be able to meet its liabilities (including to redress creditors) as they fall due, there would be a material risk of the Group going into insolvency.

Solvency
The Group would remain in a net liability position from a balance sheet perspective without a significant injection of further equity.

Directors' statement on viability
Based on the assessments and subject to the assumptions outlined above, including the scenario testing, the Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due through the three-year viability assessment period. However, as described in further detail above, the material uncertainties referred to in respect of the Going Concern analysis may impact the future viability of the Group. Please refer to 'Going concern basis of preparing the financial statements' above (pages 71 to 73) for further detail.

The Directors recognise that the ability to complete the Capital Raise is dependent upon: the Group's lenders granting extensions to the testing dates or other forms of waivers in respect of its loan to value covenant, if required; the extension of the Group's debt facilities on terms acceptable to investors; and the finalisation of the GLD redress programme with the FCA such that estimated redress is within levels that are acceptable to potential investors. The Directors note that should the Group not be able to reach agreement with the FCA in regards to the GLD redress programme such that there remains uncertainty regarding the quantum of potential redress liabilities, the Group will need to consider other options that can reduce such uncertainty, including a scheme of arrangement. Whilst such schemes are complex, time consuming and not guaranteed to be successful, the Board believes that, were such a scheme to be pursued it would stand a reasonable chance of success and would, along with needing to extend lending facilities, allow it to proceed with its planned capital raise (as described in further detail below). The Board therefore believes that it remains a going concern. The proceeds of the planned capital raise will be used, among other things, among other things, to fund redress payments to eligible GLD customers. The Directors note that certainty around the level of potential redress liabilities will likely be a key factor for Alchemy and other potential investors in assessing whether to support the Capital Raise. A successful scheme of arrangement would be subject to a number of variables, including court sanction, a positive creditor vote and the receipt of necessary waivers from creditors. Despite the material uncertainties associated with the forecast assumptions, the Directors note the conditional support from Alchemy for a capital raise (as outlined above). They therefore feel that, provided the actual outcomes do not differ materially from the assumptions outlined in the base case, it is reasonable to believe that the Group will continue to operate and meet its liabilities as they fall due over the viability period from both a liquidity and solvency perspective. However, if the Group cannot obtain further extensions to the testing dates or other forms of waivers from its lenders for potential future covenant breaches ahead of the Capital Raise completing; if it fails to agree the operational mechanics of the GLD redress programme with the FCA and (if pursued) the Group is unable to implement a scheme of arrangement; and if the actual outcomes differ materially from the assumptions outlined in the base case (recognising that there is a material risk in relation to this), there is a risk that the Capital Raise may not be concluded or cannot be concluded in a timely manner. If either were to occur and the Directors cannot otherwise identify an alternative means of returning to a net asset position such that there is a reasonable prospect of the Group being capable of meeting its liabilities as they fall due, then the Group may enter insolvency.

The assumption of shareholder support for the Capital Raise, lender support for covenant waivers and the extension of existing financing facilities, that complaints and redress are not materially higher than the base case, the satisfactory outcome of regulatory and redress matters and that the ultimate conclusions on those matters are not materially different to that envisaged under the base case, forms a significant judgement of the Directors in the context of approving the Group's viability status.

The Directors will continue to monitor the Group and Company's risk management, access to liquidity, balance sheet solvency and internal control systems.

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, assessment and, where necessary, management action.

Niall Booker
Chairman of the Audit Committee
29 April 2022

Risk Committee report

for the year ended 31 December 2021

Membership and attendance

4 **The Committee met on four occasions during the year ended 31 December 2021**

Director	Attendance and total number of meetings that the Director was entitled to attend
Heather McGregor (Chairman) (until 30 June 2021)	2/2
Charles Gregson (Chairman from 30 June 2021)	4/4
Niall Booker	4/4
Toby Westcott	4/4

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 (who then became Group Chief Executive following his promotion in August 2021), 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 2021 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 2021
The main focus of the Committee during 2021included: first, managing the ongoing challenges arising from the pandemic; and second, ensuring that the regulatory reviews that were requested by the FCA (in the case of GLD), or commissioned internally for branch-based lending and home credit, were both conducted and overseen effectively. These issues remained key areas for the Committee throughout year.

Throughout the period, the Group's risk management system continued to provide the Committee with a clear and consolidated view of risk across the Group as a whole, taking into account materiality thresholds that had already been approved by the Committee. During the first quarter of 2021, 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 2021, were then included within the Group's risk management system. A summary of the Group's risk management approach, principal and emerging risks is set out on pages 19 to 24.

The Committee has oversight of horizon scanning activity and has contributed to the development of a reporting framework at a Group level. This has helped to facilitate a wider external facing discussion regarding the consideration of those risks identified as being current and having the potential to impact the current and/or future prospects of the Group.

During the year to 31 December 2021 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 continued embedding of the risk management system and key reporting requirements into the Group's risk management framework;
- oversight of horizon scanning activity focusing on regulatory, social, economic and technological areas;
- quarterly reviews of complaints;
- quarterly reviews of conduct risk dashboards;
- regular updates regarding the dialogue between the operational subsidiaries and the FCA regarding the independent reviews;

- oversight of half-yearly credit risk reporting;
- a review of business continuity planning across the Group; and
- updates regarding the planning underway across the Group for the implementation of the Operational Resilience programme.

Areas of focus in 2022

The key risks facing the Group in 2022 include: the ongoing impact of the pandemic; the ongoing process to resolve the Group's outstanding regulatory issues; and the need to complete a substantial capital raise to both fund redress due to eligible customers and to strengthen the Group's balance sheet. The Committee is committed to supporting each of our business divisions to safeguard the health, safety and wellbeing of our customers, staff and self-employed agents as they emerge from the pandemic. Whilst the past two years have presented the Company with numerous challenges, the resilience and perseverance of key staff around the Group means that, assuming a substantial capital raise is completed as planned, the current business environment may provide significant opportunities for the Group and the Committee will seek to ensure that key risks are mitigated, where possible and opportunities seized within the framework of risk appetites already established.

Charles Gregson
Chair of the Risk Committee
29 April 2022

Directors' remuneration report

Directors' remuneration report for the year ended 31 December 2021

The disclosures in this report have been prepared in compliance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended). This report is set out in the following key sections:

Part A: Annual Statement

Part B: Annual Report on Remuneration

1. Single figure remuneration table: Executive Directors – audited
2. Implementation of Remuneration Policy for the Executive Directors for 2022
3. Consideration by the Committee of matters relating to the Directors' remuneration for 2021
4. Group Chief Executive and employee pay
5. Percentage change in Director remuneration
6. CEO Pay Ratio
7. Consideration of employee remuneration and shareholders
8. Single figure remuneration table: Non-Executive Directors – audited
9. Directors' shareholding and share interests – audited
10. Shareholder voting

Part C: Directors' Remuneration Policy

1. Executive Director Remuneration Policy

Part A: Annual Statement

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for NSF for 2021. This was my first year as Chair of the Remuneration Committee (the 'Committee') following the departure of Heather McGregor from the Board in June 2021. 2021 proved to be a challenging year for the business, with heightened uncertainty in the macroeconomic environment caused by the pandemic and the economic repercussions for many businesses. The Group has also faced specific challenges in the regulatory environment, the resolution of which has also been largely outside of management's control. In these challenging circumstances, the role of the Remuneration Committee has been to ensure that an appropriate balance has been reached in rewarding achievement (both financial and non-financial) in the context of a disappointing overall financial result, whilst incentivising the Executive Team appropriately in what has been a difficult and challenging period.

Business context

As noted in the Chairman's statement and in the Group Chief Executive's report, many of the challenges faced by the Group in 2020 continued through the duration of 2021.

These include a series of significant regulatory issues that, together with the continued impact of the pandemic, impeded the scale and pace of recovery in the Group's financial performance in 2021, although positive progress was made in the year. This was driven in large part by a much improved result from Everyday Loans, the Group's branch-based lending business. However, concluding on the Group's outstanding regulatory issues has been a much more detailed and complex process than expected, with the result that the Group's plans to raise additional equity capital were delayed. Additional challenges included having to place our guarantor loans business into managed run off and our home credit business into administration.

Despite an improved financial performance in 2021, the Group again delivered a reported pre-tax loss of £29.6m (2020: pre-tax loss of £135.7m). Once again, the full year results were impacted by a number of non-operating items including an increase in the estimated costs of customer redress in guarantor loans and the write-down of assets and the recognition of liabilities in the home credit division. With additional government restrictions contributing to market demand being somewhat softer than expected, reported revenues were down 19% to £131.4m (2020: £162.7m), however a marked reduction in impairment and lower exceptional items meant that the Group returned to profitability at the operating level and delivered a reported operating profit of £7.1m (2020: operating loss of £24.5m).

Directorate changes

On 31 August 2021, John van Kuffeler stepped down from his role as Group Chief Executive Officer with immediate effect and ceased to be a Director of the Company. John remains an employee of the Company for the duration of his notice period in line with his contractual terms.

Jono Gillespie was appointed as Group Chief Executive of the Company with effect from 31 August 2021. On appointment, Jono Gillespie's annualised starting base salary was revised to £300,000 to reflect his new role and additional responsibility. His other benefits remained the same.

Remuneration decisions in the year

Given the significant uncertainty regarding the ongoing pandemic and the desire to conserve cash within the Group given the other challenges faced, the Board withdrew 50% of the overall bonus potential for Executive Directors, which related to the Group's financial performance in 2021. This was one of the actions implemented by the Board to help mitigate the impact on our operational and financial performance and to avoid putting our business at risk.

As a result, the annual bonus for 2021 had a maximum potential of 50% of salary, of which 30% was subject to the achievement of non-financial performance measures and the remaining 20% was subject to the achievement of the financial targets agreed by the Board. The Committee unanimously agreed that, despite the continued material uncertainty, it was appropriate to award a bonus in line with the Remuneration Policy due to the significant challenges faced by the Executive Directors and that would need to be resolved if the Group's long-term strategic objectives were to be realised. It was also determined by the Committee that in light of there being no long-term incentive plan in place at the current time, that the Executive Director's significant contribution to the continued success of the Company in the current year be recognised in accordance with the current Remuneration Policy. As such a bonus of £96,600 was awarded to Jono Gillespie (69% of the maximum bonus potential in the year). However, the Committee and Jono Gillespie agreed that, in light of the current situation faced by the Group, this bonus would only be paid when the Group was on a more stable footing.

No bonus was awarded to John van Kuffeler as he had ceased to be a Director at the end of the year and therefore was not eligible for bonus according to the terms of the Remuneration Policy.

Looking forward to 2022

In 2020, the decision was taken to defer the adoption of any new remuneration policy until after a capital raise had been completed, thereby ensuring that the Committee would be afforded the time needed to consult properly with the Group's key shareholders so that their feedback could be taken into account before a final remuneration policy was then presented to all shareholders for approval at a General Meeting of the Company.

Having been in place since 2018, the previous remuneration policy was due to lapse at the end of 2021 and therefore, whilst the Company was still in the same position regarding material uncertainty and the need to raise capital, they were required to obtain shareholder approval for a revised remuneration policy so as to meet our legal obligations under the Companies Act. This took place at a General Meeting of shareholders held on 17 December 2021 (where the policy was approved with a vote in favour of 97.89%) and to all intents and purposes the previous policy was renewed with three exceptions as follows:

- The existing Long Term Incentive Plan lapsed at the end of 2020, with no awards being made. It was not felt to be appropriate to put in place a new long-term scheme. The new policy therefore removed this element. It is anticipated that, post a successful completion of the anticipated capital raise, the Remuneration Committee will engage with its key shareholders to develop a new long-term scheme for which appropriate shareholder approval would be sought at that point.

- The previous Remuneration Policy allocated Annual Bonus with at least 70% based on financial performance and up to 30% on non-financial objectives. The new policy allows a degree of flexibility with at least 50% based on financial performance and up to 50% on non-financial objectives, thereby allowing the Remuneration Committee to appropriately weight the delivery of key strategic objectives, which at the current time are vital to the success of the business.
- The previous Remuneration Policy contained a small inconsistency with regard to Executive Director contractual entitlement to benefits and pension contribution when exiting the business. In these circumstances, whilst benefits (such as healthcare) were contractually due during a notice period, they were not allowable as part of any exit agreement under the current Remuneration Policy. The new policy aligns the provision of these elements to the contractual entitlement of Executives.

Only after a successful completion of the anticipated capital raise, does the Company intend to undertake a more formal dialogue with key shareholders with regard to remuneration policy.

Implementation of the Remuneration Policy for 2022

Base salary

The Committee decided that, given the recent salary increase on appointment to the role of CEO, that the base salary for Jono Gillespie would remain unchanged at the current time. It is also the intention of the Committee that, following a successful completion of the anticipated capital raise, salaries for Executive Directors and the wider workforce will be reviewed.

Annual bonus

The Committee has determined that it is appropriate for executives to be entitled to receive an annual bonus for 2022. Objectives will be clearly focused on achieving the strategic requirement to deliver the capital raise required in addition to the achievement of financial performance and conduct-related objectives. In line with the new Remuneration Policy, the Committee has determined that a return to the potential for 100% annual bonus should apply.

Long-term incentive plan

There is currently no provision for a long-term incentive under the current remuneration policy. Additionally, none of the current executives have any in-flight long-term incentives. Based on historic feedback from major shareholders together with more recent discussions, it is expected that any future long-term incentive awards will reflect a model designed to ensure that the interests of management are closely aligned with those of shareholders. As highlighted above, the Committee intends to reconsider the remuneration policy following a successful completion of the anticipated capital raise. This will include consideration for a long-term incentive plan.

This Annual Report on Remuneration will be put to shareholders for approval at the General Meeting to be held at 9.30 am on 26 May 2022 when the approval of Group's 2021 Annual Report and Accounts will also be considered and I ask for your support on the requisite resolutions.

The Committee and I would welcome any feedback or comments on this report or our Remuneration Policy in general.

On behalf of the Remuneration Committee and Board.

Toby Westcott
Chairman of the Remuneration Committee
29 April 2022

Part B: 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 2021. Disclosures in this report have been prepared in accordance with the provisions of the Companies Act 2006, Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended). An advisory resolution to approve this report and the annual statement will be put to shareholders at the Annual General Meeting to be held on 26 May 2022.

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	Benefits	Bonus	Long-term incentives	Pension	Total	Total fixed remuneration	Total variable remuneration
		£000	£000	£000	£000	£000	£000	£000	£000
Jono Gillespie (Group Chief Financial Officer from 1 April 2020 and then CEO from 31 August 2021)	**2021**	**280**	**9**	**97**	**-**	**20**	**406**	**309**	**97**
	2020	**183**	**9**	**-**	**-**	**15**	**207**	**207**	**-**
John van Kuffeler (Group Chief Executive Officer until 31 August 2021)	**2021**	**228**	**31**	**-**	**-**	**20**	**279**	**279**	**-**
	2020	**342**	**45**	**-**	**-**	**34**	**421**	**421**	**-**

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 and Jono Gillespie – 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 John van Kuffeler stepped down from the Board on 31 August 2021. His salary, benefits and pension represent the actual amounts paid in respect of qualifying services as an Executive Director during the relevant financial year.

Annual bonus outcomes for the period ended 31 December 2021 – audited

For 2021 the Executive Directors had a maximum annual bonus opportunity of 50% of salary. For each Executive Director, the annual bonus determination is based on the achievement of non-financial targets. The normal award level is 100% of salary, however the Board decided to withdraw 50% of the 2021 bonus opportunity which was subject to financial performance in light of the impact of COVID-19, whilst still maintaining a strong incentive for the delivery of the non-financial objectives which were deemed important in order to address the uncertainty faced by the Group. Therefore, the 2021 bonus provided a maximum opportunity of 30% of salary on achievement of non-financial measures and 20% on achievement of financial targets.

The Committee unanimously agreed that, despite the continued material uncertainty, it was appropriate to award a bonus in line with the Remuneration Policy due to the significant challenges faced by the Executive Directors and that would need to be resolved if the Group's long-term strategic objectives were to be realised. It was also determined by the Committee that in light of there being no long-term incentive plan in place at the current time, that the Executive Director's significant contribution to the continued success of the Company in the current year be recognised in accordance with the current Remuneration Policy. The Committee and Jono Gillespie agreed that, in light of the current situation faced by the Group, this bonus would only be paid when the Group was on a more stable footing.

The Committee also determined that, in accordance with the leavers policy, John van Kuffeler would not receive any payments under the 2021 bonus award following his departure in August 2021.

	Jono Gillespie		
	Payout (% opportunity for metric)	**Weighting**	**Payout (% maximum bonus)**
Group financial	20.0%	40.0%	100.0%
Group non-financial	30.0%	60.0%	48.3%
Total bonus payout (% maximum)		**69.0%**	

The financial and non-financial targets for Jono Gillespie's 2021 annual bonus and the extent to which they were met are as follows:

The financial metric equates to 40% of the maximum potential bonus. The target outcome for this metric was a loss of £1.96m 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, finance costs and tax. The threshold gateway was a loss of £2.16m and the maximum gateway was a loss of £1.76m. The actual profit on this basis was £9.30m, being 574.4% of target, in excess of the 110% maximum gateway, resulting in 100% achievement of the financial element of the bonus.

The non-financial element was based on eight individual components representing 60% of maximum bonus in total (equivalent to 30% of salary). These non-financial targets, which are described below, were met as follows:

Metric	Percentage of total annual bonus	Vesting (% of metric achieved)	Vesting (% of total annual bonus award)
1. Successfully achieve the equity raise including the support of existing significant shareholders.	15%	0%	0%
2. To oversee the regulatory reviews of branch-based lending and home credit and to ensure that necessary enhancements, if recommended, are implemented.	7%	50%	3.5%
3. Successfully oversee the roll out of the redress scheme in guarantor loans.	7%	0%	0%
4. Successfully complete negotiations with lenders to extend credit facilities, agree waivers where necessary and to put the business in as strong a position as possible to reduce interest costs when possible.	7%	50%	3.5%
5. To have in place robust financial modelling and provisioning models across the Group.	7%	100%	7%
6. To put in place necessary measures to ensure that central direction and oversight of Group operational activities is possible and undertaken within the regulatory framework.	7%	100%	7%
7. To ensure the business is fully compliant with relevant regulation.	4%	50%	2%
8. Maintain and enhance the strong corporate governance and 'three lines of defence' structure of the business.	4%	100%	4%
9. To oversee the development of an environmental policy for the Group, with clear targets in place ready for 2022 launch.	2%	100%	2%
Total	60%		29%

As a result, the non-financial element was met as to 29.0% of the maximum annual bonus opportunity (48.3% achievement of the maximum for the non-financial element).

The Committee decided not to exercise any discretion in respect of the annual bonus outcome and as such, the total payout for Jono Gillespie was 69% of the total maximum annual bonus opportunity. The Remuneration Committee has therefore determined that the bonus awarded to Jono Gillespie with respect to his role as an Executive Director is £96,600. In line with the current remuneration policy.

Long-Term Incentive awards vesting or awarded in 2021 – audited

There were no LTI awards vesting in 2021. No LTI awards were made in 2021 in line with the current policy

Payments for loss of office – audited

On 31 August 2021, John van Kuffeler stepped down from the Board. He received his contractual entitlements up to the date of his departure as shown in the single figure table of remuneration. John remains an employee for the duration of his notice period and will receive a payment of £100,000 in lieu of any potential claims and the ownership of his company car (currently valued at circa £26,000) at the termination of his employment.

Payments to past Directors - audited

No payments to past Directors were made in the financial year ending 31 December 2021.

2. Implementation of Remuneration Policy for the Executive Director for 2022

Base salary

In setting salary levels for the Executive Director for the 2022 financial year, the Committee considered a number of factors, including the impact of COVID-19, individual performance and experience, pay and conditions for employees across the Company, the general performance of the Company, pay levels in other comparable companies and other elements of remuneration. The Committee has determined at the current time that there should be no change to the salary of Jono Gillespie for 2022. Following a successful capital raise, salary levels across the wider workforce (including Executive Directors) will be reviewed.

The salaries for 2022 and the relative increases are set out below.

	Base salary £000		
	2022	2021	% change
Jono Gillespie [1]	**£300.0**	£300.0	0%

1 Jono Gillespie's base salary for 2021 was effective from 1 September 2010 as outlined in Part A of this report.

Pension and benefits

The pension contribution to a personal pension scheme or cash in lieu is equal to 8% of salary for Jono Gillespie (in line with the contribution rate for the wider workforce). Jono Gillespie does not have prospective rights under a defined benefit pension scheme.

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

Annual bonus

The Committee has determined that, consistent with the current Remuneration Policy, Executives will receive an annual bonus in line with the target and maximum potential for 2022 as follows:

	Maximum bonus % of salary	On-target bonus % of maximum	Threshold bonus % of maximum
Jono Gillespie	100%	75%	25%

It is proposed that the composition and structure of any future remuneration package will retain an appropriate balance between delivery of strong results whilst not incentivising undue risk-taking or rewarding underperformance. Objectives will be clearly focused on delivery of the strategic requirement to deliver the capital injection required by the Group, in addition to financial performance and conduct-related objectives.

Threshold vesting will be set at 25% of target with on-target vesting at 75% and maximum vesting at 100%, with vesting on a sliding scale between these points.

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

Long-term incentive awards

At the present time, the Remuneration Policy does not allow for a long-term incentive awards scheme.

3. Consideration by the Committee of matters relating to the Directors' remuneration for 2021

The Committee is responsible for making 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 2021	Independent	Meetings attended	Attendance
Niall Booker	Yes	4/4	100%
Charles Gregson	No	4/4	100%
Heather McGregor	Yes	2/2	100%
Toby Westcott	No	4/4	100%

All Committee members attended all Remuneration Committee meetings that they were eligible to attend. The Group Chief Executive and the Chief Financial Officer also 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 2021 from PricewaterhouseCoopers ('PwC') during the year. PwC were appointed by the Committee in May 2015 as advisers on remuneration matters after a formal 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 inclusive of VAT, paid to PwC in respect of services to the Committee during the year were £36,960. 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 two scheduled and two additional Committee meetings. Matters covered at these meetings are detailed below:

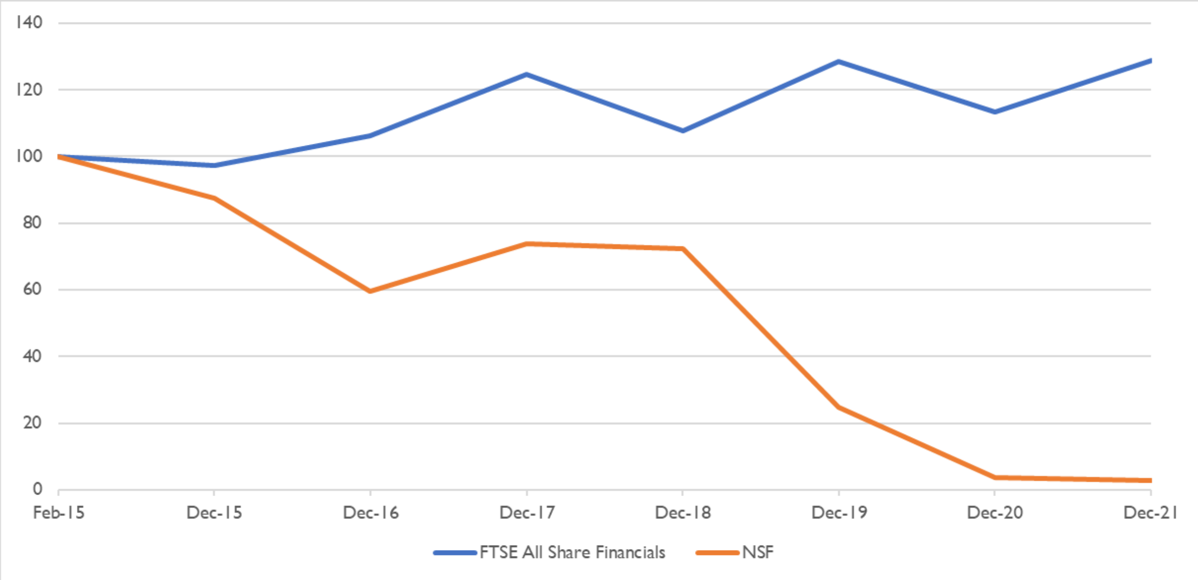
- Consideration of Executive Directors' annual bonus performance measures for 2022
- Review and approval of 2021 Executive Directors' and Senior Management annual bonus outcomes
- Review of remuneration levels taking into consideration external market benchmarking for both Executive and Non-Executive Directors
- Review of Executive Director and Senior Management remuneration for 2022 with benchmarking to cross-Group activity and deliberations
- Departure arrangements for John van Kuffeler
- Appointment arrangements for Jono Gillespie
- Remuneration review mid-year for Jono Gillespie
- Deliberation and amendment of 2021 financial element of Executive Director Bonus scheme

4. Group Chief Executive and employee pay

The Committee believes that the current reward structure provides 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 2021.

Total Shareholder Return



The Group's shares have underperformed the FTSE All Share Financial Services Index during the period. COVID-19 had a significant impact on Company performance in 2021. Other possible reasons for this underperformance include: the in-depth review in GLD following the industry wide FCA review, the outcomes from the internally initiated Group wide reviews in both branch based lending and home credit to consider 'read-across' from the GLD review, the impact of Claims Management Companies' behaviour, the Group's scale relative to other potential investment opportunities and the current leverage rate of the Group; significant operational changes made by two of the Group's major quoted competitors; and concerns over current and future market and regulatory conditions in the UK consumer finance segment.

Group Chief Executive – Jono Gillespie (from 1 September 2021)	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Single figure of total remuneration (£000)	110	n/a	n/a	n/a	n/a	n/a	n/a
Bonus payout (% maximum)	69%	n/a	n/a	n/a	n/a	n/a	n/a
Long-term incentive vesting rates (% maximum)	0%	n/a	n/a	n/a	n/a	n/a	n/a
Group Chief Executive – John van Kuffeler (until 31 August 2021)	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Single figure of total remuneration (£000)	279	421	488	614	498	351	473
Bonus payout (% maximum)	0%	0%	25.5%	68.1%	50.5%	0%	100%
Long-term incentive vesting rates (% maximum)	0%	0%	n/a	n/a	n/a	n/a	n/a

For 2021, John van Kuffleler's remuneration relates to the period from 1 January 2021 to 31 August 2021 and Jono Gillespie's remuneration relates to the period from 1 September 2021 to 31 December 2021.

Maximum bonus potential in 2021 was 50% of salary, the actual payment therefore equated to 34.5% of salary

5. Percentage change in Director remuneration

The table below compares the annual percentage increase in the Directors' pay with that of all employees of the Company (excluding Directors) on a full-time equivalent basis. The table below will build up to include 5 years of history starting from 2019.

	Salary			Benefits			Annual Bonus		
% change	2021	2020	2019	2021	2020	2019	2021	2020	2019
Former Group Chief Executive Officer (JvK)[1]	-33.3%	2.5%	2.5%	-31.1%	22%	-2.7%	0%	-100%	-61.5%
Group Chief Executive Officer (JG)	53.0%	n/a	n/a	0%	n/a	n/a	100%	n/a	n/a
Non-Executive Chairman (CG)	0%	0%	0%	-	-	-	-	-	-
Non-Executive Director (NB)	0%	0%	0%	-	-	-	-	-	-
Non-Executive Director (HM)	0%	0%	0%	-	-	-	-	-	-
Non-Executive Director (TW)	0%	n/a	n/a		n/a	n/a		n/a	n/a
Average employee pay	-3.6%	8.1%	3.4%	-3.3%	5.5%	0%	5.9%	-33.1%	0%

1 The annual equivalent salary, benefits and bonus remained unchanged between 2020 and 2021 for John van Kuffeler. Table 1 illustrates the actual earnings as a Director in the year until John left the Board on 31 August 2021.

2 The salary increase for Jono Gillespie reflects firstly the part year earnings from appointment as a Director on 1 April 2020 compared to a full year in 2021. It also reflects the remuneration increases in both September 2020 and September 2021.

6. CEO pay ratio

This year, in line with the Director's Remuneration Reporting regulations, the Company presents the CEO's pay against the pay of employees at the lower quartile, median and upper quartile of the Company's UK employees.
The Company has decided to continue to use Option A as this would represent the most comprehensive approach and give the most accurate statistics. The salary, benefits and total pay for employees have been calculated on a full-time equivalent basis using the same methodology as that for the single figure for the CEO. No element of pay was omitted. The data for employee pay was taken as at 31 December 2021.

The Group Chief Executive ('CEO') to employee pay ratio and comparisons with last year are as shown in the table below. These ratios are relatively low in comparison to the sector in which the Company operates and across wider listed companies. The median pay ratio has remained static compared to 2020, but the Company notes that the ratios remain low given the relatively low Annual Bonus payout and no vesting under any long-term incentives for two consecutive years. As described in section 7 of this report, the Company is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. The Company therefore believes that the ratios are consistent with the pay, reward and progression policies of the UK workforce taken as a whole. The Company will continue to monitor the trends in the ratio over future years.

CEO:employee pay ratio	Method	25th percentile employee pay	50th percentile employee pay	75th percentile employee pay
2021	Option A	17:1	14:1	10:1
2020		17:1	14:1	8:1

	CEO pay[1]	Employee pay		
		25th percentile	50th percentile	75th percentile
2021 base salary	£328,000	£23,000	£26,000	£39,000
2021 total pay and benefits	£420,000	£25,000	£31,000	£43,000

1 John van Kuffeler was CEO from 1 January 2021 to 31 August 2021, Jono Gillespie was CEO from 1 September 2021 to 31 December 2021

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	**2021**	2020	% change
Employee spend	**£ 42.7m**	£42.0m	-1.7%
Distributions to shareholders (including share buy-backs)	-	-	0%

7. 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 arrangements.

During 2021, the Committee had an ongoing dialogue with key shareholders across a wide variety of issues, including regarding decisions the Company made regarding COVID-19 and the impact this had on Director remuneration, such as amendment of the financial element of the 2021 Executive Director annual bonus, review of Director salary with regard to Jono Gillespie on appointment as CEO and the approach being taken by the Company with regard to the approval of the Remuneration Policy in December 2021.

Over the course of the next year, the Committee intends to continue to engage with key investors in order to facilitate more active discussions around remuneration-related issues. The outcome of these discussions will be reported in the 2022 Directors' Remuneration Report.

Engaging with employees

NSF is committed to creating an inclusive working environment and to rewarding our employees in a fair manner. In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions. In June 2018, the Financial Reporting Council ('FRC') provided an update to the UK Corporate Governance Code (the 'Code') which included, *inter alia,* 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 Group's overall Remuneration Policy.

In June 2021, the Board appointed Sarah Day as the Board representative with responsibility for engagement with the Group's workforce, following the departure of Heather McGregor from the Board. During 2021, despite the difficult working conditions resulting from the pandemic, Sarah attended a number of employee forums across the Group, participating in discussion in relation to all aspects of employee interests including culture, performance, business improvements, pay arrangements and communications and also taking part in Q&A sessions. Sarah provides updates to the Board following her attendance at each forum. Sarah has continued to have oversight of the employee surveys conducted throughout the Group (which include questions regarding pay and conditions). Summaries of the findings were fed into Group Board meetings and considered in the context of key decisions.

All-employee remuneration

As part of the Company's commitment to reward all employees in a fair manner, the Remuneration Committee makes every effort to take into account wider employee pay in setting executive remuneration. This is achieved through information being provided to Remuneration Committee meetings detailing the remuneration throughout the Company. The outcomes of these interactions include:

- wider discussion around the reduction in potential bonus for all senior management across the Group;
- salary increases for Executive Directors of 0% for 2022 with a review post-a successful completion of the anticipated capital raise have been set in the context of a similar increase for much of the wider workforce including at subsidiary level, thereby ensuring consistency across the Group; and
- a bonus scheme being available to the majority of the Company's employees.

8. 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	Benefits/other	Total
		£000	£000	£000
Charles Gregson	**2021**	**125**	**-**	**125**
	2020	125	-	125
Heather McGregor[1]	**2021**	**37.5**	**-**	**37.5**
	2020	75	1	76
Niall Booker	**2021**	**75**	**-**	**75**
	2020	75	-	75
Toby Westcott[2]	**2021**	**90**	**-**	**90**
	2020	23	-	23

1 *Heather McGregor stood down from the Board on 30 June 2021 this figure therefore represents six months' remuneration.*

2 *Toby Westcott as a nominee director and receives no direct remuneration from the Company. However, Alchemy Special Opportunities LLP was remunerated for the services provided by Toby Westcott through a services agreement. This figure equates to a £75,000 fee plus VAT for a full year.*

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

Fees to be provided in 2022 to the Non-Executive Directors

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

		2022 £000	2021 £000	% change
Chairman's fee	Charles Gregson[1]	**125**	125	0%
	Niall Booker	**75**	75	0%
Nominee Non-Executive Director fee	Toby Westcott[2]	**90**	90	0%

1 *Charles Gregson will receive his fee in line with the provisions under the Remuneration Policy. Currently he receives 50% of his fee (post tax) in NSF shares or the transfer of equivalent value to facilitate the purchase of shares*

2 *Toby Westcott is a nominee director and receives no direct remuneration from the Company. However, Alchemy Special Opportunities LLP was remunerated for the services provided by Toby Westcott through a services agreement with Alchemy Special Opportunities LLP . This figure equates to a £75,000 fee plus VAT.*

9. Directors' shareholding and share interests – audited

Shareholding and other interests at 31 December 2021 – audited

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

	Shareholding at 31 December 2021					**Interest in Founder Shares**		
	Number of beneficially owned shares	**% of salary held**	**Shareholding requirement met**	**Options held subject to service**	**Total number of shares/ options**	**Subject to conditions**	**Vested but unexercised**	**Total at 31 December 2021**
John van Kuffeler (at 31 August 2021)	2,114,474	19.6%	No	-	2,114,474	-	30	30
Jono Gillespie	140,000	1.6%	No	-	140,000	-	-	-
Charles Gregson	1,983,329	-	-	-	1,983,329	-	10	10
Heather McGregor (at 30 June 2021)	145,441	-	-	-	145,441	-	-	-
Niall Booker	576,700	-	-	-	576,700	-	-	-
Toby Westcott[1]	-	-	-	-	-	-	-	-
Total	4,959,944			-	4,959,944	-	65	65

1 *As Toby is a Nominee Director, Alchemy Special Opportunities LLP is deemed to be a 'connected person'. This shareholding reflects the shareholding of Toby Westcott, Alchemy Special Opportunities LLP and other partners of Alchemy Special Opportunities LLP.*

Charles Gregson continues to receive 50% of his quarterly Chairmanship fees in the form of shares and on 28 March 2022 the Company allocated additional funds for the immediate purchase of Ordinary Shares by Mr Gregson. This amounted to the purchase of 353,750 Ordinary Shares at a total cost of £8,593.75 (excluding dealing costs) to satisfy 50% of the post-tax fees due with respect to his role as Chairman from the period 1 January 2022 to 31 March 2022. The remaining 50% of fees due has been paid in cash. As a result, as at 31 March 2022 Mr Gregson held 2,337,079 Ordinary Shares, representing 0.7% of the issued share capital of the Company.

None of the Directors exercised options in 2021 and as at the 31 December 2021, no Director held shares or options that were subject to performance conditions.

Aside from the above, no other changes took place in the interests of the Directors between 1 January 2022 and 31 March 2022.

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

Non-Executive positions held by Executive Directors

John van Kuffeler retained fees of £40,000 during the period from 1 January 2021 until 31 August 2021 from his Non-Executive position at Paratus AMC Limited.

10. Shareholder voting

The table below shows the binding votes approving the previous Directors' Remuneration Policy.

	Votes for	%	Votes against	%	Votes withheld
2021 GM vote on Directors' Remuneration Policy	147,201,359	97.89	3,177,355	2.11	8,503,566
2018 AGM vote on Directors' Remuneration Policy	244,276,844	95.41	11,742,238	4.59	500

Part C: Directors' Remuneration Policy

The Remuneration Policy ('Policy') was approved by shareholders at the General Meeting held on 17 December 2021 with a vote in favour of 97.89% from shareholders. As outlined earlier, given the circumstances the Company faces at the current time and in light of the need for a capital injection, the Committee intends to review the policy following a successful completion of a capital raise. This will allow the Committee the opportunity to consult with shareholders (including Alchemy Special Opportunities Fund IV L.P.) regarding a suitable Remuneration Policy.

For ease of reference, the current Remuneration Policy table and our remuneration policy for the wider workforce section is included below. The full Remuneration Policy can be found on our website at **www.nsfgroupplc.com**.

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 Directors 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

The Company believes that the current remuneration structure supports and motivates their Executive Directors in furthering the Company's long-term strategic objectives including the creation of sustainable shareholder returns.

The table below sets out the key elements of the Policy for Executive Directors and how it would change from the current policy:

Remuneration Policy table for Executive Directors

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 considers factors such as: • 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. This could include, but is not limited to, a change in responsibility, a significant increase in the role's scale or increase in the Group's size and complexity. Where such changes do occur, they will be fully disclosed and explained to shareholders.	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.	Benefits are reviewed periodically to ensure they remain market competitive. Benefits are provided to Executive Directors in accordance with contractual terms i.e. during notice period or as part of PILON arrangements. Benefits currently include: ● Company car ● 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. Pension benefits are provided to Executive Directors in accordance with contractual terms i.e. during notice period or as part of PILON arrangements.	Pension contributions are set in line with the wider workforce (currently c.8%) for both new joiners and incumbent directors.	No performance or recovery provisions apply.
Annual bonus Incentivises achievement of annual objectives which support the Group's short-term performance goals and protects longer term interests of the Group.	Bonus awards are granted annually following the signing of the Annual Report and Accounts, usually in March of the year following the reporting period in question. Performance period is one financial year, with payout determined by the Committee following the year end, based on achievement against a range of financial and non-financial targets. Malus and clawback provisions apply at the discretion of the Committee where the Committee considers such action is reasonable and appropriate, such as a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct and fraud, regulatory and similar failures or other reason as determined by the Committee.	Maximum awards under the annual bonus are equal to 100% of salary. Up to 100% of the annual bonus will be paid in cash. On-target bonus: 75% of salary. Threshold bonus: 25% of salary. Attainment of performance between Threshold and Max levels will vest on a straight-line basis.	Performance targets will be set annually by the Committee based on a range of interdependent financial and non-financial measures. Financial targets govern at least 50% of bonus payments, which may include those related to profit before tax. Non-financial measures govern the balance and will include both conduct-based measures and governance-based measures. Conduct-based measures may 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 retains overriding discretion to change the formulaic outcome of the annual bonus award (both downwards and upwards) if the Committee determines it not to be aligned with the underlying performance of the Company. The Committee also has the discretion to adjust targets or performance measures for any exceptional events that may occur during the year. As well as determining the measures and targets, the Committee will also determine the weighting of the various measures to ensure that they support the business strategy and objectives for the relevant year.

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
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.	Executive Directors are required to build and maintain (as relevant) a minimum shareholding in the Company. Executive Directors are expected to meet the guidelines within five years of joining the Board. Shares that count towards meeting the shareholding guideline include those held beneficially by the Executive Director and their spouse/life partner, as well as vested but unexercised awards valued on a net of tax basis.	The shareholding requirement is equal to 100% of salary for Executive Directors.	Not applicable
Post-employment Shareholding guidelines To ensure Executive Directors retain a level of alignment with shareholders for the period immediately following their termination of employment	For share awards granted from 2020 onwards for Executive Directors, a minimum level of shares must be retained following their termination of employment.	Executive Directors will be required to hold the lower of their actual shareholding on the date of termination or: • 100% of the shareholding requirement for the first year post employment; and • 50% of the shareholding requirement for the second year post employment	Not applicable

The approved Policy for 2021-2023 includes no provision for a Long Term Incentive. This is due to the current material uncertainties being faced by the business and the need to raise additional capital. It is envisaged that post-a successful completion of a capital raise, the Group will engage with key shareholders to formulate an appropriate long term incentive scheme, for which appropriate shareholder approval will be sought.

Discretion with the Directors' Remuneration Policy

The Committee has discretion in several areas of Policy as set out in this report including the ability to adjust remuneration outcomes upwards or downwards to ensure that they reflect the underlying performance of the Company and overall shareholder experience. The Committee may also exercise operational and administrative discretion under relevant plan rules approved by shareholders as set out in those rules.

Determining performance measures and targets

The Committee selects the performance measures and sets targets for the annual bonus on the following basis:

Annual Bonus

The performance measures are selected to incentivise the delivery of the Group's strategy. The focus on financial measures reflects business priorities on financial returns. Financial measures are combined with conduct- and governance-based measures to ensure a holistic assessment of Executive Director performance that is aligned to the Company' culture, values and regulatory requirements. The performance targets are determined annually by the appropriate line manager and calibrated by the Committee considering the Company's business plan, market conditions and internal and external forecasts.

Key differences in policy for Executive Directors and other employees in the Group

The remuneration principles that apply to Executive Directors are cascaded to employees as appropriate. The table below illustrates how the different elements of the Executive Director Policy apply to other employees in the Group.

Elements of remuneration	Executive Directors	Senior management	Wider workforce	Notes
Salary	✓	✓	✓	Available to all. Salary levels differ across grades or roles.
Benefits	✓	✓	✓	Available to all. Level of benefits offered may differ across grades with the Group.
Pension	✓	✓	✓	Pension contribution levels for new Executive Directors and the wider workforce are available currently at 8% of salary.
Annual bonus	✓	✓	✓	Available to the majority of employees in the Group. Performance measures may however differ across grades or teams.
All employee share plans	✓	✓	✓	Available to all, subject to any restrictions imposed by legislation.

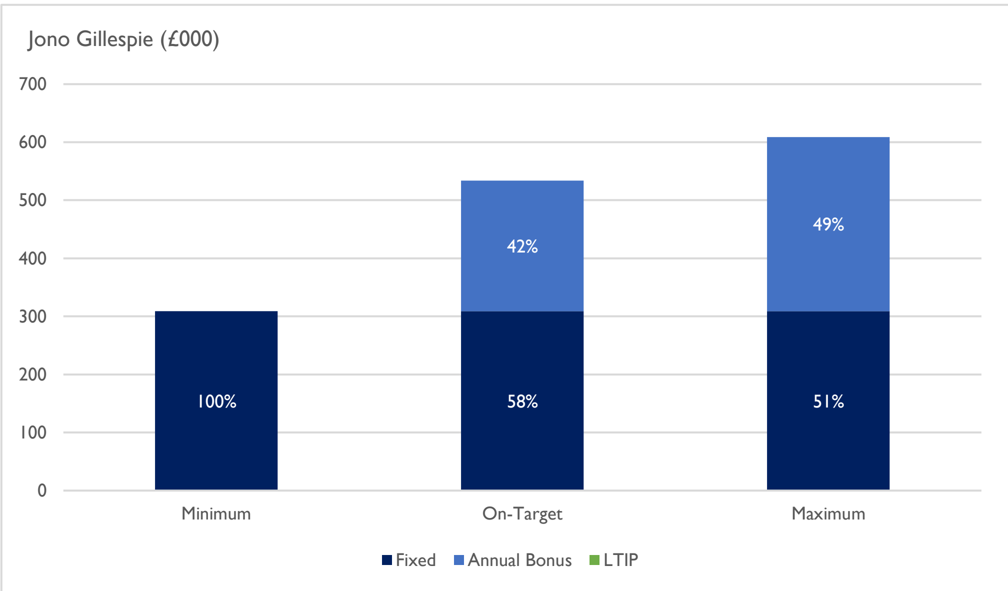
Legacy awards

The Company will honour any remuneration-related commitments to current and former Executive Directors and Non-Executive Directors (including the exercise of any discretions available in relation to such commitments) where the terms were agreed and/or commitments made in accordance with any previous remuneration policy of the Company. Such payments or awards will be set out in the Annual Report on Remuneration in the relevant year.

2. Illustrations of application of Remuneration Policy

The charts below seek to demonstrate how pay varies with performance for the current Executive Director based on the stated Remuneration Policy. The chart shows an estimate of the remuneration that could be received by the Executive Director 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 and the annual bonus.

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



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

Element	Minimum	Threshold	Target	Maximum
Fixed elements				
Annual bonus	Nil	25% of maximum	75% of maximum	100% of maximum

For 2021, the Remuneration Committee determined to limit the maximum Annual Bonus payment to 50% of salary in light of the current situation faced by the Company, thereby halving the bonus percentages above for 2021.

As the Company is not intending to implement any long-term incentive plans under this policy for Executive Directors, a 50% share price increase would have no impact on the total amount of remuneration.

3. Approach to recruitment and promotions for Executive Directors

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

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

Element	Policy description
Base salary and benefits	• The salary level will be set taking into account a number of factors, including market factors, the individual's experience and responsibilities and other pay structures within the Company and will be consistent with the salary policy for existing Executive Directors. • Benefits may be provided in line with the Company's benefits policy as set out in the Remuneration Policy table.
Pension	• An Executive Director will be able to receive either a contribution to a personal pension scheme or cash allowance in lieu of pension benefits in line with the Company's Policy as set out in the Remuneration Policy table.
Annual bonus	• An Executive Director will be eligible to participate in the annual bonus as set out in the Remuneration Policy table. • Awards may be granted up to the maximum opportunity allowable in the Remuneration Policy table at the Committee's discretion.
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 Director or by the Company. The table below summarises the service contracts and letters of appointment for our current Executive Directors.

	Date of contract	Notice period
Jono Gillespie	1 April 2020	12 months

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

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

Payments for loss of office

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

Element	Approach	Discretion
Base salary	12 months under contract.	None
Pension and healthcare benefits	As per employment contract – up to 12 months following cessation of employment	None
Annual bonus	None payable.	Pro-rata bonus may be awarded dependent on reasons for leaving.

Policy on corporate transactions

In the case of a corporate transaction (e.g. takeover, material merger, winding up etc.), the Committee will determine whether awards will be:

- Exchanged for replacement awards (either in cash or shares) of equal value unless the Committee and successor company agree that the original award will continue; or
- Vest in part or in full and be released.

Where awards vest/are released, the Committee will have regard to the performance of the Company, the time elapsed between the date of grant and the relevant event and any other matter that the Committee considers relevant or appropriate.

Malus and clawback provisions

As set out in the policy table, the Committee may apply clawback and/or a malus adjustment to variable pay in certain circumstances.

Malus and clawback provision may apply to the annual bonus and long-term incentive at the discretion of the Committee where the Committee considers such action is reasonable and appropriate, for reasons such as:

- Material underperformance of the participant;
- Material brand or reputational damage;
- Material misstatement of the accounts;
- Gross misconduct and fraud;
- Regulatory and similar failures; or
- Other reason as determined by the Committee.

Malus applies in the year the annual bonus is earned. Clawback applies for two years after the bonus is earned.

5. Non-Executive Director Remuneration Policy

Remuneration Policy table for Non-Executive Directors

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	Changes to policy and rationale
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 NSF shares. In exceptional circumstances, fees may also be paid for additional time spent on the Company's business outside of the normal duties. Non-Executive Directors may receive additional fees for the role of Senior Independent Director or Chairmanship of a Committee. Fees are 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.	Increases in fees will be considered with regard to salary increases received by the wider workforce or fee levels of comparable companies.	Not applicable.	No changes.
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.	

Approach to recruitment for Non-Executive Directors

Fees and Expenses for new Non-executive Director will be provided in line with the Remuneration Policy for Non-Executive Directors set out in the Policy table.

Letters of appointment

The Non-Executive Directors do not have service contracts but are appointed under letters of appointment[1].

Appointments are reviewed every three years and new appointments are made following recommendation by the Nomination Committee.

	Date of (re)appointment	**Notice period by Company and Director**
Charles Gregson	15 February 2021	12 months
Niall Booker	9 May 2020	6 months
Toby Westcott	1 October 2020	Immediate effect

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.

[1] Whilst Toby Westcott has an appointment letter, as noted above he does not receive any direct remuneration in respect of his appointment and there is a service agreement between the Company and Alchemy Special Opportunities LLP (under which remuneration is paid for the services provided by Toby Westcott).

Directors' report
for the year ended 31 December 2021

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 2021. Both the Strategic Report on pages 4 to 50 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 4 to 50 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 19 to 24 of the Strategic Report.

Trading results and dividends
The Group's consolidated loss after taxation for the financial year was £29,685,000 (2020: loss of £135,557,000).

Given the Group's financial position and as the Company did not have any distributable reserves, it was therefore not in a position to declare a half year dividend or full year dividend in 2021. Following a successful completion of a capital raise, the Board intends to complete a process in due course, with shareholder and Court approval, to create sufficient distributable reserves so that the Company would be able to resume the payment of cash dividends to shareholders as soon as it was deemed appropriate to do so.

Future business developments
Information on the Company and its subsidiaries' future developments can be found in the Chairman's Statement on pages 4 and 6, the Group Chief Executive's report on pages 11 to 15 and the 2021 financial review on pages 26 to 39.

Share capital
As at 31 December 2021, 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.

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.

Further details on the Company's share capital can be found in note 26 to the financial statements.

Substantial shareholdings
The Company has been notified in accordance with the Disclosure and Transparency Rules DTR-5 that as at 31 March 2022 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 31 March 2022 to 29 April 2022 (being a date not more than one month prior to the date of the Company's Notice of Annual General Meeting).

Alchemy Special Opportunities Fund IV L.P.	29.95%
Hargreaves Lansdown Asset Management	10.17%
Marathon Asset Management LLP	8.28%
Utley N	7.84%
Interactive Investor Services Limited	5.16%
HSBC Stockbroker Services	4.49%

In accordance with the Disclosure and Transparency Rules DTR-5 as at 31 December 2021 the following investors had a substantial interest in the issued Ordinary Share capital.

Alchemy Special Opportunities Fund IV L.P.	29.95%
Hargreaves Lansdown Asset Management	9.93%
Marathon Asset Management LLP	8.52%
Utley N	7.84%
Interactive Investor Services Limited	4.92%
HSBC Stockbroker Services	4.32%
AJ Bell Securities	3.54%

Corporate Governance Statement
In compliance with DTR 7.2, the Board confirms that the following key listing requirements are addressed within the Annual Report;

Compliance with the Corporate Governance Code (page 53)
Internal Controls and Risk Management Systems (page 60)
Administrative, management and supervisory bodies and committees (pages 58-60)

The Directors' beneficial interests in the allotted shares of the Company as at 31 December 2021 are outlined below:

	Number of Ordinary Shares held
John van Kuffeler (stood down 31 August 2021)	2,114,474
Jono Gillespie	140,000
Niall Booker	576,700
Charles Gregson	1,983,329
Heather McGregor (stood down 30 June 2021)	145,441
Toby Westcott	-

As granted by shareholders at the 2021 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 2022 AGM.

In accordance with the Group's Remuneration Policy approved by shareholders on 17 December 2021, 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 631,367 Ordinary Shares at a total cost of £34,140 (excluding dealing costs). The remaining 50% of fees due has been paid in cash.

Since then, on 28 March 2022 the Company allocated additional funds for the immediate purchase of Ordinary Shares by Mr Gregson. This amounted to the purchase of 353,750 Ordinary Shares at a total cost of £8,593.75 (excluding dealing costs) to satisfy 50% of the post-tax fees due with respect to his role as Chairman from the period 1 January 2022 to 31 March 2022. The remaining 50% of fees due has been paid in cash. As a result, as at 31 March 2022 Mr Gregson held 2,337,079 Ordinary Shares, representing 0.7% of the issued share capital of the Company.

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 2021:

Charles Gregson	Non-Executive Chairman
John van Kuffeler (until 31 August 2021)	Group Chief Executive
Jono Gillespie	Chief Financial Officer until 31 August 2021 and then Group Chief Executive Officer
Niall Booker	Senior Independent Director
Heather McGregor (until 30 June 2021)	Non-Executive Director
Toby Westcott	Nominee Non-Executive Director

The Directors and their profiles are detailed on pages 54 and 56. All of the Directors above, with the exception of John van Kuffeler and Heather McGregor 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.

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 long-term 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.

The Company is committed to adopting employment practices which follow best practice and 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 2021, the Group continued to invest significantly in supporting the emotional and mental wellbeing of its workforce, with various initiatives in each operating division, including the expansion of 'mental health first aiders' across the Group to support staff regardless of whether they were in the office or working remotely.

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.

The Company is committed to adopting employment practices which follow best practice and has an employee Save As You Earn share scheme which was put in place to provide employees with an opportunity to share in the Company's future success. Whilst the Board recognises that whilst the current scheme is not attractive to employees, it is expected that additional programmes aimed at enhancing employee engagement further will be developed following the Capital Raise.

Self-employed agents
During 2021, the Group's home credit division utilised a network of self-employed agents, each of which received regular, ongoing training to ensure that they were in a position to respond to each customer's individual needs. The training programme included: 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

Independent reviews of branch-based lending and home credit
Having first agreed their scope with the FCA, independent reviews into both branch-based lending and home credit were initiated in 2021 to consider the read-across from the multi-firm review into guarantor loans and to ensure that recent decisions at the Financial Ombudsman Service were taken into account in assessing whether or not any customers may have suffered harm.

Whilst the conclusion of the review into branch-based lending (Everyday Loans) was that there is no requirement for any customer redress, in home credit the conclusion was that there may have been harm and, following extensive discussions with the FCA about how this should be defined and the implications for future lending, the Directors of SD Taylor Limited (trading as 'Loans at Home') reluctantly concluded that the Loans at Home business was no longer viable and Loans at Home went into administration on 15 March 2022. The Boards of Loans at Home and of NSF are clear that this is the only option available in order to preserve value for creditors. As the operations and activities of Loans at Home are separate from the rest of the Group, the Board of NSF confirms that, having received certain waivers with the Group's lenders, the administration of Loans at Home will have minimal impact on the rest of the Group's business.

Environmental, Social and Governance-related risks and opportunities
The FCA issued its Policy Statement 21/23 in December 2021, confirming that all standard listed companies will be required to start complying with the Taskforce on Climate Related Financial Disclosures ('TCFD') in 2022 and then report on those disclosures in 2023, or explain why they are not compliant. Climate related disclosures however are only one part of the three-legged stool that is ESG. Both social and governance-related disclosures, many of which the Group is already making, will also continue to be required as part of the Group's annual reporting cycle.

Meeting these requirements will require some additional work and 'good management' of ESG risks and the identification of ESG-related opportunities will inevitably come with some additional cost to the Company. However, the Board believes that poor understanding and management of such risks will incur much greater costs for the Company (operational inefficiencies, regulatory sanction, poor reputation amongst consumers, investors and lenders) and society at large as a result of climate change. As well as mitigating risk, an increased focus on ESG is also expected to realise real benefits for our communities and society at large.

To address these issues, the Group and each of its divisions is developing: (i) a clear process of governance to ensure proper oversight of the management of such risks and opportunities; (ii) a clear strategy to address such risks and opportunities that will be embedded within the overall Group's business strategy; (iii) a process to assess and manage any material risks and opportunities identified; and (iv) a series of KPIs to track the performance of such risks and opportunities against clear goals and targets.

Charitable and political donations
The Group made charitable donations totaling £16,050 including to Loan Smart (registered charity number 1176832).

The Group made no political donations in the year ended 31 December 2021.

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 81 to 97
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 9.30 am on 26 May 2022. A separate notice of meeting will be despatched to shareholders in due course and a copy made available on the Group's website: **www.nsfgroupplc.com**.

Auditor

PKF Littlejohn LLP, the external auditor for the Company, was appointed in 2021 following a full tender process. The Board will be proposing a resolution to reappoint PKF Littlejohn LLP as external auditors at the forthcoming AGM to be held on 26 May 2022.

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.

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. The consolidated and Company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ('IFRS Standards') adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

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, which have been prepared in accordance with IASs in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- 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 2021 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 2021 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 29 April 2022 and signed by the order of the Board.

Sarah Day
Company Secretary
29 April, 2022

Financial Statements

Independent auditor's report

to the members of Non-Standard Finance plc

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Non-Standard Finance plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ('IFRS Standards') as adopted by the United Kingdom.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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.

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 parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that the following factors have resulted in the recognition of a material uncertainty over going concern:

- the successful and timely execution of the plan to raise additional capital
- the agreement of extensions to testing dates or other forms of waivers from lenders in relation to the March 2022 loan to value covenant and/or potential covenant breaches prior to completion of the capital raise
- the finalisation of the operational mechanics and ultimate cost of the Guarantor Loans Division (GLD) customer redress programme including the feasibility of the implementation of a scheme of arrangement.
- that debt maturing in August 2022 and August 2023 will be renewed on acceptable terms to the investors
- the impact of the administration of the home credit division on customer repayment behaviour
- the impact of the decision to place the GLD into run-off on customer repayment behaviour
- the actions of claims management companies and Financial Ombudsman Service decisions on the cost of complaints.
- the current and future impact of COVID-19 and other factors on the macroeconomic outlook (such as inflation, any other unforeseen economic consequences arising from the conflict in Ukraine and their potential impact on customer repayment behaviours).

The assumptions used by management and the likelihood of them all proving correct creates material uncertainty and therefore the impact on liquidity and solvency under both the base case and downside scenarios (as described in note 1) may cast significant doubt on both the group's and the parent company's ability to continue as a going concern.

The group's borrowing (£330m) disclosed in note 24 requires the loan to value (LTV) covenants to be formally tested each quarter. The LTV covenant for the 31 March 2022 quarter date was higher than the permitted level but this is yet to be formally tested. Whilst the group had obtained waiver from its lenders in relation to the administration of the home credit division, discussions are ongoing for an extension of the testing date until 15 June 2022. Under the base case scenario, the group assumes that lenders would grant an extension for covenant testing until 15 June 2022 alongside waivers for future covenant breaches prior to the capital raise.

Under the base case scenario, which assumes that additional capital is raised the group will be in a net asset position. The achievement of the base case scenario is subject to clarification of the uncertainties noted above.

The group has also prepared a downside scenario which assumes that no additional capital is raised. Under this scenario, there is a material risk of the group going into insolvency.

Management has assessed these scenarios and considered the uncertainties surrounding the assumptions and have formed a judgement that it is appropriate to prepare the financial statements on the going concern basis.

As stated in note 1, these event or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- we held discussions with Partners at Alchemy, who confirmed that they remain supportive of a capital raise, subject to certain conditions being met. We also held discussions with the reporting accountant;
- confirmed the issuance of the waiver by the debt facility agent upon the administration of S.D. Taylor Ltd given that entity is included as a guarantor in the agreement;
- assessed and challenged the relevance and reliability of the underlying data and the assumptions on which the assessment is based – including consistency with each other and related assumptions used in other areas;
- evaluated management's latest covenant compliance forecasts;
- reviewed management's methodology of the redress provision across the group and correspondence with the FCA to determine the estimated redress provision given the current available information;
- evaluated plans for future actions, with a focus on how the group is managing relationships with existing lenders and stakeholders;
- considered and challenged whether any additional facts or information have become available since the date management made its assessment;
- considered and challenged the adequacy of disclosure in the context of the applicable reporting framework and to ensure a true and fair view of the financial statements.

In relation to the company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting; and
- the directors' identification in the financial statements of the material uncertainty related to the entity's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our application of materiality
We determined the materiality for the group to be £419,000 which is 0.2% of the net loan book. We believe this to be appropriate as lending is the principal activity of the group and users of the financial statements are more likely to focus on the value of the loan book and its recoverability.

The parent company's materiality was set at £135,000 which equalled 4% of total expenses. We believe that using expenses as the basis of determining materiality is appropriate given that the parent company is not a trading subsidiary and operations involve acting as the cost centre for the group.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Performance materiality has been set at 60% of the above materiality levels, to £251,000 for the group financial statements and £81,000 for the parent company financial statements. In determining the performance materiality, we considered a number of factors such as the history of misstatements, our risk assessment and view of the control environment. We concluded that an amount in the medium range for determining performance materiality was appropriate.

We agreed with the Audit Committee that we would report to them all misstatements in excess of 5% of overall materiality, namely £20,000 and £6,000 for the group and parent company. Differences below this threshold will be reported as well, if in our view warrant reporting on qualitative grounds.

Materiality was reassessed at the closing stages of the audit and no amendments were considered necessary to the calculated level of materiality set at the planning stage of the audit.

Our approach to the audit
Our audit approach was developed by obtaining an understanding of the group's activities, the key subjective judgements used by the directors, the inherent and key audit risks in the business environment the group operates in and the overall control environment established by management. Based on this understanding, we assessed those aspect of the group's and parent company's transactions, year-end balances and disclosures which were most likely to give rise to a material misstatement and were most susceptible to irregularities, including fraud or error. Specifically, we identified what we considered to be our key audit matters and planned accordingly.

We have performed full scope audit procedures over all significant components of Non-Standard Finance Plc.

Key audit matters
Key audit matters are those matters that, in our professional judgment, 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) we identified, including 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 within the material uncertainty related to going concern section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our scope addressed this matter
Revenue recognition	
The group's main revenue stream is interest income of £131million (2020: £163million) which is recognized based on effective interest rate (EIR) 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	Our work in this area included: ▪ Obtaining an understanding of the internal control environment in operation for interest income and undertaking a walk-through to ensure that the key

heavily reliant on the quality of the underlying data flowing into the models. The key judgements in determining the interest recognised 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 interest; • whether loans have been modified substantially and the impact thereof on interest recognition, including manual adjustments to interest; and • appropriate application of net interest to loans in Stage 3. It is on the basis of these significant judgements and estimation that we consider revenue recognition to be a key audit matter. *Please refer to notes 1 and 3 of the financial statements for disclosures of related accounting policies and balances.*	controls within these systems have been operating in the period under audit; ▪ Reviewing the EIR approach and calculation to ensure it is reasonable under IFRS 9. ▪ Challenging the period over which the EIR is modelled considering the contractual terms of the loan and whether all directly attributable costs and fees were identified and appropriately included in the EIR calculation. ▪ Recalculating the interest income by applying the effective interest rate for a sample of loans. ▪ Testing manual adjustments for a sample of modified loans in the period to interest income through recalculation based on the modified terms of the loan. ▪ Challenging management's assumptions in respect of cash flow estimates by comparing underlying data sources and benchmarks. ▪ Assessing whether interest income was calculated against the net balance of loans after impairment for accounts in stage 3 and test this through recalculation. ▪ For the home credit division, we reviewed the early redemption assumptions in the EIR calculation to ascertain if they are supported by the behavioural life of the underlying products. ▪ For branch-based lending and the guarantor loans division – we reviewed the manual adjustments made to interest income. Key Observations Based on the work performed, we are satisfied that the revenue recognition policy is in accordance with the requirements of IFRS 9, the assumptions underpinning the models were determined and applied appropriately and the revenue recognized is reasonably stated.
Impairment of Loan Receivables	
The group holds an IFRS 9 impairment provision of £57million against gross customer receivables of £265million. We have determined the IFRS 9 - loan impairment to be a significant risk given this entails high level of management judgment, high degree of complexity and has a material impact on the financial statements **EVERYDAY LENDING** New ECL methodologies have been developed during 2021 for both the branch-based lending and guarantor loan divisions **Branch based lending** The division's ECL is estimated by reference to future cashflows based on observed historical data and updated to consider current and future conditions. The loan portfolio has been divided into segments and each segment has a corresponding standard provision rate. The standard provision rate is derived based on historic discounted collection curves. The provision against each loan is determined by multiplying the loan balance (which includes the accrued interest and unamortized broker commission) by the standard rate which is dependent on the segment the loan is assigned to. Loans that are more than 180 days in arrears are written-off and interest income is not anymore recognized. The branch-based division also has loan modifications which can be substantial or non-substantial. It considers both qualitative and quantitative factors when determining whether there the modification is substantial or not. Qualitative factors include contractual cash flows after modification are no longer "solely payment of principal and interest" (SPPI), change of counterparty, the extent of change in interest rates, and maturity. 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 rate.	Our work in this area included: ▪ Understanding the internal control environment in operation and undertake a walk-through to ensure that the key controls have been operating in the period under audit; ▪ Reviewing and challenging the methodologies and procedures used in computing the IFRS 9 expected credit loss impairments to ensure it is in line with the standard; ▪ Testing the completeness of data flowing into the expected credit loss calculations; ▪ Assessing management's methodology applied for the identification of a significant increase in credit risk; ▪ Testing the flags (segmentation – IFRS 9 stage and delinquency status) allocated to each loan and each customer used in determining the provision rate to be applied to the outstanding loan balance, to ensure consistency with the standard. ▪ An analytical review of the movements in the loan book and loan loss provisions on a customer type, payment performance band, product type and IFRS 9 staging basis ▪ An analytical review of loans issued, collections, associated agent commissions and interest income to ensure movements and balances were in line with our understanding and expectations ▪ Testing the back test to ensure that the collection curves used in the 2021 ECL calculation remained appropriate. ▪ Testing a sample of modified loans to determine whether they have been substantially modified. Ensuring that the net present value of non-substantially modified loans is calculated using the original EIR.

Guarantor Loans Division

The ECL methodology is consistent with that used within in the branch-based lending division, in that it forecasts future cash flows, which are then discounted back at the agreements prevailing interest rate to give a NPV of the outstanding loan balance. The main difference to branch-based lending division is the method of forecasting the collections. Historic collection curves are less predictive for GLD as the loan-book is in run off.

The loan-book is segmented by delinquency stage and whether the account has historically the account has been flagged as Covid impacted.

All loans are deemed to have met the significant increase in credit risk criteria regardless of account performance due to the increased risk of customers not paying because of the brand no longer trading, and the ongoing challenges in maintaining a full and motivated collections team. Therefore, lifetime loss accounting is used for the whole portfolio, increasing the provision. Historic portfolio collection curves are no longer considered reliable enough in isolation given the materially different circumstances, so the collections and losses forecasts are based on recent roll rate trends, regularly updated if the most recent data indicates any change in trend. The future expected roll rates are also downgraded from current performance trends in recognition of the ongoing increased risk. As a result, any changes in macro-economic and internal factors are already reflected in the collect-out expectation, and hence in the provision, therefore no further macro-economic overlay is deemed necessary.

S.D. Taylor Ltd

Management utilises historical collections curves/repayment rates which segment provisioning percentages by duration and arrears (on a thirteen week look-back basis) to determine expected cash flows. The curves have not been updated since 2019, with the Company performing a 'back test' to assess whether the 2019 collective curves remain appropriate.

For all three divisions the identified significant risk of misstatement in relation to impairment of receivables is the appropriateness of the historical collections applied within the model as these may not reflect the best estimate of how the current loan portfolio will be collected.

- Reviewing the formulae used in each of the ECL models to ensure the consistency of the calculation and formulae in the worksheets.
- Assessing and challenging management's paper on the ECL provision overlay for macro-economic factors to ensure the provision is complete.
- Testing the adjustment to the ECL provision following S.D. Taylor Limited entering administration on 15th March 2022.

Key Observations

We concluded that management's judgement used in the provision calculation is reasonable and is supported by a methodology that is consistently applied and compliant with IFRS 9.

Our tests of control, substantive testing and review of the Company's methodology did not indicate any deficiencies or departures from the requirements of IFRS 9.

We concluded that management's judgement used in the provision calculation is reasonable and is supported by a methodology that is consistently applied and compliant with IFRS 9, subject to completion of our work in relation to the S.D. Taylor ECL provision overlay.

We did not identify any material misstatements in relation to the expected credit loss calculation.

Laws and Regulations – S166 Inspection and Redress Provision

The group holds a provision of £16.9 million provided for customer redress in relation to the Guarantor Loans Division (GLD).

The FCA had raised some observations regarding certain processes and procedures relating to affordability assessment in GLD and required that a programme of redress be put in place for those customers deemed to have suffered harm as a result. An independent skilled person was appointed by the FCA to review the proposed programme of redress.

Whilst the FCA has approved the methodology to determine affordability assessments it has yet to agree the mechanics of implementing the redress scheme.

In addition, two independent reviews were commissioned by the group in April 2021 of the lending and complaints handling activities of the branch-based lending and home credit divisions.

This has been considered an area of significant risk to the review due to the high level of estimation uncertainty in determining the redress provision.

*Please refer to notes **1 and 24 of the financial statements for disclosures of related** accounting policies and balances.*

Our work in this area included:

- Obtaining an understanding of controls related to management's redress methodology and calculation
- Reviewing FCA correspondences with the group and reading the skilled individual report
- Assessing the completeness of management's methodology against the findings raised by the FCA and review performed by the skilled person
- Reviewing the methodology and data used in calculating the redress provision.
- Reviewing the disclosures made in relation to the redress provision.
- Recalculating the provision for redress and any related reversal of the impairment charge where redress is provided through a reduction in the loan balance.

Key Observations

The group has yet to reach an agreement on the operational mechanics of implementing the GLD customer redress scheme. The precise details ultimately agreed upon will impact the amount of the redress provision. The amount provided of £16.9 million represents management's best estimate of the cost of redress.

The FCA stated that they have no further questions in relation to the independent reviews in relation to the branch-based lending division's affordability methodology and have not stated that they consider that customers have suffered harm. As such, no provision for redress has been made in the financial statements arising from the branch-based lending review.

The FCA has, however, stated that stated that customers may have suffered harm from the lending activities of the home credit division.

	Management is unable to make a reliable estimate of a provision for redress arising from the FCA review into the home credit division and given that the cost of any such redress will now be met from the proceeds of the administration, no provision has been made in the financial statements. However, there is disclosure of this matter within the contingent liabilities note.
Administration of S.D. Taylor Limited	
In April 2021, the group commissioned a detailed and independent review of its lending, collecting and complaints handling activities within the home credit division (S.D. Taylor Limited trading as 'Loans at Home'). The FCA reached a decision that there may have been harm to customers. Following discussions with the FCA about how harm should be defined and the implications for future lending, the directors concluded that the S.D. Taylor business was no longer viable, leading to the entity being placed into administration on 15 March 2022. The administration of S.D. Taylor has led to cessation of lending activity and the financial statements of this entity being prepared on a basis other than going concern. Because both IFRS and the Companies Act 2006 do not specify the treatment of transactions and balances for financial statements prepared under a basis other than going concern, significant judgement has been applied in the recognition and measurement of assets and liabilities within the financial statements of S.D. Taylor including the recoverability of assets, existence of onerous contracts, redress provision, redundancy and administration costs. *Please refer **to notes 1 and 34 of** the financial statements for disclosures of related accounting policies and subsequent events.*	Our work in this area included: ▪ Review of correspondence with the FCA and discussion with the skilled person to verify the status of the independent review; ▪ Confirmation of S.D. Taylor's administration via management's and FCA's public notification; ▪ Discussion with management on the estimated customer redress cost and the possibility of resuming lending activity; ▪ Review of management's accounting policy on the recognition and measurement of S.D. Taylor's assets and liabilities; ▪ Review of management's impairment analysis of assets and contracts which became onerous due to the administration; ▪ Evaluation of disclosures made by management with respect to the administration. <u>Key Observations</u> Whilst we noted that management is unable to estimate the customer redress provision, we are satisfied that the accounting policies applied and disclosures made, as set out in the financial statements, are appropriate to a basis of accounting other than going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group and parent company 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.
We have nothing to report in this regard.

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.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or the directors' report.
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate governance statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.
Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 73;
- Directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 78;

- Directors' statement on whether they have a reasonable expectation that the company will be able to continue in operation and meets its liabilities set out on page 78;
- Directors' statement that they consider the annual report and the financial statements, taken as a whole, to be fair, balanced and understandable set out on page 102;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 60;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 60; and
- The section describing the work of the audit committee set out on page 58.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the group and parent company 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 group and parent company financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, review of board minutes and performing walkthroughs of relevant controls.
- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from FCA Rules (Consumer Credit sourcebook (CONC)) , Credit Consumer Acts and Companies Act 2006.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
    - *Enquiries of management,*
    - *Review of minutes*
    - *Review of legal/regulatory correspondence*
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, the impact of COVID-19 on the company's control environment such as the financial reporting process. We identified revenue recognition, provision for impairment losses on loans issued and provision for customer redress as key audit matters in relation to the risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures performed in response to those risks.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business and preliminary and final analytical review to identify any unusual or unexpected variances or relationships.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

Other matters which we are required to address

We were appointed by the group on 19 July 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. Our total uninterrupted period of engagement is 1 year, this is our first year on the audit.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

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.

Mark Ling (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

29 April 2022

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Note	Before fair value adjustments and exceptional items £000	Fair value Adjustments and exceptional items[3] £000	Year ended 31 Dec 2021 £000
Revenue[1]	3	**131,387**	-	**131,387**
Other operating income		**983**	-	**983**
Modification loss	19	**(2,861)**	-	**(2,861)**
Impairment of financial assets[2]		**(24,163)**	-	**(24,163)**
Exceptional provision for customer redress	7	**-**	**(2,207)**	**(2,207)**
Administrative expenses		**(96,047)**	**-**	**(96,047)**
Operating profit/(loss)	4	**9,299**	**(2,207)**	**7,092**
Other exceptional items	7	**-**	**(10,723)**	**(10,723)**
Profit/(loss) on ordinary activities before interest and tax		**9,299**	**(12,930)**	**(3,631)**
Finance costs	10	**(25,979)**	**-**	**(25,979)**
Loss on ordinary activities before tax		**(16,680)**	**(12,930)**	**(29,610)**
Tax on loss on ordinary activities	12	**(75)**	**-**	**(75)**
Loss for the year		**(16,755)**	**(12,930)**	**(29,685)**
Total comprehensive loss for the year				**(29,685)**

1 Revenue comprises interest income calculated using the EIR method. Refer to note 1 in the notes to the financial statements for further detail.
2 Impairments comprise expected credit losses on amounts receivable from customers. Refer to notes 1 and 19 in the notes to the financial statements for further detail.
3 Refer to the appendix for detail of alternative performance measures used ('APMs'). Refer to note 7 in the notes to the financial statements for further detail.

Loss attributable to:	
• Owners of the Parent	**(29,685)**
• Non-controlling interests	-

Loss per share

	Note	Year ended 31 Dec 2021 Pence
Basic and diluted	11	**(9.50)**

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

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	Before fair value adjustments, amortisation of acquired intangibles and exceptional items £000	Fair value adjustments, amortisation of acquired intangibles and exceptional items[3] £000	Year ended 31 Dec 2020 £000
Revenue[1]	3	164,102	(1,437)	162,665
Other operating income		1,154	-	1,154
Modification loss	19	(6,282)	-	(6,282)
Derecognition loss	19	(2,643)	-	(2,643)
Impairment of financial assets[2]		(66,262)	-	(66,262)
Exceptional provision for customer redress	7	-	(15,401)	(15,401)
Administrative expenses		(96,385)	(1,298)	(97,683)
Operating profit/(loss)	4	(6,316)	(18,136)	(24,452)
Other exceptional items	7	-	(82,433)	(82,433)
Profit/(loss) on ordinary activities before interest and tax		(6,316)	(100,569)	(106,885)
Finance costs	10	(28,836)	-	(28,836)
Profit/(loss) on ordinary activities before tax		(35,152)	(100,569)	(135,721)
Tax on profit/(loss) on ordinary activities	12	-	164	164
Profit/(loss) for the year		(35,152)	(100,405)	(135,557)
Total comprehensive loss for the year				(135,557)

1 Revenue comprises interest income calculated using the EIR method, refer to note 1 in the notes to the financial statements for further detail.
2 Impairments comprise expected credit losses on amounts receivable from customers. Refer to notes 1 and 19 in the notes to the financial statements for further detail.
3 Refer to the appendix for detail of alternative performance measures. Refer to note 7 in the notes to the financial statements for further detail.

Loss attributable to:	
• Owners of the Parent	(135,557)
• Non-controlling interests	-

Loss per share

	Note	Year ended 31 Dec 2020 Pence
Basic and diluted	11	(43.39)

Consolidated statement of financial position

as at 31 December 2021

	Note	31 Dec 2021 £000	31 Dec 2020 Restated £000	1 Jan 2020 Restated £000
ASSETS				
Non-current assets				
Goodwill	14	**–**	–	74,832
Intangible assets	15	**2,772**	8,237	8,572
Derivative asset	23	**–**	–	1
Deferred tax asset	25	**–**	–	1,677
Right-of-use asset	17	**7,877**	10,079	10,560
Property, plant and equipment	16	**3,925**	6,277	6,556
Amounts receivable from customers	19	**98,836**	124,128	185,269
		113,410	148,721	287,467
Current assets				
Amounts receivable from customers	19	**109,148**	134,073	176,379
Trade and other receivables	21	**2,526**	2,080	2,183
Corporation tax asset		**1,477**	1,550	460
Cash and cash equivalents	22	**114,577**	77,956	14,192
		227,728	215,659	193,214
Total assets		**341,138**	364,380	480,681
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	24	**18,375**	16,627*	27,641*
Provisions	24	**25,643**	21,813	1,466
Lease liability	24	**2,129**	1,928	1,830
Total current liabilities		**46,147**	40,368	30,937
Non-current liabilities				
Lease liability	24	**7,416**	8,961	9,275
Bank loans	24	**328,762**	326,587	317,590
Total non-current liabilities		**336,178**	335,548	326,865
Equity				
Share capital	26	**15,621**	15,621	15,621
Share premium	27	**180,019**	180,019	180,019
Other reserves	28	**255**	551	2,152
Retained loss		**(237,082)**	(207,727)*	(74,913)*
Total equity		**(41,187)**	(11,536)	122,879
Total equity and liabilities		**341,138**	364,380	480,681

* Trades and other payables and Retained earnings for 31 December 2020 and 1 January 2020 include a prior year adjustment, refer to note 1 for further detail.

These financial statements were approved by the Board of Directors on 29 April 2022.

Signed on behalf of the Board of Directors.

Jono Gillespie
Group Chief Executive

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained loss £000	Non-controlling interest £000	Total £000
At 31 December 2019		15,621	180,019	2,152	(74,181)	–	123,611
Prior year adjustment – trade and other payables	**1**	–	–	–	(732)	–	(732)
At 1 January 2020 opening balance – as restated		15,621	180,019	2,152	(74,913)	–	122,879
Total comprehensive loss for the year		–	–	–	(135,557)	–	(135,557)
Transactions with owners, recorded directly in equity:							
Dividends paid	**13**	–	–	–	–	–	–
Credit to equity for equity-settled share-based payments	**28**	–	–	1,142	–	–	1,142
Transfer of share-based payments on vesting of share awards	**28**	–	–	(2,743)	2,743	–	–
At 31 December 2020 – as restated		**15,621**	**180,019**	**551**	**(207,727)**	**–**	**(11,536)**
Total comprehensive loss for the year		–	–	–	(29,685)	-	(29,685)
Transactions with owners, recorded directly in equity:							
Dividends paid	**13**	–	–	–	–	–	–
Credit to equity for equity-settled share-based payments	**28**	–	–	34	–	–	34
Transfer of share-based payments on vesting of share awards	**28**	–	–	(330)	330	–	–
At 31 December 2021		**15,621**	**180,019**	**255**	**(237,082)**	–	**(41,187)**

Consolidated statement of cash flows

for the year ended 31 December 2021

	Note	**Year ended 31 Dec 2021 £000**	Year ended 31 Dec 2020 £000
Net cash from operating activities	29	**57,762**	82,193
Cash flows from investing activities			
Purchase of property, plant and equipment	16	**(261)**	(1,726)
Purchase of software intangibles	15	**(2,514)**	(3,221)
Proceeds from sale of property, plant and equipment		**17**	16
Net cash used in investing activities		**(2,758)**	(4,931)
Cash flows from financing activities			
Finance cost		**(15,832)**	(18,333)
Repayment of principal portion of lease liabilities		**(2,551)**	(1,806)
Debt raising		**-**	21,641
Repayment of borrowings		**-**	(15,000)
Dividends paid	13	**-**	-
Net cash (used in)/from financing activities		**(18,383)**	(13,498)
Net increase in cash and cash equivalents		**36,621**	63,764
Cash and cash equivalents at beginning of year		**77,956**	14,192
Cash and cash equivalents at end of year	22	**114,577**	77,956

Company statement of financial position

as at 31 December 2021

	Note	31 Dec 2021 £000	31 Dec 2020 £000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**1**	13
Intangible assets	15	**29**	52
Deferred tax	25	**-**	-
Right-of-use assets	17	**40**	32
Investments	18	**-**	-
		70	97
Current assets			
Trade and other receivables	21	**9,887**	32,157
Cash and cash equivalents	22	**32**	553
		9,919	32,710
Total assets		**9,989**	32,807
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	24	**5,496**	4,988
Lease liability	24	**7**	43
Non-current liabilities			
Lease liability	24	**33**	-
Total liabilities		**5,536**	5,031
Equity			
Share capital	26	**15,621**	15,621
Share premium	27	**180,019**	180,019
Other reserves	28	**255**	551
Retained profit		**(191,442)**	(168,415)
Total equity		**4,453**	27,776
Total equity and liabilities		**9,989**	32,807

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.

Total comprehensive loss for the financial year reported in the financial statements for the Company was £23.3m (2020: loss of £115.9m).

These financial statements were approved by the Board of Directors on 29 April 2022.

Signed on behalf of the Board of Directors.

Jono Gillespie
Group Chief Executive

Company number – 09122252

Company statement of changes in equity

for the year ended 31 December 2021

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained profit £000	Total £000
At 31 December 2019		15,621	180,019	2,139	(54,505)	143,274
Total comprehensive loss for the year		-	-	-	(115,869)	(115,869)
Transactions with owners, recorded directly in equity:						
Dividends paid	13	-	-	-	-	-
Credit to equity for equity-settled share-based payments	28	-	-	371	–	371
Transfer of share-based payments on vesting of share awards	28	-	-	(1,959)	1,959	-
At 31 December 2020		**15,621**	**180,019**	**551**	**(168,415)**	**27,776**
Total comprehensive loss for the year		-	-	-	**(23,324)**	**(23,324)**
Transactions with owners, recorded directly in equity:						
Dividends paid	13	-	-	-	-	-
Credit to equity for equity-settled share-based payments	28	-	-	**9**		**9**
Transfer of share-based payments on vesting of share awards	28	-	-	**(305)**	**297**	**(8)**
At 31 December 2021		**15,621**	**180,019**	**255**	**(191,442)**	**4,453**

Company statement of cash flows

for the year ended 31 December 2021

	Note	**Year ended 31 Dec 2021 £000**	Year ended 31 Dec 2020 £000
Net cash used in operating activities	29	**(376)**	(11,420)
Cash flows from investing activities			
Purchase of software intangibles, property, plant & equipment and right of use assets	15	**(129)**	–
Sale of Property, plant & equipment		**2**	–
Dividend income		–	11,950
Net cash from investing activities		**(127)**	11,950
Cash flows from financing activities			
Finance cost		**(16)**	(10)
Repayment of principal portion of lease liabilities		**(2)**	(161)
Dividends paid	13	**–**	–
Net cash used in financing activities		**(18)**	(171)
Net increase/(decrease) in cash and cash equivalents		**(521)**	359
Cash and cash equivalents at beginning of year		**553**	194
Cash and cash equivalents at end of year	22	**32**	553

Notes to the financial statements

General information
Non-Standard Finance plc is a public limited company, limited by shares, incorporated and domiciled in the United Kingdom. The address of the registered office is Unit 26/27 Rear Walled Garden, The Nostell Business Estate, Wakefield, West Yorkshire, United Kingdom, WF4 1AB.

1. Accounting policies

Basis of preparation
The consolidated and Company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ('IFRS Standards') as adopted by the United Kingdom.

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.

Post balance sheet date, the Directors of the Company's indirect subsidiary S.D Taylor Limited (trading as 'Loans at Home' and forming the home credit division of the Group) reluctantly concluded that the Loans at Home business was no longer viable, leading to the business being placed into administration on 15 March 2022. As a result, the financial statements of the home credit division have been prepared on a basis other than going concern. This requires carrying value of the assets to be at the amounts they are expected to realise and the liabilities include any amounts for onerous contracts as a result of the administration. The application of the basis other than going concern on the results for the year ended 31 December 2021 decreases the profit for the year by £8.5m (see note 34). In all other respects the financial statements have been prepared in accordance with the accounting framework.

As Non-Standard Finance plc retained control of the division as at 31 December 2021, the financial statements of S.D. Taylor have been consolidated and are reported in the Group financial statements for the year ended 31 December 2021. As a result, the financial statements of the Group for the current year have been prepared on a going concern basis with the exception of the home credit division which has been prepared on non-going concern basis (as described above).

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 2021. 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.

As noted above, the Group's home credit division (S.D. Taylor Limited) was put into administration post year end on 15 March 2022. As at 31 December 2021, Non-Standard Finance plc retained control of the division and as such, in line with IAS 10, its results have been consolidated for the purposes of these financial statements. The appointment of an administrator on 15 March 2022 however, represents a loss of control by Non-Standard Finance plc, and as such, the home credit division will be derecognised from this date and the effect of this reflected in the Group's year ended 31 December 2022 financial statements.

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.

S.D. Taylor Limited's financial information up to 29 December 2021 has been included with material adjustments made to incorporate transactions up to 31 December 2021 in line with IFRS 10.

Going concern
During the year, the Committee assessed the forecast levels of net debt, headroom on existing borrowing facilities (which comprise a £285m term loan and a £45m RCF facility, both of which are fully drawn) and compliance with debt covenants. As part of its going concern assessment, the Committee reviewed both the Group's access to liquidity and its future balance sheet solvency for at least the next 12 months.

Background
The Group's guarantor loans division ('GLD') was placed into a managed run-off in June 2021. Throughout 2021, the Group was actively engaged with the FCA in order to finalise its proposed redress methodology for certain customers of GLD. Whilst there have been no significant amendments to the methodology since 2020, with the movement in provision from the prior year primarily attributable to additional penalty interest accrued as a result of the delays in commencing the programme, the Group is currently working with the FCA

in order to finalise the operational mechanics of the redress programme. Therefore, as the redress programme has yet to be agreed in its entirety with the FCA, there remains uncertainty as to the costs of such programme and, although the Directors believe their best estimate represents a reasonably possible outcome, there is a material risk of a less favourable outcome. The Directors note that should the Group not be able to reach agreement with the FCA regarding the mechanics of the programme such that there remains significant uncertainty regarding the quantum of potential redress liabilities, the Group will need to consider other options that can reduce such uncertainty, including a scheme of arrangement. Whilst such schemes are complex, time consuming and not guaranteed to be successful, the Board believes that, were such a scheme to be pursued it would stand a reasonable chance of success and would, along with needing to extend lending facilities, allow it to proceed with its planned capital raise. The Board therefore believes that it remains a going concern. The proceeds of the planned capital raise will be used, among other things, to fund redress payments to eligible GLD customers.

As noted in the prior year, the Group commissioned independent reviews of both its branch-based lending and home credit businesses to ensure that there were no implications for either division as a result of the multi-firm review into guarantor loans, or from recent decisions at the Financial Ombudsman Service. Whilst the review into branch-based lending (Everyday Loans) concluded that there was no requirement for any customer redress, in home credit the conclusion was that there may have been harm. Following extensive yet ultimately inconclusive discussions with the FCA about how harm should be defined and the implications for future lending, the directors of S.D Taylor Limited (trading as 'Loans at Home') reluctantly concluded that the Loans at Home business was no longer viable, leading to the business being placed into administration on 15 March 2022. The boards of Loans at Home and of NSF were clear that this was the only option available in order to preserve value for creditors. As the operations and activities of Loans at Home are separate from the rest of the Group, having received certain waivers from the Group's lenders, the administration of Loans at Home will have minimal impact on the existing funding arrangements of the Group.

Going concern assessment

In light of having completed the independent review in relation to the branch-based lending division, the ongoing discussions regarding the redress programme with respect to GLD, and the fact that the home credit division has been put into administration, the Group has produced two reasonably possible scenarios as part of its going concern assessment:

(iii) the base case scenario includes a substantial equity injection in 2022 (the 'Capital Raise'); assumes the receipt of waivers from lenders for covenant breaches prior to the Capital Raise completing; assumes that there is no change to the estimate of the amount of redress payable in guarantor loans (other than additional interest); and assumes the extension of the Group's debt facilities on acceptable terms;

(iv) the downside scenario applies stresses in relation to the key risks identified in the base case and does not include the Capital Raise.

A summary of the key assumptions used in the scenarios are as follows:

(i) Base case

The base case forecast assumes:

- the Group has obtained extensions to the testing dates and/or other forms of waivers from its lenders for potential covenant breaches to enable it to proceed with the Capital Raise;
- the extension of the Group's debt facilities on terms acceptable to investors;
- additional capital is raised during 2022 and reflects a business plan where the Group achieves further growth in later years driven by its branch-based lending division;
- that GLD remains in managed run-off, continues to perform in line with recent trends and that the ultimate cost of the redress programme does not differ materially from the Directors' best estimate as at the date of this Annual Report (other than additional interest) and/or is an amount acceptable to potential investors;
- the home credit division remains in administration.

(ii) Downside scenario

This scenario assumes that no additional equity is raised in 2022 and also reflects stresses to the key risks described above.
Under this scenario we have assumed:

- the Capital Raise is not successful;
- the Group is unable to agree the operational mechanics of the GLD redress programme with the FCA and fails to implement a scheme of arrangement (should this be pursued) such that the Group is unable to raise sufficient capital or unable to raise sufficient capital within the required timeframes;
- higher complaint levels than expected under the base case and;
- uncertainty in the macroeconomic environment leads to higher delinquency and lower lending than expected under the base case.

Whilst the Group has obtained waivers from its lenders in relation to the administration of the home credit division (Loans at Home), its loan to value ratio was higher as at the quarter date on 31 March 2022 than the level permitted under its loan to value covenant following large interest payments made during the quarter. However, the loan to value covenant will not be formally tested, and no covenant breach or event of default will arise, until the Group provides its compliance certificate for the March 2022 quarter date. The Group has received an extension to the date on which it is required to supply this compliance certificate until 15 June 2022, with a mechanism for this date to be extended further with lender support. However, if the Group is unable to agree similar extensions or other forms of waivers for any future covenant breaches prior to the completion of the Capital Raise and obtain extensions to the term of its existing debt facilities on terms acceptable to investors, then the likelihood of the Group ending up in the downside scenario would be increased, and there would be a material risk of the Group entering insolvency.

Under the base case scenario and assuming successful completion of the Capital Raise, the Group would be in a net asset position from a balance sheet perspective; achieving this outcome however is dependent upon a number of factors including:

- the Group receiving extensions to the testing dates or other form of waivers from its lenders future covenant breaches beyond 15 June 2022 and/or prior to completion of the Capital Raise;
- the Group having raised sufficient additional capital and secured extensions to the term and/or refinancing of the Group's debt facilities;

- the Group having reached a conclusion in regards to the GLD redress programme with the estimated costs not varying materially from management's best estimate;
- the assumptions not varying materially from the base case; and
- any mitigating actions which could be implemented to offset any adverse movement from the base case (such as reductions to costs which are within management's control, for example employee and marketing expenses).

In the absence of the Capital Raise, the Group is forecast to remain in a net liability position from a balance sheet perspective over the next 12 months and beyond.

Under the downside scenario it is expected that the Group would not comply with its loan to value covenant at subsequent quarter dates during the next 12 months and as a result, additional extensions of those testing dates or other forms of waivers would be required from its lenders (and, depending on the terms of those waivers) the Group may not be able to access further funding. If such waivers or extensions were not forthcoming, or if the Directors were not otherwise able to identify an alternative course of action which, if successfully implemented, would enable them to conclude that there was a reasonable prospect of the Group returning to a net asset position such that the Group will be able to meet its liabilities (including to redress creditors) as they fall due, there would be a material risk of the Group going into insolvency.

The Directors acknowledge the considerable challenges presented by uncertainty around the GLD redress programme (as the operational mechanics have not yet been finalised with the FCA) and the continued impact of COVID-19 and other macroeconomic uncertainties on the financial performance of the Group and so have concluded that there exists a material uncertainty around the going concern status of the Group. The Directors recognise that the Capital Raise is dependent on a number of factors including (i) the costs associated with the GLD redress programme being within levels that are acceptable to potential investors; (ii) the Group's lenders continuing to grant appropriate extensions to the testing dates or other forms of waivers for covenant breaches prior to the Capital Raise completing and; (iii) the Group obtaining extensions to the term of its existing debt facilities on terms acceptable to investors. The Directors continue to maintain a regular dialogue with key stakeholders including the FCA, Alchemy and the Group's lenders regarding the above matters. Despite the material uncertainties associated with the forecast assumptions, the Directors note that Alchemy has confirmed its continued support for a capital raise. The Directors believe that if a satisfactory outcome regarding the redress mechanics in guarantor loans is reached, the proposed extension to the term of the Group's existing facilities by its lenders is concluded on terms acceptable to investors (which itself is likely to be dependent on a successful capital raise), and the actual outcomes do not differ materially from the assumptions outlined in the base case, the Group and Company can reasonably expect to raise sufficient new capital to enable them to continue to operate and meet their respective liabilities as they fall due for the next 12 months. The Board has therefore adopted the going concern basis of accounting. The Board's position is, in part, informed by the fact that Alchemy remains supportive of a capital raise subject to: an outcome of the Group's engagement with its lenders that is acceptable to Alchemy; Alchemy's analysis of the outcome of the Group's discussions with the FCA regarding the regulatory position of the Group's divisions and the implications of that on (and Alchemy's assessment of) the Group's business plan and financial projections; and greater levels of certainty around redress and claims.

Conclusion
On the basis of the above analysis, the Directors note that material uncertainties exist regarding the impact of discussions with the FCA regarding the GLD redress programme, the successful and timely execution of the Capital Raise, the agreement of extensions to the testing dates or other forms of waivers from lenders in relation to potential future covenant breaches prior to completion of the Capital Raise, the Group obtaining extensions to the term of its existing debt facilities on terms acceptable to investors, and the current and future impact of COVID-19 and other factors on the macroeconomic outlook (such as inflation, any other unforeseen economic consequences of the conflict in Ukraine and their potential impact on customer repayment behaviours). The Directors note that, should the Group not be able to reach agreement with the FCA regarding the mechanics of the GLD redress programme such that there remains significant uncertainty regarding the quantum of potential redress liabilities, the Group will need to consider other options that can reduce such uncertainty, including a scheme of arrangement. Whilst such schemes are complex, time consuming and not guaranteed to be successful, the Board believes that, were such a scheme to be pursued it would stand a reasonable chance of success and would, along with needing to extend lending facilities, allow it to proceed with its planned capital raise (as described in further detail below). The Board therefore believes that it remains a going concern. The proceeds of the planned capital raise will be used, among other things, to fund redress payments to eligible GLD customers. The Directors note that certainty around the level of potential redress liabilities will likely be a key factor for Alchemy and other potential investors, in assessing whether they will, ultimately, support the Capital Raise. A successful scheme of arrangement would be subject to a number of variables, including court sanction, a positive creditor vote and the receipt of necessary waivers from lenders.

The Director's recognise as there are a high number of assumptions and variables in the modelling of the base case which are not directly within the Group's control and that, should the actual outcomes vary materially from the modelled assumptions, any consequent negative impact on the liquidity and solvency under the base case scenario may cast significant doubt on the ability of both the Group and Company to continue as a going concern. Under the downside scenario, there is a material risk of the Group going into insolvency.

In making their assessment, the Directors considered:

- the loan to value ratio being higher as at the quarter date on 31 March 2022 than the level permitted under its loan to value covenant and the likelihood of the lenders agreeing to extend the testing date or provide other forms of waivers in relation to this covenant and/or potential future covenant breaches beyond 15 June 2022 and/or prior to the Capital Raise completing;
- the ability of the Group to obtain extensions to the term of its existing debt facilities (which itself is likely to be dependent on a successful capital raise);
- the Group's current financial and operational positions;
- the status of conversations with the FCA and advisors as well as the Group's recent trading activity;
- the uncertainty around the quantum of potential redress liabilities due under the GLD redress programme and, if such uncertainty is not resolved, the potential use of a scheme of arrangement to allow the Capital Raise to proceed and fund redress payments to eligible GLD customers;
- the conditional nature of support for the Capital Raise received from Alchemy (as outlined above).;

In making their overall assessment, the Directors also considered both the balance sheet solvency and the liquidity position of the Group. In connection with the former, the Capital Raise would create a positive net asset position. In connection with the latter the Directors have taken into consideration the impact of the Capital Raise on the existing cash balances which would then be available to the business. This combination would provide ample liquidity throughout the going concern period. However the Capital Raise is dependent on the factors listed above and this dependency creates a material uncertainty. Looking at the generation of future cash, the Directors also considered the 'reverse stress test' conducted by the Group which showed that, assuming no changes to lending levels and operating expenses, collections would have to fall by over 40% from current expected levels in the base case for the Group to then be unable to fund operating expenses and interest payments beyond the next 12 months. Based on trading performance to date, such a reduction in collections, with no mitigating actions being taken such as a reduction in costs, was thought by the Directors to be unlikely. However, the Directors also recognised that, in the absence of the lenders granting the necessary extensions to the testing dates or other forms of waivers in respect of potential future covenant breaches, cash balances may not be available to the Group or Company. With regard to the balance sheet solvency of the Group, the Directors noted that under the base case scenario the Group returns to a net asset position and remains there for the going concern period, however this remains dependent on the injection of additional capital into the Group. As noted above, if the Capital Raise is not achieved and the Directors cannot otherwise identify an alternative means of returning to a net asset position such that there is a reasonable prospect of the Group being capable of meeting its liabilities as they fall due, then the Group may enter insolvency.

The Directors recognise the considerable challenges presented and the material uncertainties which may cast significant doubt on the ability of both the Group and the Company to continue as a going concern. However, despite these challenges, the Directors currently have a reasonable expectation that the Group's outstanding regulatory and redress matters can be resolved close to the assumptions outlined in the base case (albeit recognising that there is a material risk in relation to this), the Group can obtain extensions to the testing dates or other forms of waivers from its lenders for potential future covenant breaches prior to completion of the Capital Raise such that it can raise sufficient equity in the timeframe required, the Group can obtain extensions to the term of its borrowings on a reasonable basis from its lenders and on terms acceptable to investors, and that potential investors remain supportive of the injection of (additional) capital. As a result, it is the Directors' reasonable expectation that the Group and Company can continue to operate and meet its liabilities as they fall due for the next 12 months. On that basis, the Directors continue to adopt the going concern basis in preparing these accounts.

As the possible outcomes detailed above remain dependent on a number of factors not directly within the Group's control, the Board will continue to monitor the Company and Group's financial position (including access to liquidity and balance sheet solvency) carefully over the coming weeks and months as a better understanding of the impact of these various factors are developed. The Board recognises the importance of the Capital Raise to mitigate the uncertainties noted above and to support the future growth prospects of the Group.

The Directors will also continue to monitor the Group and Company's risk management, response to claims and the redress programme, and internal control systems. The same considerations are also relevant to the statement on longer-term viability as discussed on pages 75 to 78 of this report.

Changes in accounting policies and disclosures

New and amended standards and interpretations for the financial year ending 31 December 2021

In the current year and in accordance with IFRS requirements, the following accounting standards have been issued and were effective from 1 January 2021: Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the Phase 2 amendments). The Group does not apply hedge accounting and its accounting policies are consistent with the new requirements. 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. There are no other new standards not yet effective and not adopted by the Group from 1 January 2021 which are expected to have a material impact on the Group.

Management will continue to assess the impact of new and amended standards and interpretations on an ongoing basis.

Alternative Performance Measures

The Group uses Alternative Performance Measures ('APMs') to monitor the financial and operational performance of each of its business divisions and the Group as a whole. The APMs 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 the Group. The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS 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 2021, APMs remain unchanged from the prior year. Refer to the Appendix for a glossary of APMs and reconciliation to IFRS reported numbers.

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 effective interest rate ('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 Expected Credit Losses ('ECL')). For credit-impaired amounts receivable from customers (those in stage 3), the interest income is calculated by applying the EIR to the amortised cost of the receivable (i.e. the gross carrying amount less the allowance for ECL).

Broker commissions

Broker commission costs are capitalised to amounts receivable from customers (as directly attributable transaction costs) and recognised over the expected life of the financial asset using the effective interest rate method.

Other operating income

Other operating income relates to amounts received as a result of debt sales made, government grants received in relation to the Coronavirus Job Retention Scheme ('CJRS'), as well as other additional income which is not derived from the Group's main business. 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 hold and collect (see further detail under Financial Assets). The accounting policy in relation to CJRS income is detailed below.

Coronavirus Job Retention Scheme

Under the CJRS, employers receive compensation from the government for part of the wages, associated National Insurance Contributions ('NIC') and employer pension contributions of employees who have been placed on furlough. The grant receipts have been measured at the fair value of the assets receivable and have been recognised under the performance model.

Under the performance model, grants shall be recognised:

- when received, where the grant does not impose future performance-related conditions on the recipient; or
- when performance-related conditions are met, where the grant imposes such conditions on the recipient.

Under the CJRS grant, the Company deems all performance related conditions to have been met when the claim was submitted, therefore income is recognised when received and no contingent liability has been recognised in the accounts for future liabilities in relation to this grant.

The amount received as part of the CJRS totalling £0.06m (2020: £0.67) has been included within other operating income for the year ended 31 December 2021 (see note 30 for further detail).

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 acquired intangible assets and current and deferred tax assets and liabilities.

Fair value of acquired loan book

Fair value of acquired loan book is assessed under IFRS 9 as part of the Group's assessment of ECL. The value of acquired loan books on acquisition as at 31 December 2021 was £nil (2020: £nil).

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 £12.9m of exceptional costs for the year ended 31 December 2021 (2020: £97.8m). Refer to note 7 for further detail.

Finance costs

Finance costs comprise the interest expense on external borrowings which are recognised in the consolidated 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 the interest expense on lease liabilities, as well as any fair value movement on derivative financial instruments held for hedging purposes which do not qualify for hedge accounting under IFRS 9.

Taxation

The tax credit/expense represents the sum of the tax currently receivable/payable and any deferred tax.

The current tax credit/charge is based on the taxable loss for the year. Taxable loss differs from net loss 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 asset/liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year-end date.

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

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

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

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

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

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

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

Goodwill is tested annually for impairment and 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.

All remaining goodwill was fully written off in prior year ended 31 December 2020. The balance of goodwill is therefore £nil as at 31 December 2021 (2020: £nil) (refer to note 14).

Discontinued operations
The Group considers a discontinued operation to be a component of the Group that either has been disposed of or is classified as held for sale. The component must also represent either a separate major line of business or geographical area of operations, and must be part of a single co-ordinated plan with regards to its disposal. If a component of the Group is to be abandoned, and it also meets the above criteria for a discontinued operation, then its results and cash flows will be presented as a discontinued operation at the date on which it ceases to be used.

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.

Intangible assets
Intangible assets include IT software development and computer software. Intangible assets in the prior year also included acquired intangibles in respect of the customer list and credit decisioning technology at Everyday Loans, together with the Everyday Loans and TrustTwo brands which were fully amortised and impaired in the prior year ended 31 December 2020.

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. Project costs are stated at cost less accumulated depreciation and any recognised impairment loss.

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 or valuation of property, plant and equipment in order to write off such cost or valuation over the expected useful lives as follows:

Group

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

Company

Computer and other equipment	20% straight-line
Fixtures and fittings	20% straight-line
Motor vehicles	25% straight-line

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 for the Company which fall under the scope of IFRS 9 are assessed for impairment 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 derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss recognised in other comprehensive income is recognised in profit or 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; refer to note 18 and 21 for further detail.

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 expected credit losses ('ECL') incorporating unbiased forward-looking information on assets that are carried at amortised cost. Credit losses are the difference between the present value ('PV') of all contractual cashflows and the PV of the expected future cashflows. The present values are discounted at the original effective interest rate ('EIR') of the loan agreement.

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 and calculates ECL on a collective basis 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 EIR of the loan. A receivable can move from having a provision calculated on a lifetime expected loss basis back to a 12-month expected loss 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.

2020 Coronavirus (COVID-19) pandemic impact on expected credit losses in the home credit division
During the prior year ended 31 December 2020 the Group made adjustments in order to reflect the lower collective PD, LGD and EAD for the proportion of home credit customers who were financially impacted by the pandemic. This was informed by the Group's detailed analysis of past repayment behaviours and expected repayments behaviour across the entire home credit customer base. Due to the nature of home credit loans, being typically shorter term, by 31 December 2020, the COVID-19 provision overlay had fully unwound to £nil and therefore whilst representing a change in policy as a result of COVID-19 during the prior year, there is no impact on amounts receivable from customer balances as at 31 December 2020. This remains unchanged for the year ended 31 December 2021.

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 of amounts receivable from customers which have had no arrears for at least the last 6 months, and which are without a default event (in line with IFRS 9, the definition of default is over 90 days in arrears) or a modification in the last 12 months.
- Loans in stage 2 which comprise of amounts receivable from customers which show a significant increase in credit risk since origination, determined by management to be:
    - Loans which have been 5 or more days (but less than 90 days) past due at any time in the last 6 months
    - Loans which have been 90 or more days past due in the last 12 months, but have had no arrears in the last 6 months
    - Loans which have been subject to forbearance in the last 12 months.

- Loans in stage 3 which comprise of amounts receivable from customers with a default event in the last 12 months which have not demonstrated sufficient recovery to move to stage 2 (defined as no arrears in the last 6 months), as well as those accounts identified as insolvent.

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. As with the home credit division, ECL 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 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 of the loan. 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.

IFRS 9 also requires the external environment to be considered as part of the calculation of ECL in the form of a macroeconomic adjustment. Customers within the non-standard credit market are typically less sensitive to changes in and based on historical evidence, management has determined that for the branch-based lending and guarantor loans divisions, the effect of traditional macroeconomic downside indicators is minimal. Management monitors external macroeconomic trends and considers their potential impact on repayment performance and will apply an adjustment where it is material and reasonable to do so. As with the prior year, management have assessed the impact of the macroeconomy on customer behaviours in its derivation of ECL in the current year and applied adjustments as necessary.

2020 Coronavirus (COVID-19) pandemic impact on ECL in branch-based lending and guarantor loans divisions
During the prior year ended 31 December 2020, the Group made adjustments in order to reflect the higher PD, LGD and EAD for the proportion of branch-based lending and guarantor loan customers who were financially impacted by the pandemic. This was informed by the Group's detailed analysis of past repayment behaviours and expected repayments behaviour across the entire customer base. In branch-based lending, a COVID-19 overlay was derived by consideration of the recent collection performance on COVID-19 affected accounts and whether any impact on collection performance was deemed to be temporary or permanent. An overlay adjustment was therefore made to increase provisions for accounts for which the impact was deemed permanent and/or who were not making full payments. For the Guarantor Loans Division, recent payment performance of those customers who were impacted by COVID-19 but are no longer on an emergency payment freeze ('EPF') were used to inform expected delinquency trends of customers who had not yet resumed payment following an EPF. A provision overlay was then applied to reflect expected performance consistent with the recent performance behaviours observed.

For the current year ended 31 December 2021, collection performance and customer behaviours observed since the onset of COVID-19 have been incorporated and reflected in the derivation of ECL for the year and therefore no separate overlay has been applied.

Significant increase in credit risk ('SICR')
The Group monitors all financial assets that are subject to the impairment requirements to assess whether there has been a SICR since initial recognition. If there has been a SICR, 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 SICR 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 SICR 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 SICR has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

On 15 March 2022, the home credit division was placed into administration (refer note 34 for further detail). This event is deemed to represent a significant increase in credit risk and therefore the loss allowance for all loans is measured as the lifetime ECL and loans are reflected in stage 2 and 3.

Branch-based lending and guarantor loans
Within the branch-based lending division there are three ways a customer account can demonstrate SICR:
1. 5 days past due performance bucket in the last 6 months;
2. All accounts subject to a curing treatment, including both reschedules and deferments, within the last 12 months;
3. All accounts which have had a default event (90 or more days past due) in the last 12 months.

In the guarantor loans division, the decision taken by the Board of NSF plc on 30 June 2021 to place the division into a managed run-off is deemed to represent a significant increase in credit risk and therefore the loss allowance for all loans is measured as the lifetime ECL.

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 Division

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 a reduction in the amount of cash flows due (principal and interest forgiveness). This is generally referred to as a rescheduled or deferred 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 the modification is considered substantial. 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 not considered substantial so that there is no 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.

2020 Coronavirus (COVID-19) pandemic impact on Branch-based lending and Guarantor Loans Division write-off policy

There was no change or impact of COVID-19 on the write off policy for both the branch-based lending and guarantor loans divisions in the year ended 31 December 2021.

During the year ended 31 December 2020, the Guarantor Loans Division temporarily amended their write-off policy to allow customers with emergency payment freezes additional time to recover their financial situation. Although these customer balances were greater than 180 days in arrears and not written-off, they have been fully provided for. There was no change to the branch-based lending division write off policy for the impacts of COVID-19 in the year ended 31 December 2020.

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.

2020 Coronavirus (COVID-19) pandemic impact on home credit write-off policy

There was no change or impact of COVID-19 on the write off policy for the home credit division in the year ended 31 December 2021.

During the year ended 31 December 2020, the home credit division temporarily amended their write-off policy to allow customers with emergency payment freezes additional time to recover their financial situation. Although these customer's balances were written-off, they had been fully provided for.

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.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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 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.

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 granted options under employee savings-related share option schemes (typically referred to as SAYE schemes) and made awards under the long-term incentive schemes in the prior years. 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 28 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.

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); and
- 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. Impairment of right-of-use assets is reviewed where circumstances indicate that the carrying value of an asset may not be fully recoverable. The entity did not use the practical expedient per IFRS 16 paragraph 46A rent concessions resulting from COVID-19.

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 2021.

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.

Prior year restatement
On 4 August 2015, the Group obtained control of SD Taylor Limited, trading as Loans at Home ('LAH') through the purchase of 100% of the share capital. The fair value of the identifiable assets of LAH as at the acquisition date included £0.73m in relation to accruals for a recognised dilapidations provision on the properties owned by LAH (refer note 23 of the Annual Report and Accounts for the Financial Year ended 2015). Through the review of the 2021 financial statements, it was determined that an error in the acquisition accounting relating to this item at the Group consolidation level resulted in an understatement of the trade and other payables balance since 2015 with retained earnings understated by the same amount. As this adjustment occurs at Consolidation level only, there is no impact on the results of the Group's three divisions in the current or prior years (Branch-based lending, Guarantor Loans, and Home Credit). A prior year adjustment has therefore been made and the effect of this is outlined below:

As at 1 Jan 2020	Previous opening Group balance sheet 1 Jan 2020 £000	Adjustment at consolidation level £000	**Restated opening balance sheet 1 Jan 2020 £000**
Liabilities			
Trade and Other payables	26,909	732	**27,641**
Equity			
Retained loss	(74,181)	(732)	**(74,913)**

As at 31 Dec 2020	Previous Closing Group balance sheet 31 Dec 2020 £000	Adjustment at consolidation level £000	**Restated closing balance sheet 31 Dec 2020 £000**
Liabilities			
Trade and Other payables	15,895	732	**16,627**
Equity			
Retained loss	(206,995)	(732)	**(207,727)**

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 estimates 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 for stage 2 assets 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.

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:

- 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 over the life of the loan.

Sensitivity analysis of amounts receivable from customers – key sources of estimation uncertainty:

Probability of default and loss given default

Branch-based lending

The calculation of ECL in branch-based lending uses historical data to forecast future cash flows, discounted at the receivable's EIR. A sensitivity run on collections performance shows that a 5% increase or decrease in expected cash collections would result in a £7.8m increase/decrease in provisions. The suitability of the 5% sensitivity run has been reviewed and considered appropriate based on historical performance.

Guarantor Loans Division

The calculation of ECL in the Guarantor Loans Division uses historical data to forecast future cash flows, discounted at the receivable's EIR. A sensitivity run on collections performance shows that a 10% increase or decrease in expected cash collections would result in a £2.7m increase/decrease in provisions and of this amount, those customers deemed COVID-19 impacted comprise £0.6m of the increase/decrease in provision. The suitability of the 10% sensitivity run has been reviewed and considered appropriate based on historical performance.

Home credit

The home credit 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. 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 -/+ £1.2m effectively changing the receivable valuation by 5%. The suitability of the 5% sensitivity run has been reviewed and considered appropriate based on historical performance.

Provisions for customer complaints and redress

Provisions for customer complaints are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Judgement is applied to determine whether the criteria for establishing and retaining a provision have been met. Provisions for customer redress are in respect of complaints where the outcome has not yet been determined. Judgement is applied to determine the quantum of such provisions, including making assumptions regarding the extent to which the complaints received may be upheld, average redress payments and related administrative costs. Past experience is used as a predictor of future expectations with management applying overlays where necessary depending on the nature and circumstances. The cost could differ from the Group's estimates and the assumptions underpinning them and could result in an increased provision being required. There is also uncertainty around the impact of proposed regulatory changes, claims management companies and customer activity.

The key assumptions in these calculations which involve management judgement and estimation relate primarily to the projected costs of existing complaints where it is considered likely that customer redress will be appropriate.

These key assumptions are:

- uphold rate percentage – the expected average uphold rate applied to existing complaint volumes where it is considered more likely than not that customer redress will be appropriate;
- average redress cost – the estimated compensation, inclusive of balance adjustments and cash payments, for upheld complaints included in the provision; and
- customer complaint volumes – the level of claims which would be due remediation in future based on recent experience of valid claims.

These assumptions remain subjective due to the uncertainty associated with future complaint volumes and the magnitude of redress which may be required. Complaint volumes may include complaints under review by the Financial Ombudsman Service, cases received from claims management companies or cases lodged directly by customers.

Branch-based lending
A 50% increase/decrease in customer complaints volumes would result in a £1.0m increase/decrease in provisions for the Group. a 50% increase/decrease in average claim redress would result in a £1.0m increase/decrease in provisions for the Group, and a 50% increase/decrease in upheld rate would result in a £1.0m increase/decrease in provisions for the Group.

Home credit
A 25% increase/decrease in customer complaints volumes would result in a £0.48m increase/decrease in provisions for the Group, a 25% increase/decrease in average claim redress would result in a £0.48m increase/decrease in provisions for the Group, and a 25% increase/decrease in upheld rate would result in a £0.48m increase decrease in provisions for the Group.

Guarantor Loans Division
A 50% increase/decrease in customer complaints volumes would result in a £0.48m increase/decrease in provisions for the Group, a 10% increase/decrease in average claim redress would result in a £0.48m increase/decrease in provisions for the Group, and a 50% increase/decrease in upheld rate would result in a £0.48m increase/decrease in provisions for the Group.

Part of the provision included in the statement of financial position relates to a provision recognised for the proposed programme of redress for customers of the Group's Guarantor Loans Division totalling £16.9m (2020: £15.4m). The provision represents an accounting estimate of the expected future outflows arising using information available as at the date of signing these financial statements. Identifying whether a present obligation exists and estimating the probability, timing, nature and quantum of the redress payments that may arise from past events requires judgements to be made on the specific facts and circumstances relating to individual customers. The operational mechanics of the redress programme have not yet been agreed with the FCA and therefore whilst the quantum of provision for redress represents the Directors' best estimate of the ultimate cost of the redress, including penalty interest, as at the reporting date, it is possible that the eventual outcome may differ, perhaps materially, from the current estimate. Therefore, although the Directors believe their best estimate represents a reasonably possible outcome; there is a risk of a less favourable outcome. Refer to note 24 for more detail regarding the customer redress provisions.

The ultimate redress amount will be subject to a manual case-by-case review of customers who have incomplete electronic records, therefore a 10% increase/decrease in estimated customers who fall under the criteria for redress as a result of this will result in £0.04m increase/decrease in redress provision

Going concern
Assumptions made in the base case as part of the Group's going concern assessment form a significant judgement of the Directors in the context of approving the Company's going concern status. Refer note 1 of the financial statements for further detail.

As described in note 1, the Group's home credit division was placed into administration on the 15 March 2022 and as a result, its financial results have been prepared on a basis other than going concern and included in the consolidated results of the Group as at 31 December 2021. Adjustments to balances at 31 December 2021 have been made in accordance with applicable IFRS.

3. 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 2021 £000	Year ended 31 Dec 2020 £000
Interest income	131,387	164,102
Fair value unwind on acquired loan portfolio[1]	-	(1,437)
Total revenue	**131,387**	162,665

1 In the prior year ended 31 December 2020, the fair value adjustment made to the acquired loan portfolio of the Guarantor Loans Division was fully unwound.

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

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Depreciation of property, plant and equipment (note 16)	**2,175**	1,941
Depreciation of right-of-use asset (note 17)	**2,878**	2,065
Amortisation and impairment of intangible assets (note 15)	**7,910**	3,556
Staff costs excluding agent commission[1] (note 9)	**42,690**	43,855
Rentals under operating leases	**728**	596
Profit/(loss) on sale of property, plant and equipment	**454**	54

1 Agent commission for the year ended 31 December 2021 was £9.5m (2020: £11.3m). Refer to note 1 for accounting policy.

5. Auditor's remuneration

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Audit services		
Fees payable to the Company's auditor for the audit of the Parent's annual financial statements	**132**	296
Fees payable to the Company's auditor and their associates for the audit of the subsidiaries of the Group	**487**	694
	619	990
Other services		
Audit related fees	**45**	220
Services relating to corporate finance transactions	-	-
Other	-	-
	45	220

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 70.

6. Segment information

Management has determined the operating segments by considering the financial and operational information that is reported internally to the chief operating decision-maker, the Board of Directors, by management. For management purposes, the Group is currently organised into four operating segments: 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	Home credit £000	Guarantor loans[1] £000	Central £000	2021 Total £000
Year ended 31 December 2021					
Interest income	79,940	38,401	13,046	-	**131,387**
Fair value unwind on acquired loan portfolio	-	-	-	-	-
Total revenue	**79,940**	**38,401**	**13,046**	**-**	**131,387**
Exceptional provision for customer redress[2]	-	-	(2,207)	-	**(2,207)**
Operating profit/(loss) before amortisation	**13,653**	**(2,204)**	**(272)**	**(4,085)**	**7,092**
Amortisation of intangible assets	-	-	-	-	-
Operating profit/(loss) before exceptional provision for customer redress	**13,653**	**(2,204)**	**(272)**	**(4,085)**	**7,092**
Other exceptional items[2]	-	(8,542)	(601)	(1,580)	**(10,723)**
Finance cost	(14,491)	(1,102)	(4,350)	(6,036)	**(25,979)**
Loss before taxation	**(838)**	**(11,848)**	**(5,223)**	**(11,701)**	**(29,610)**
Taxation	48	158	299	(580)	(75)
Loss for the year	**(790)**	**(11,690)**	**(4,924)**	**(12,281)**	**(29,685)**

	Branch-based lending £000	Home credit £000	Guarantor loans[1] £000	Central £000	Consolidation adjustments[3] £000	2021 Total £000
Total assets	188,068	26,929	26,763	286,258	(186,880)	**341,138**
Total liabilities	(220,927)	(20,777)	-	(325,421)	184,800	**(382,325)**
Net assets/(liabilities)	(32,859)	6,152	26,763	(39,163)	(2,080)	**(41,187)**
Capital expenditure	2,191	1,662	-	129	-	**3,982**
Depreciation of plant, property and equipment	1,585	578	-	12	-	**2,175**
Depreciation of right-of-use asset	1,338	1,420	-	120	-	**2,878**
Amortisation and impairment of intangible assets	797	7,091	-	23	-	**7,910**

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 £12.9m total exceptional items in 2021 (2020: £97.8m). Refer to note 7 for further details.*
3 *Consolidation adjustments include the acquisition intangibles of £nil (2020: £nil), goodwill of £nil (2020: £nil), fair value of loan book of £nil (2020: £nil) and the elimination of intra-Group balances.*

	Branch-based lending £000	Home credit £000	Guarantor loans £000	Central £000	2020 Total £000
Year ended 31 December 2020					
Interest income	89,788	43,834	30,480	-	**164,102**
Fair value unwind on acquired loan portfolio	-	-	(1,437)	-	**(1,437)**
Total revenue	89,788	43,834	29,043	-	**162,665**
Exceptional provision for customer redress	-	-	(15,401)	-	**(15,401)**
Operating profit/(loss) before amortisation	13,419	(2,509)	(28,565)	(5,499)	**(23,154)**
Amortisation of intangible assets	-			(1,298)	**(1,298)**
Operating profit/(loss) before exceptional items	13,419	(2,509)	(28,565)	(6,797)	**(24,452)**
Other exceptional items	(6,017)	-	-	(76,416)	**(82,433)**
Finance cost	(18,594)	(1,228)	(7,467)	(1,547)	**(28,836)**
Profit/(loss) before taxation	(11,192)	(3,737)	(36,032)	(84,760)	**(135,721)**
Taxation	-	-	-	164	**164**
Profit/(loss) for the year	(11,192)	(3,737)	(36,032)	(84,596)	**(135,557)**

	Branch-based lending £000	Home credit £000	Guarantor loans £000	Central £000	Consolidation Adjustments restated £000	2020 Restated Total £000
Total assets	220,702	38,745	59,794	391,597	(346,458)	364,380
Total liabilities	(271,981)	(19,021)	-	(332,946)	248,032	(375,916)
Net assets	(51,279)	19,724	59,794	58,651	(98,426)	(11,536)
Capital expenditure	4,070	2,467	-	-	-	6,537
Depreciation of plant, property and equipment	1,643	261	-	37	-	1,941
Depreciation of right-of-use asset	1,321	615	-	129	-	2,065
Amortisation and impairment of intangible assets	571	1,665	-	1,320	-	3,556

The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

7. Exceptional items

During the year ended 31 December 2021, the Group incurred exceptional costs totalling £12.9m (including VAT) (2020: £97.8m). Exceptional items during the current year comprised:

- £1.6m advisory fees incurred (Equity related fees are treated as non-deductible for tax purposes),
- £2.2m additional interest costs accrued in relation to the guarantor loans redress program;
- £0.6m relating to the guarantor loans redundancies arising as a result of the Group's announcement on 30 June 2021 to place the division into managed run-off; and
- £8.5m (2020: £nil) in relation to the write-down of assets and the recognition of liabilities in the home credit division as a result of the business being placed into administration on 15 March 2022 and its financial statements no longer being prepared on a going concern basis.

In the prior year, the Group incurred £97.8m of exceptional costs that comprised: £47.1m write-down of the value of goodwill associated with Everyday Loans, £27.7m write-down of the value of goodwill associated with Loans at Home, £15.4m provision relating to the guarantor loans redress programme ; £5.8m fees written-off in relation to the Group's securitisation facility, equity related advisory fees of £1.4m and restructuring costs at branch-based lending of £0.4m.

8. Directors' remuneration

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Short-term employee benefits	**985**	937
Post-employment benefits	**53**	59
Termination benefits	**–**	–

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.

John Van Kuffeler resigned as Director on 31 August 2021. Nick Teunon resigned as Director in the prior year on 30 April 2020. Toby Westcott joined as Director on 1 October 2020. Refer to the Directors' remuneration report for more detail.

9. Employee information

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

Average number of employees (including Directors)	**Year ended 31 Dec 2021 Number**	Year ended 31 Dec 2020 Number
Branch-based lending staff	**464**	499
Guarantor loans staff	**76**	122
Home credit staff	**299**	305
Central staff	**9**	9
	848	935

b)Employment costs

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Wages and salaries	**36,051**	36,501
Share-based payment charge	**34**	1,142
Social security costs	**3,988**	3,862
Pension costs	**2,617**	2,349
	42,690	43,854

10. Finance costs

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Bank charges and interest payable	(24,996)	(27,798)
Lease finance costs under IFRS 16	(983)	(1,038)
Finance cost	**(25,979)**	(28,836)

11. Loss per share

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
Retained loss attributable to Ordinary Shareholders (£000)	**(29,685)**	(135,557)
Weighted average number of Ordinary Shares at year ended 31 December	**312,437,422**	312,437,422
Basic and diluted loss per share (pence)	**(9.50)p**	(43.39)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 any share options would reduce the loss per share and is anti-dilutive. At 31 December 2021, nil shares were held as options and nil shares were held in treasury (2020: nil).

	Year ended 31 Dec 2021 000s	Year ended 31 Dec 2020 000s
Weighted average number of potential Ordinary Shares that are not currently dilutive	**339**	6,272

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 average number of shares over the year that would have been issued if 31 December 2021 was the end of the contingency period.

12. Taxation

As at the 31 December 2021, the Group has continued not to recognise a deferred tax asset on its current year losses. Deferred tax assets not recognised in current and prior year losses as at 31 December 2021 totalled £21.8m (2020: £11.3m unrecognised deferred tax asset).

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Current tax charge		
Current tax	-	-
Prior period adjustment to current tax[1]	**75**	(1,841)
Total current tax charge	**75**	(1,841)
Deferred tax charge[2]	-	1,677
Prior period adjustment to deferred tax[1]	-	-
Total tax (credit)/charge	**75**	(164)

1 2020 prior period adjustments primarily represent the benefit of claiming deductions for the costs related to the guarantor loan redress provision for which no tax deduction was assumed in the 2019 year (refer to note 24 for further detail).

2 Unrecognised deferred tax assets arising from tax losses in the current year were £5.0m (2020: £8.4m).

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 2021 £000	Year ended 31 Dec 2020 £000
Loss before taxation	**(29,610)**	(135,721)
Tax on loss on ordinary activities at standard rate of UK corporation tax of 19% (2020: 19%):	**(5,626)**	(25,787)
Effects of:		
Fixed asset differences	**114**	100
Expenses not allowable for taxation	**456**	17,222
Share-based payments	**7**	44
IFRS 16 adjustments	-	(23)
Prior year adjustments	**75**	-
Adjustment to tax charge in respect of previous periods	-	(2,168)
Adjustment to tax charge in respect of previous periods – deferred tax	-	-
Corporation tax rate change	-	-
Deferred tax rate change	-	79
Reversal of prior year deferred tax asset	-	2,021
Deferred tax assets not recognised on current year losses	**5,049**	8,348
Total tax (credit)/charge	**75**	(164)

Certain exceptional items and costs related to the Group's Save As You Earn ('SAYE') and long-term incentive plans are included within expenses not allowable for taxation' due the nature of these transactions. These include the £nil (2020: £75.5m) write-down of the value of goodwill associated with Loans at Home and Everyday Loans, as well as the write-down of the value of intangibles at Everyday Loans. Long-term incentive plan items disallowed relates to set-up costs and the fair value of the schemes at the date of grant totalling £nil (2020: £0.7m) and £1.6m of equity related advisory fees (2020: £1.6m).

The Finance Bill 2021 had its third reading on 24 May 2021 and is now considered substantively enacted. This will have a consequential effect on the Group's future tax charge and means that the 25% main rate of corporation tax and marginal relief will be relevant for any asset sales or timing differences expected to reverse on or after 1 April 2023.

13. Dividends

As a result of the significant reported losses in 2020 and 2021, the Company does not have any distributable reserves and is therefore not in a position to declare a final dividend. As part of any future capital raise, 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.

As reported in the Interim Results to 30 June 2021, the Group did not declare a half-year dividend during the first half of 2021 (2020: nil).

14. Goodwill – Group

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Gross carrying amount	**140,668**	140,668
Accumulated impairment	**(140,668)**	(65,836)
Impairment charge	-	(74,832)
Net carrying amount	-	–

The goodwill recognised in prior years 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 2021 was £nil (2020: £nil).

Under IFRS 13, 'Fair Value Measurement', the fair value inputs used in the goodwill impairment assessment are classified as Level 3.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Determining whether goodwill is impaired requires an estimation of the recoverable amount of each Cash Generating Unit ('CGU'). The recoverable amount is the higher of its fair value ('FV') less cost to sell or its Value in Use ('VIU').

During the prior year ended 31 December 2020, the Group wrote off all its remaining goodwill balance of £74.8m. Detail regarding this impairment is described below.

Impairment of goodwill during the prior year ended 31 December 2020:

Fair value ('FV') less cost to sell

The calculation to determine the fair value less cost to sell for each Cash Generating Unit ('CGU') in the 2020 financial year used forecast earnings for the year ended 31 December 2020, multiplied by the 30 June 2020 Price Earnings ('PE') multiple for comparable companies. Earnings represent profit after tax before fair value adjustments, amortisation of intangibles and exceptional items. Disposal costs were estimated at 2%. As part of this assessment, we applied PE multiples to forecast 2020 profit after tax in order to determine management's best estimate of the fair value to be attributed to each of the CGUs.

Value in use

The calculation to determine recoverable amount based on VIU for the 2020 financial year used 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 were then discounted at a discount rate appropriate to the CGU to produce a VIU to the Group.

Loans at Home goodwill assessment

During the prior year ended 31 December 2020, the Group utilised the actual 30 June 2020 PE multiple of comparable companies, along with 2020 forecast profit after tax to determine recoverable amount. The result was a FV less cost to sell below the carrying value of the CGU as at 30 June 2020. Management also ran a VIU calculation to determine recoverable value. Assuming a nil growth into perpetuity resulted in a VIU which, whilst higher than the FV less cost to sell calculated for Loans at Home, remained below the carrying value of the LAH CGU. The impact of COVID-19 on the profitability of the CGU in the 2020 financial year along with the significant decline in peer group PE multiples (driven by uncertainties in the economic, market and regulatory environment) meant that on the basis of the analysis above, the Group concluded to impair the entire goodwill asset attributable to the LAH CGU as at 30 June 2020 totalling £27.7m.
This reduced the Loans at Home goodwill asset to £nil as at 30 June 2020.

No further assessment was conducted in the current year ended 31 December 2021 given the reversal of an impairment loss for goodwill is not permitted.

Everyday Loans goodwill assessment

During the prior year ended 31 December 2020, the Group performed a FV less cost to sell for the Everyday Loans CGU using actual PE multiples as at 30 June 2020 and 2020 forecast profits. Given the unique circumstances of COVID-19 on 2020 performance, along with the significant decline in peer group PE multiples since 31 December 2019 driven by uncertainties in the economic, market and regulatory environment, the Group calculated the FV less costs to sell to be below the carrying value, therefore indicating an impairment to the remaining goodwill value held on the balance sheet. A VIU base case forecast was used to ascertain whether or not the VIU of the CGU was greater or less than the FV less cost to sell. Assuming a nil growth into perpetuity, the VIU of the CGU was below the FV less costs to sell, and therefore it was appropriate to impair the entire goodwill asset attributable to the Everyday Loans CGU as at 30 June 2020 totalling £47.1m. This reduced the Everyday Loans goodwill asset to £nil.

No further assessment has been conducted on the goodwill in the current year ended 31 December 2021 given the reversal of an impairment loss for goodwill is not permitted.

15. Intangible assets – Group

	Customer lists £000	Agent network £000	Brands £000	Broker relationships £000	Technology £000	LAH IT software development £000	Software £000	**Total £000**
Cost								
At 1 January 2021	21,924	540	2,005	9,151	6,227	10,401	5,600	**55,848**
Reclassification in current year	-	-	-	-	-	(65)	(18)	**(83)**
Additions	-	-	-	-	-	1,169	1,345	**2,514**
Disposals	-	-	-	-	-	-	1	**1**
At 31 December 2021	**21,924**	**540**	**2,005**	**9,151**	**6,227**	**11,505**	**6,928**	**58,280**
Amortisation								
At 1 January 2021	21,924	540	2,005	9,151	6,227	4,445	3,319	**47,611**
Reclassification in current year	-	-	-	-	-	-	(10)	**(10)**
Charge for the year[1]	-	-	-	-	-	7,060	850	**7,910**
Disposals	-	-	-	-	-	-	(3)	**(3)**
At 31 December 2021	**21,924**	**540**	**2,005**	**9,151**	**6,227**	**11,505**	**4,156**	**55,508**
Net book value								
At 31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**2,772**	**2,772**
At 31 December 2020	-	-	-	-	-	5,956	2,281	8,237

1 *The Group's home credit division was placed into administration on 15 March 2022, As a result, the charge for the year includes £5.2m relating to the write down of assets to the amounts expected to be realised. Refer to note 1 for further detail.*

	Customer lists £000	Agent network £000	Brands £000	Broker relationships £000	Technology £000	LAH IT software development £000	Software £000	Total £000
Cost								
At 1 January 2020	21,924	540	2,005	9,151	6,227	8,408	4,372	52,627
Additions	-	-	-	-	-	1,993	1,228	3,221
At 31 December 2020	21,924	540	2,005	9,151	6,227	10,401	5,600	55,848
Amortisation								
At 1 January 2020	21,545	540	1,605	9,151	5,709	2,798	2,707	44,055
Charge for the year	175	-	185	-	239	1,647	612	2,858
Impairment[1]	204	-	215	-	279	-	-	698
At 31 December 2020	21,924	540	2,005	9,151	6,227	4,445	3,319	47,611
Net book value								
At 31 December 2020	-	-	-	-	-	5,956	2,281	8,237
At 31 December 2019	379	-	400	-	518	5,610	1,665	8,572

1 *Impairment of acquisition intangibles were assessed as part of the goodwill assessment in 2020, refer to note 14 for further detail.*

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 2021:

Intangible asset	**Carrying value as at 31 Dec 2021 £000**	Carrying value as at 31 Dec 2020 £000	Amortisation period remaining years and months
Loans at Home IT software development	**-**	5,956	3 years
Software	**2,772**	2,281	3 to 5 years

Intangible assets – Company

	Software £000	**Total £000**
Cost		
At 1 January 2021	115	**115**
Additions	-	**-**
At 31 December 2021	**115**	**115**
Depreciation		
At 1 January 2021	63	**63**
Charge for the year	23	**23**
At 31 December 2021	**86**	**86**
Net book value		
At 31 December 2021	**29**	**29**
At 31 December 2020	**52**	**52**

	Software £000	Total £000
Cost		
At 1 January 2020	115	**115**
Additions	-	**-**
At 31 December 2020	115	**115**
Depreciation		
At 1 January 2020	40	**40**
Charge for the year	23	**23**
At 31 December 2020	63	**63**
Net book value		
At 31 December 2020	52	**52**
At 31 December 2019	75	**75**

16. Property, plant and equipment – Group

	Leasehold improvements £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	**Total £000**
Cost					
At 1 January 2021	6,781	2,315	7	3,574	**12,677**
Reclassification in current year	(8)	(438)	-	645	**199**
Additions	135	45	-	81	**261**
Disposals	(209)	(105)	(183)	(1,899)	**(2,396)**
At 31 December 2021	**6,699**	**1,817**	**(176)**	**2,401**	**10,741**
Depreciation					
At 1 January 2021	2,960	854	(88)	2,673	**6,400**
Reclassification in current year	-	(55)	-	180	**125**
Charge for the year[1]	927	317	60	871	**2,175**
Disposals	(90)	(46)	(153)	(1,594)	**(1,883)**
At 31 December 2021	**3,797**	**1,070**	**(181)**	**2,130**	**6,816**
Net book value					
At 31 December 2021	**2,902**	**747**	**5**	**271**	**3,925**
At 31 December 2020	3,821	1,461	94	901	6,277

1 *The Group's home credit division was placed into administration on 15 March 2022, As a result, the charge for the year includes £0.4m relating to the write down of assets to the amounts expected to be realised. Refer to note 1 for further detail.*

	Leasehold improvements £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost					
At 1 January 2020	6,198	2,142	81	2,935	11,356
Additions	815	173	-	739	1,727
Disposals	(232)	-	(74)	(100)	(406)
At 31 December 2020	6,781	2,315	7	3,574	12,677
Depreciation					
At 1 January 2020	2,210	669	(58)	1,980	4,801
Charge for the year	938	185	33	785	1,941
Disposals	(187)	-	(63)	(92)	(342)
At 31 December 2020	2,960	854	(88)	2,673	6,400
Net book value					
At 31 December 2020	3,821	1,461	94	901	6,277
At 31 December 2019	3,988	1,473	139	956	6,556

Property, plant and equipment – Company

	Leasehold improvements £000	Fixtures and fittings £000	Motor vehicles £000	**Total £000**
Cost				
At 1 January 2021	110	80	55	**245**
Additions	-	1	-	**1**
Disposals	-	(4)	-	**(4)**
At 31 December 2021	**110**	**77**	**55**	**242**
Depreciation				
At 1 January 2021	103	74	55	**232**
Charge for the year	7	5	-	**12**
Disposals	-	(3)	-	**(3)**
At 31 December 2021	**110**	**76**	**55**	**241**
Net book value				
At 31 December 2021	**-**	**1**	**-**	**1**
At 31 December 2020	7	6	-	**13**

	Leasehold improvements £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2020	110	80	55	245
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2020	110	80	55	245
Depreciation				
At 1 January 2020	81	58	55	194
Charge for the year	22	16	-	38
Disposals	-	-	-	-
At 31 December 2020	103	74	55	232
Net book value				
At 31 December 2020	7	6	-	13
At 31 December 2019	29	22	-	51

17. Right-of-use ('ROU') asset – Group

	ROU Buildings £000	ROU Vehicles £000	**Total £000**
Cost			
At 1 January 2021	17,188	814	**18,002**
Additions	1,208	-	**1,208**
Disposals	(1,022)	-	**(1,022)**
At 31 December 2021	**17,374**	**814**	**18,188**
Depreciation			
At 1 January 2021	7,338	585	**7,923**
Charge for the year[1]	2,649	229	**2,878**
Disposals	(490)	-	**(490)**
At 31 December 2021	**9,497**	**814**	**10,311**
Net book value			
At 31 December 2021	**7,877**	**-**	**7,877**
At 31 December 2020	9,850	229	10,079

1 *The Group's home credit division was placed into administration on 15 March 2022, As a result, the charge for the year includes £0.9m relating to the write down of assets to the amounts expected to be realised. Refer to note 1 for further detail.*

	ROU Buildings £000	ROU Vehicles £000	Total £000
Cost			
At 1 January 2020	15,860	814	16,674
Additions	1,589	-	1,589
Disposals	(261)	-	(261)
At 31 December 2020	17,188	814	18,002
Depreciation			
At 1 January 2020	5,727	386	6,113
Charge for the year	1,866	199	2,065
Disposals	(255)	-	(255)
At 31 December 2020	7,338	585	7,923
Net book value			
At 31 December 2020	9,850	229	10,079
At 31 December 2019	10,133	428	10,560

Right-of-use ('ROU') *asset – Company*

	ROU Buildings £000	**Total £000**
Cost		
At 1 January 2021	647	**647**
Additions	128	**128**
Disposals	-	**-**
At 31 December 2021	**775**	**775**
Depreciation		
At 1 January 2021	615	**615**
Charge for the year	120	**120**
Disposals	-	**-**
At 31 December 2021	**735**	**735**
Net book value		
At 31 December 2021	**40**	**40**
At 31 December 2020	32	32

	ROU Buildings £000	Total £000
Cost		
At 1 January 2020	647	647
Additions	-	-
Disposals	-	-
At 31 December 2020	647	647
Depreciation		
At 1 January 2020	485	485
Charge for the year	130	130
Disposals	-	-
At 31 December 2020	615	615
Net book value		
At 31 December 2020	32	32
At 31 December 2019	162	162

Total cash outflows for leases for the year ended 31 December 2021 was £2.7m (2020: £2.8m).

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. On 15 March 2022, the Group's home credit division (trading as 'Loans at Home') was placed into administration (refer note 34 for further detail) and as a result the ROU assets for the division were fully impaired as at 31 December 2021. For the remainder of the Group's ROU assets, the carrying amount remains above the recoverable amount of ROU assets and no impairment has occurred in the year ended 31 December 2021.

18. 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)[2]	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]	Unit 26/27 Rear Walled Garden, The Nostell Business Estate, Wakefield, West Yorkshire, United Kingdom, WF4 1AB.	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

Name of company	Principal place of business and country of incorporation	Nature of business	% voting rights and shares held
George Banco Limited	Epsom Court 1st Floor, Epsom Road, White Horse Business Park, Trowbridge, England, BA14 0XF, United Kingdom	Holding company	100% of Ordinary Shares
George Banco.com Limited	As above	Holds legal title to bank account in its name on behalf of Everyday Lending Limited	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.*

2 *S.D. Taylor was placed into administration on 15 March 2022, refer to note 34 for further detail.*

Investment in subsidiaries – Company

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Gross investment in subsidiaries	**212,591**	212,591
Accumulated share-based payment	**906**	620
Accumulated impairment	**(213,497)**	(117,525)
Current year impairment charge	**-**	(95,972)
Current year share-based payment charge	**-**	1,070
Current year share-based payment vesting	**-**	(784)
Net investment carrying amount[1]	**-**	-

1 *Whilst the investment balance has been written down to nil in the prior year, in line with IAS 36, recoverable amount has been assessed against the combined total of the investment balance and amounts due from subsidiaries which arose from the historical acquisitions of Loans at Home and Everyday Loans in 2015 and 2016 respectively. Refer to note 21 for details regarding amounts due from subsidiaries.*

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 value in use ('VIU') or its fair value ('FV') less cost to sell.

For the current year ended 31 December 2021, the Group has assessed the carrying value of the investments and intercompany receivables on acquisition against the net asset value of the underlying cash generating units ('CGU') and their recoverable amounts in the current year (refer to footnote 1 above). The calculation to determine the FV less cost to sell for investments uses actual and forecast earnings and carrying values as at 31 December 2021, 2022 and 2023 multiplied by the 31 December 2021 actual and 2022-2023 forecast PE and PB multiples for comparable companies. Earnings represents profit after tax before fair value adjustments, amortisation of intangibles and exceptional items. Disposal costs have been estimated at 2%. The VIU calculation uses cash flows derived from earnings projections for the years ended 31 December 2022 to 2025, together with a terminal value based on the cash flow forecast for 2025 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. The Directors have estimated the discount rate using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the market. The Group noted the net asset value of the CGU and its recoverable value remained below carrying amount of the combined investments and intercompany receivables on acquisition and therefore additional impairment was recognised on the amounts due from subsidiaries (refer note 21) to the net asset value of the CGU with no reversal of impairment on investments recognised.

In the year ended 31 December 2020, the Company recognised an impairment loss in its investment in subsidiaries totalling £96m. This impairment was consistent with the £47.1m impairment to Everyday Loans goodwill and £27.7m impairment to the Loans at Home goodwill and £0.7m write-off of intangible assets recognised in the Group in the year ended 31 December 2020 (refer to note 14). The impairment losses recognised were as a result of the significant declines in the PE multiples of comparator companies in the non-standard finance market, increased uncertainty in the macroeconomic and regulatory environment and the significant impact of COVID-19 on future profitability and cash flow forecasts.

The £96m impairment of the Company's investment in the prior year was calculated as the difference between the recoverable amounts and the carrying value of the investments and intercompany receivables on acquisition (refer to footnote 1 above). Recoverable amount was calculated as the higher of FV less cost to sell and value in use. The calculation to determine the FV less cost to sell for investments used actual and forecast earnings and carrying values as at 31 December 2020, 2021 and 2022 multiplied by the 31 December 2020 actual and 2021-2022 forecast PE and PB multiples for comparable companies. Earnings represented profit after tax before fair value adjustments, amortisation of intangibles and exceptional items. Disposal costs have been estimated at 2%. The VIU calculation used cash flows derived from earnings projections for the years ended 31 December 2021 to 2024, together with a terminal value based on the cash flow forecast for 2024 at a perpetuity growth rate. The resulting cash flow forecasts were then discounted at a discount rate appropriate to the CGU to produce a VIU to the Group. The Directors estimated the discount rate using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the market.

19. Amounts receivable from customers – Group

	2021 £000	2020 £000
Gross carrying amount	**265,021**	320,942
Loan loss provision	**(57,037)**	(62,741)
Amounts receivable from customers	**207,984**	258,201

The movement on the loan loss provision for the period relates to the provision at the branch-based lending, guarantor loans and home credit divisions for the year.

Included within the gross carrying amount above are unamortised broker commissions, see table below:

	2021 £000	2020 £00
Unamortised broker commissions	**6,653**	9,231
Total unamortised broker commissions	**6,653**	9,231

The fair value of amounts receivable from customers are:

	2021 £000	2020 £00
Branch-based lending	**208,440**	284,911
Home credit	**36,368**	44,006
Guarantor loans[1]	**31,366**	105,100
Fair value of amounts receivable from customers	**276,174**	434,017

1 Includes amounts receivable from customers which have been provided for as part of the guarantor loans redress programme, refer to note 24 for further detail.

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 fair value 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:	2021 £000	2020 £00
Due within one year	**109,148**	134,073
Due in more than one year	**98,836**	124,128
Amounts receivable from customers	**207,984**	258,201

Analysis of receivables from customers

31 December 2021	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Branch-based lending	141,979	33,723	7,138	182,840
Home credit	-	32,162	12,975	45,137
Guarantor loans	-	30,768	6,276	37,044
Gross carrying amount	**141,979**	**96,653**	**26,389**	**265,021**
Branch-based lending	(6,831)	(13,347)	(5,481)	(25,659)
Home credit	-	(9,186)	(11,911)	(21,097)
Guarantor loans	-	(5,965)	(4,316)	(10,281)
Loan loss provision	**(6,831)**	**(28,498)**	**(21,708)**	**(57,037)**
Branch-based lending	135,148	20,376	1,657	157,181
Home credit	-	22,976	1,064	24,040
Guarantor loans	-	24,803	1,960	26,763
Net amounts receivable	**135,148**	**68,155**	**4,681**	**207,984**

31 December 2020	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Branch-based lending	140,418	39,472	5,772	185,662
Home credit	23,537	12,316	17,883	53,736
Guarantor loans	34,566	25,831	21,147	81,544
Gross carrying amount	198,521	77,619	44,802	320,942
Branch-based lending	(6,011)	(3,095)	(5,096)	(14,202)
Home credit	(1,876)	(8,124)	(16,789)	(26,789)
Guarantor loans	(1,366)	(5,864)	(14,520)	(21,750)
Loan loss provision	(9,253)	(17,083)	(36,405)	(62,741)
Branch-based lending	134,407	36,377	676	171,460
Home credit	21,661	4,192	1,094	26,947
Guarantor loans	33,200	19,967	6,627	59,794
Net amounts receivable	189,268	60,536	8,397	258,201

Analysis of 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 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 2021

Branch-based lending

Loan loss provision	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**Total £000**
Loan loss provision as at 1 January 2021:	6,011	3,095	5,096	14,202
Changes in the loss provision attributable to:				
New receivables originated or purchased	11,359	-	-	11,359
– Transfers from stage 1 to 2	(4,947)	4,947	-	-
– Transfers from stage 1 to 3	(2,937)	-	2,937	-
– Transfers from stage 2 to 1	(100)	100	-	-
– Transfers from stage 2 to 3	-	(289)	289	-
– Transfers from stage 3 to 1	30	-	(30)	-
– Transfers from stage 3 to 2	-	669	(669)	-
– Write-offs	1,747	376	(22,779)	(20,656)
Net remeasurement of ECL arising from transfer of stage	538	5,702	24,925	31,165
Change in ECL resulting from repayment of loans	(4,870)	(1,253)	(4,288)	(10,411)
Loan loss provision as at 31 December 2021	**6,831**	**13,347**	**5,481**	**25,659**

Home credit

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2021	1,876	8,124	16,789	26,789
Changes in the loss provision attributable to:				
New receivables originated or purchased	10,538	135	5	10,678
– Transfers from stage 1 to 2	(6,973)	6,973	-	-
– Transfers from stage 1 to 3	(7,840)	-	7,840	-
– Transfers from stage 2 to 1	28	(28)	-	-
– Transfers from stage 2 to 3	-	(2,563)	2,563	-
– Transfers from stage 3 to 2	-	9	(9)	-
– Transfers from stage 3 to 1	3	-	(3)	-
– Write-offs	-	-	(13,482)	(13,482)
Net remeasurement of ECL arising from change in credit risk	2,368	(3,464)	(1,792)	(2,888)
Loan loss provision as at 31 December 2021	**-**	**9,186**	**11,911**	**21,097**

Guarantor loans

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2021:	1,366	5,864	14,520	21,750
Changes in the loss provision attributable to:				
New receivables originated or purchased	28	-	-	28
– Transfers from stage 1 to 2	(1,119)	1,119	-	-
– Transfers from stage 1 to 3	(111)	-	111	-
– Transfers from stage 2 to 1	-	-	-	-
– Transfers from stage 2 to 3	-	(967)	967	-
– Transfers from stage 3 to 1	-	-	-	-
– Transfers from stage 3 to 2	-	1,879	(1,879)	-
– Write-offs	331	(26)	(11,199)	(10,894)
Net remeasurement of ECL arising from change in credit risk	-	788	12,192	12,980
Change in ECL resulting from repayment of loans	(495)	(2,692)	(10,396)	(13,583)
Loan loss provision as at 31 December 2021	**-**	**5,965**	**4,316**	**10,281**

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 2021	140,418	39,472	5,772	185,662
Changes in the gross carrying amount attributable to:		-	-	
New receivables originated or purchased	99,043	-	-	99,043
– Transfers from stage 1 to 2	(27,748)	27,748	-	-
– Transfers from stage 1 to 3	(7,031)	-	7,031	-
– Transfers from stage 2 to 1	12,883	(12,883)	-	-
– Transfers from stage 2 to 3	-	(2,061)	2,061	-
– Transfers from stage 3 to 1	301	-	(301)	-
– Transfers from stage 3 to 2	-	1,129	(1,129)	-
– Write-offs	410	849	(25,718)	(24,459)
Changes due to modification that did not result in derecognition	(93)	(835)	(842)	(1,770)
Net repayments of loans	(76,598)	(23,778)	18,552	(81,824)
Other movements	-	-	-	-
Derecognition of modified loans	394	4,082	1,712	6,188
Gross carrying amount as at 31 December 2021	**141,979**	**33,723**	**7,138**	**182,840**

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 2021	23,537	12,316	17,883	53,736
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	51,317	394	16	51,727
– Transfers from stage 1 to 2	(29,096)	29,096		-
– Transfers from stage 1 to 3	(8,975)		8,975	-
– Transfers from stage 2 to 1	211	(211)		-
– Transfers from stage 2 to 3		(3,260)	3,260	-
– Transfers from stage 3 to 2		17	(17)	-
– Transfers from stage 3 to 1	14		(14)	-
– Write-offs	-	-	(15,347)	(15,347)
Net repayments of loans	(37,008)	(6,190)	(1,781)	(44,979)
Gross carrying amount as at 31 December 2021	**-**	**32,162**	**12,975**	**45,137**

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 2021	34,566	25,831	21,147	81,544
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	112	-	-	112
– Transfers from stage 1 to 2	(24,849)	24,849	-	-
– Transfers from stage 1 to 3	(1,426)	-	1,426	-
– Transfers from stage 2 to 1	-	-	-	-
– Transfers from stage 2 to 3	-	(2,666)	2,666	-
– Transfers from stage 3 to 1	-	-	-	-
– Transfers from stage 3 to 2	-	5,256	(5,256)	-
– Write-offs	105	(82)	(17,750)	(17,727)
Changes due to modification that did not result in derecognition	-	(1,085)	(1,624)	(2,709)
Net repayments of loans	(8,508)	(21,464)	5,139	(24,833)
Other movements	-	-	-	-
Derecognition of modified loans	-	129	528	657
Gross carrying amount as at 31 December 2021	**-**	**30,768**	**6,276**	**37,044**

For the year ended 31 December 2020

Branch-based lending

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2020:	8,050	5,205	3,592	16,848
Changes in the loss provision attributable to:				
New receivables originated or purchased	5,899	-	-	5,899
– Transfers from stage 1 to 2	(481)	481	-	-
– Transfers from stage 1 to 3	(1,996)	–	1,996	-
– Transfers from stage 2 to 1	70	(70)	-	-
– Transfers from stage 2 to 3	-	(530)	530	-
– Transfers from stage 3 to 1	22	-	(22)	-
– Transfers from stage 3 to 2	–	24	(24)	-
– Write-offs	(2,961)	(1,207)	(9,025)	(13,193)
Net remeasurement of ECL arising from transfer of stage	(46)	2,031	11,152	13,137
Change in ECL resulting from repayment of loans	(2,547)	(2,839)	(3,103)	(8,489)
Loan loss provision as at 31 December 2020	6,011	3,095	5,096	14,202

Home credit

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2020	1,844	11,115	13,425	26,384
Changes in the loss provision attributable to:				
New receivables originated or purchased	8,077	152	4	8,233
– Transfers from stage 1 to 2	(5,102)	5,102	-	-
– Transfers from stage 1 to 3	(9,339)	–	9,339	-
– Transfers from stage 2 to 1	54	(54)	–	-
– Transfers from stage 2 to 3	-	(5,374)	5,374	-
– Transfers from stage 3 to 2	-	9	(9)	-
– Transfers from stage 3 to 1	3	-	(3)	-
– Write-offs	-	-	(10,089)	(10,089)
Net remeasurement of ECL arising from change in credit risk	6,339	(2,826)	(1,252)	2,261
Loan loss provision as at 31 December 2020	1,876	8,124	16,789	26,789

Guarantor loans

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2020	2,110	2,392	1,468	5,970
Changes in the loss provision attributable to:				
New receivables originated or purchased	3,872	-	-	3,872
– Transfers from stage 1 to 2	(2,290)	2,290	-	-
– Transfers from stage 1 to 3	(2,297)	–	2,297	-
– Transfers from stage 2 to 1	81	(81)	–	-
– Transfers from stage 2 to 3	-	(742)	742	-
– Transfers from stage 3 to 1	9	-	(9)	-
– Transfers from stage 3 to 2	–	11	(11)	-
– Write-offs	(108)	(19)	(1,919)	(2,046)
Net remeasurement of ECL arising from transfer of stage	(17)	2,976	12,996	15,955
Change in ECL resulting from repayment of loans	6	(963)	(1,044)	(2,001)
Loan loss provision as at 31 December 2020	1,366	5,864	14,520	21,750

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 2020	196,140	26,839	8,651	231,631
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	86,448	-	-	86,448
– Transfers from stage 1 to 2	(42,807)	42,807	-	-
– Transfers from stage 1 to 3	(8,514)	-	8,514	-
– Transfers from stage 2 to 1	19,898	(19,898)	-	-
– Transfers from stage 2 to 3	-	(3,220)	3,220	-
– Transfers from stage 3 to 2	-	2,169	(2,169)	-
– Transfers from stage 3 to 1	6,201	-	(6,201)	-
– Write-offs	(2,961)	(1,207)	(37,703)	(41,871)
Changes due to modification that did not result in derecognition	(125)	(1,243)	(919)	(2,287)
Net repayments of loans	(113,898)	(5,627)	32,135	(87,390)
Other movements	-	-	-	-
Derecognition of modified loans	36	(1,148)	244	(868)
Gross carrying amount as at 31 December 2020	140,418	39,472	5,772	185,662

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 2020	35,472	16,442	14,375	66,288
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	44,964	427	12	45,403
– Transfers from stage 1 to 2	(8,045)	8,045	-	-
– Transfers from stage 1 to 3	(10,514)	–	10,514	-
– Transfers from stage 2 to 1	294	(294)	–	-
– Transfers from stage 2 to 3	-	(6,201)	6,201	-
– Transfers from stage 3 to 2	-	16	(16)	-
– Transfers from stage 3 to 1	12	-	(12)	-
– Write-offs	-	-	(12,017)	(12,017)
Net repayments of loans	(38,646)	(6,119)	(1,174)	(45,938)
Gross carrying amount as at 31 December 2020	23,537	12,316	17,883	53,736

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 2020	99,449	9,993	3,488	112,930
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	14,334	-	-	14,334
– Transfers from stage 1 to 2	(27,377)	27,377	-	-
– Transfers from stage 1 to 3	(19,859)	–	19,859	-
– Transfers from stage 2 to 1	1,746	(1,746)	–	-
– Transfers from stage 2 to 3	-	(3,202)	3,202	-
– Transfers from stage 3 to 2	-	374	(374)	-
– Transfers from stage 3 to 1	793	-	(793)	-
– Write-offs	(109)	(20)	(7,209)	(7,338)
Changes due to modification that did not result in derecognition	(185)	(768)	(3,169)	(4,122)
Net repayments of loans	(32,964)	(6,668)	6,074	(33,558)
Other movements	(1,266)	(127)	(44)	(1,437)
Derecognition of modified loans	4	618	113	735
Gross carrying amount as at 31 December 2020	34,566	25,831	21,147	81,544

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 £10.9m (2020: £10.1m) were subject to non-substantial modification during the year with a resulting loss of £4.4m (2020: £3.7m). The gross carrying amount of financial assets for which the loss allowance has changed to a 12 month ECL during the year amounts to £0.003m (2020: £0.98m)

Modification losses summary

	2021 £000	2020 £000
Branch-based lending	**(1,383)**	(2,208)
Guarantor loans	**(1,478)**	(4,074)
Total modification losses for the year	**(2,861)**	(6,282)

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	2021 £000	2020 £000
Gross carrying amount before modification	**39,027**	44,936
Loan loss provision before modification	**-**	(5,228)
Net amounts receivable before modification	**39,027**	39,708
Net derecognition gain/(loss)	**(4,555)**	(4,093)
Net amounts receivable after modification	**34,472**	35,615

Movement in derecognition loss in the year ended 31 December 2021 was £0.46m (2020: £3.86m).

Guarantor loans

Financial assets (with loss allowance based on lifetime ECL) modified as at the balance sheet date	2021 £000	2020 £000
Gross carrying amount before modification	**1,713**	3,285
Loan loss provision before modification	**-**	(873)
Net amounts receivable before modification	**1,713**	2,412
Net derecognition gain/(loss)	**(109)**	270
Net amounts receivable after modification	**1,604**	**2,682**

Movement in derecognition gain/(loss) in the year ended 31 December 2021 was £0.38m (2020: £0.23m).

Derecognition losses summary

	2021 £000	2020 £000
Branch-based lending	**-**	(2,602)
Guarantor loans	**-**	(41)
Total derecognition losses for the year	**-**	(2,643)

20. 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 2021. 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	2021 Total £000
Assets				
Cash and cash equivalents	-	114,577	-	**114,577**
Amounts receivable from customers	-	207,984	-	**207,984**
Current tax asset	-	-	1,477	**1,477**
Deferred tax asset	-	-	-	**-**
Trade and other receivables	-	299	2,227	**2,526**
Derivative assets	-	-	-	**-**
Goodwill	-	-	-	**-**
Intangible assets	-	-	2,772	**2,772**
Property, plant and equipment	-	-	3,925	**3,925**
Right-of-use assets	-	-	7,877	**7,877**
Total assets	**-**	**322,860**	**18,278**	**341,138**
Liabilities				
Bank borrowing	-	(328,762)	-	**(328,762)**
Lease liability	-	(9,545)	-	**(9,545)**
Provisions	-		(25,643)	**(25,643)**
Other liabilities	-	(4,887)	(13,488)	**(18,375)**
Total liabilities	**-**	**(343,194)**	**(39,131)**	**(382,325)**

At 31 December	FVTP&L assets/ liabilities £000	Amortised cost £000	Non-financial assets/ liabilities £000	2020 Restated Total £000
Assets				
Cash and cash equivalents	-	77,956	-	77,956
Amounts receivable from customers	-	258,201	-	258,201
Current tax asset	-	-	1,550	1,550
Deferred tax asset	-	-	-	-
Trade and other receivables	-	240	1,840	2,080
Derivative assets	-	-	-	-
Goodwill	-	-	-	-
Intangible assets	-	-	8,237	8,237
Property, plant and equipment	-	-	6,277	6,277
Right-of-use assets	-	-	10,079	10,079
Total assets	-	336,397	27,983	364,380
Liabilities				
Bank borrowing	-	(326,587)	-	(326,587)
Current tax liability	-	-	-	-
Lease liability	-	(10,889)	-	(10,889)
Provisions	-	-	(21,813)	(21,813)
Other liabilities	-	(6,792)	(9,835)	(16,627)
Total liabilities	-	(344,268)	(31,648)	(375,916)

Company

At 31 December	Amortised cost £000	Non-financial assets/ liabilities £000	**2021 Total £000**
Assets			
Cash and cash equivalents	32	-	**32**
Trade and other receivables	128	9,759	**9,887**
Property, plant and equipment and intangibles	-	30	**30**
Right-of-use asset	-	40	**40**
Deferred tax	-	-	**-**
Investments	-	-	**-**
Total assets	**160**	**9,828**	**9,989**
Liabilities			
Lease liability	(41)	-	**(41)**
Other liabilities	(1,674)	(3,821)	**(5,495)**
Total liabilities	**(1,715)**	**(3,821)**	**(5,536)**

At 31 December	Amortised cost £000	Non-financial assets/ liabilities £000	2020 Total £000
Assets			
Cash and cash equivalents	553	-	553
Trade and other receivables	158	31,999	32,157
Property, plant and equipment and intangibles	-	65	65
Right-of-use asset	-	32	32
Deferred tax	-	-	-
Total assets	**711**	**32,096**	**32,807**
Liabilities			
Lease liability	(43)	–	(43)
Other liabilities	(386)	(4,602)	(4,988)
Total liabilities	**(429)**	**(4,602)**	**(5,031)**

21. Trade and other receivables – Group

	2021 £000	2020 £000
Other debtors	**299**	240
Prepayments	**2,227**	1,840
	2,526	2,080

Trade and other receivables – Company

	2021 £000	2020 £000
Other debtors	**1**	158
Corporation tax	**-**	-
Amounts due from subsidiaries	**9,758**	31,852
Prepayments	**128**	147
	9,887	32,157

Amounts due from subsidiaries are non-interest bearing and repayable on demand. In the current year, the Group recognised an impairment of £19.5m to its amounts due from subsidiaries (2020: £27.3). Refer to note 18 for further detail.

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

22. Cash and cash equivalents – Group

	2021 £000	2020 £000
Cash at bank and in hand	**114,577**	77,956

Cash and cash equivalents – Company

	2021 £000	2020 £000
Cash at bank and in hand	**32**	553

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

23. Derivative asset

The Group cancelled its interest rate cap on 30 November 2021 at £nil cost (2020 valuation: £nil).

Under IFRS 13 Fair Value Measurement, the interest rate cap is classed as Level 2 as it is not traded in an active market.

24. Trade and other payables and provisions – Group

	2021 £000	2020 Restated[1] £000
Trade creditors	**955**	614
Other creditors	**3,932**	5,446
Current tax liability	**-**	-
Accruals and deferred income	**13,488**	10,567
	18,375	16,627

[1] Refer note 1 for further detail on prior year restatement.

Trade and other payables – Company

	2021 £000	2020 £000
Trade creditors	**108**	386
Other creditors	**120**	468
Corporation tax	**645**	59
Amounts due to subsidiaries	**3,821**	3,821
Lease liability	**40**	43
Accruals	**802**	254
	5,536	5,031

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	Onerous contracts £000	Complaints £000	Dilapidations £000	Guarantor loans Redress £000	Restructuring £000	Total £000
Balance at 31 December 2019	93	-	-	1,203	-	170	1,466
Charge during the year	(44)	-	5,129	120	15,313	(170)	20,348
Utilised	-	-	-	(1)	-	-	(1)
Balance at 31 December 2020	49	-	5,129	1,322	15,313	-	21,813
Charge during the year	-	282	4,936	15	2,251	601	**8,085**
Utilised	(49)	-	(3,432)	(68)	(636)	(70)	**(4,255)**
Balance at 31 December 2021	-	**282**	**6,633**	**1,269**	**16,928**	**531**	**25,643**

Provisions are recognised for present obligations arising as a consequence of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can reliably be estimated. In the current year, the Group has recognised additional provisions for complaints and redress costs (further detail below).

Branch-based lending

The Group has recognised a provision for complaints of £2.0m as at 31 December 2021 (2020: £0.88m) in relation to potential outflows to customers related to past non-compliance with regulations relating to affordability assessments. Judgement is applied to determine the quantum of such provisions, including making assumptions regarding the extent to which the complaints already received may be upheld, average redress payments and related administrative costs. Refer to note 2 for sensitivity on this. As part of their assessment, the Directors also considered the independent review commissioned by the Group in April 2021 of the lending and complaints handling activities of the division. This review completed in Q1 2022 and the result was no requirement for customer redress.

Home credit

The Group has recognised a provision for complaints of £3.6m as at 31 December 2021 (2020: £3.4m) in relation to potential outflows to customers related to past non-compliance with regulations relating to affordability assessments. Judgement is applied to determine the quantum of such provisions, including making assumptions regarding the extent to which the complaints already received may be upheld, average redress payments and related administrative costs. Refer to note 2 for sensitivity on this.

Redress programme for certain customers of the Guarantor Loans Division

The Group has recognised a provision for complaints of £0.95m as at 31 December 2021 (2020: £0.82m) in relation to potential outflows to customers related to past non-compliance with regulations relating to affordability assessments. In addition, part of the provision included in the statement of financial position relates to a provision recognised for the customer redress programme in the Group's Guarantor Loans Division totalling £16.9m (2020: £15.3). The provision is based on the Directors' best estimate of the full and final costs of the programme using the proposed methodology. The estimate includes: the sum of all redress due to affected customers, including penalty interest, of £18.1m, together with the cost of implementation of £0.36m, offset by existing impairment provisions of £1.5m, resulting in a net provision amount of £16.9m. The provision represents an accounting estimate of the expected future outflows arising using information available as at the date of signing these financial statements. Identifying whether a present obligation exists and estimating the probability, timing, nature and quantum of the redress payments that may arise from past events requires judgements to be made on the specific facts and circumstances relating to the individual customers concerned. The operational mechanics of the redress programme have not yet been agreed with the FCA and therefore whilst the quantum of provision for redress represents the Directors' best estimate of the ultimate cost of the redress, including penalty interest, as at the reporting date, it is possible that the eventual outcome may differ, perhaps materially, from the current estimate. Therefore, although the Directors believe their best estimate represents a reasonably possible outcome; there is a risk of a less favourable outcome.

Refer to note 2 for more detail regarding estimation uncertainty around the redress provision. It is anticipated that the redress will start to be paid throughout 2022.

The Guarantor Loans Division continues to monitor its policies and processes and will continue to assess both the underlying assumptions in the calculation and the adequacy of this provision periodically using actual experience and other relevant evidence to adjust the provision where appropriate.

Lease liability – Group

	At 31 Dec 2021 £000	At 31 Dec 2020 £000
Current lease liabilities	**2,129**	1,928
Non-current lease liabilities	**7,416**	8,961
Total lease liability	**9,545**	10,889

Maturity analysis	**At 31 Dec 2021 £000**	At 31 Dec 2020 £000
Not later than one year	**2,871**	2,852
Later than one year and not later than five years	**7,330**	9,952
Later than five years	**2,464**	2,079
Total	**12,665**	14,883
Unearned finance cost	**(3,120)**	(3,994)
Total lease liability	**9,545**	10,889

Lease liability – Company

	At 31 Dec 2021 £000	At 31 Dec 2020 £000
Current lease liabilities	7	43
Non-current lease liabilities	33	–
Total lease liability	**40**	43

Maturity analysis	**At 31 Dec 2021 £000**	At 31 Dec 2020 £000
Not later than one year	**11**	44
Later than one year and not later than five years	**40**	-
Later than five years	**-**	-
Total	**51**	44
Unearned finance cost	**(11)**	(1)
Total lease liability	**40**	43

Bank loans – Group[1]

	2021 £000	2020 £000
Due within one year	4,813	4,933
Due in more than one year	328,762	326,587

1 *Amounts disclosed are net of capitalised transaction fees.*

The Group's total debt facilities as at 31 December 2021 and 2020 comprised of a £285m term loan provided by institutional investors, a £45m revolving loan facility provided by The Royal Bank of Scotland plc, and a £200m securitisation facility provided by Ares Management Corporation. As at 31 December 2021, £285.0m (2020: £285.0m) was drawn under the term loan facilities, £45.0m (2020: £45.0m) was drawn under the revolving loan facility and £nil (2020: £nil) was drawn under the securitisation facility. The term loan facility matures in August 2023, the revolving loan facility matures in August 2022 and the securitisation facility matures in March 2026.

Maturity analysis of amounts due on external borrowings	At 31 Dec 2021 £000	At 31 Dec 2020 £000
Not later than one year	**67,358**	23,063
Later than one year and not later than five years	**297,465**	388,907
Later than five years	**-**	-
	364,823	411,970

Amounts due on external borrowings excludes the amortisation of debt transaction costs and includes the interest and principal amounts due 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. The charges made against these companies are reflected at Companies House.

Contingent liabilities – Group
A contingent liability is a possible obligation depending on whether some uncertain future event occurs. During the normal course of business, the Group is subject to regulatory reviews and challenges. All material matters arising from such reviews and challenges are assessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Group incurring a liability as a result. In those instances, including future thematic reviews performed by the regulator in response to recent challenges noted in the industry, where it is concluded that it is more likely than not that a payment will be made, a provision is established based on management's best estimate of the amount required to meet such liability at the relevant balance sheet date.

The Group recognises that there continue to be risks around CMC activity in the non-standard lending sectors and the Group continues to incur the cost of settling complaints as part of its normal business activity. The Group has included a provision within its financial statements for complaints where the outcome has not yet been determined (refer to provisions in note 24) and 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. Should the final outcome of these complaints differ materially to management's best estimates, the cost of resolving such complaints could be higher than expected. It is however not possible to estimate any such increase reliably.

In April 2021, the Group commissioned an independent review of the lending and complaints handling activities of its home credit division. The review concluded that customers may have suffered harm and, following extensive discussions with the FCA about how this should be defined and the implications for future lending, the directors of S.D. Taylor Limited (trading as 'Loans at Home') reluctantly concluded that the Loans at Home business was no longer viable and as a result the division was put into administration on the 15 March 2022. The Group recognises that whilst the conclusion noted that customers may have suffered harm, as at 31 December 2021 it is not possible to estimate such cost reliably. As such, there is a risk that the cost of such redress may have a material impact of the net asset/(liability) position of the division and Group as at 31 December 2021. The Group notes that any redress amounts agreed post administration will be dealt with by the administrators and thus fall into the period after which Non-Standard Finance plc no longer had control (see note 34 for further detail).

The Group has recognised a provision for a customer redress programme in the Group's Guarantor Loans Division based on the Directors' best estimate of the costs of the programme using the proposed methodology (refer to Provisions above). As the operational mechanics of the redress programme have not yet been agreed with the FCA, there is a risk of an increase in the redress provision over and above what has been provided for in the financial statements.

25. Deferred tax asset/(liability) – Group

	£000
At 31 December 2019	1,677
Prior period adjustment to deferred tax in 2020	-
Reversal of prior year deferred tax assets in 2020	(1,677)
At 31 December 2020 and 31 December 2021	**-**

Consistent with prior year, the Group has not recognised a deferred tax asset during the financial year on its losses due to the uncertainty in the regulatory and macroeconomic environment. The Group reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The deferred tax asset is attributable to temporary timing differences and carried forward losses arising in respect of:

	2021 £000	2020 £000
Accelerated tax depreciation	**271**	(132)
Carried forward losses	**18,214**	7,295
Restatement of loan loss spreading	**(30)**	(28)
Other short-term timing differences	**317**	251
Unpaid employer pension contributions	**100**	32
FRS 102 adoption	**(3)**	39
IFRS 16 transitional adjustment	**15**	12
IFRS 9 transitional adjustment	**2,949**	2,615
Unpaid donations	**4**	-
Unrecognised tax losses	**(21,837)**	(10,084)
Net deferred tax asset	**-**	-

The Finance Bill 2021 had its third reading on 24 May 2021 and is now considered substantively enacted. This will have a consequential effect on the Group's future tax charge and means that the 25% main rate of corporation tax and marginal relief will be relevant for any asset sales or timing differences expected to reverse on or after 1 April 2023.

Deferred tax asset/(liability) – Company

	£000
At 31 December 2019	-
Current year credit[1]	-
At 31 December 2020 and 31 December 2021	-

1 *Unrecognised deferred tax assets arising from the tax losses in the current year were £0.6m (2020: £0.8).Total unrecognised deferred tax assets as at 31 December 2021 were £2.5m (2020: £1.3m)*

26. Share capital

All shares in issue are Ordinary 'A' Shares consisting of £0.05 per share. All 312,437,422 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 nil shares (2020: nil shares) and issued nil shares (2020: nil shares).

Share movements

	Number
Balance at 31 December 2019 and 2020	312,437,422
Cancellation of shares	-
Issue of shares	-
Balance at 31 December 2021	**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 2021, the EBT held nil (2020: nil) shares in the Company with a cost of £nil (2020: £nil) and a market value of £nil (2020: £nil).

27. 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 2019 and 2020	180,019
Capital reduction	-
Issue of shares	-
Balance at 31 December 2021	**180,019**

28. Other reserves

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.

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 are subject to the new performance condition.

No shares were remaining to the Directors during the year ended 31 December 2021 (2020: nil).

Share-based payments
Equity-settled share option schemes
During the year ended 31 December 2021, the Group operated one remaining share-based award schemes which is equity-settled: the Sharesave plan (2020: three share-based payment schemes being two long-term incentive schemes (the Non-Standard Finance plc Long-Term Incentive Plan, the Guarantor Loans Long-Term Incentive Plan and the Sharesave Plan (SAYE scheme) which all lapsed on 31 December 2020).

As at 31 December 2021, the remaining Sharesave Plan (grant date May 2018) had reached the end of its vesting periods and lapsed with no options 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.

There were no movements in 2021 as the vesting date for awards was 31 December 2020. On vesting, participants would 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 would 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 could exchange these shares for shares in the Company equal in value to their proportion of the pool.

As at 31 December 2020, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore, the options lapsed as at the vesting date of 31 December 2020 with no options exercised at the end of the period.

Awards in the form of nil-cost options:

	Percentage of pool allocated	Percentage of growth above £1.10 share price	Exercise price
Outstanding at 31 December 2019	62.5%	9.4%	-
Options granted	-	-	-
Lapsed in 2020	(62.5%)	(9.4%)	-
Exercised in 2020	-	-	-
Outstanding at 31 December 2020 and 2021	**-**	**-**	**-**
Exercisable at 31 December 2020 and 2021	**-**	**-**	**-**

Awards in the form of Ordinary 'C' Shares:

	Number	Percentage of growth above £1.10 share price	Exercise price
Outstanding at 31 December 2019	375	5.6%	-
Shares issued	-	-	-
Lapsed in 2020	(375)	(5.6%)	-
Vested in 2020	–	–	-
Outstanding at 31 December 2020 and 2021	**-**	**-**	**-**
Exercisable at 31 December 2020 and 2021	**-**	**-**	**-**

Guarantor Loans Division Long-Term Incentive Plan
In 2018, 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.

There were no movements in 2021 as the vesting date was 31 December 2020. On vesting, participants would 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 was 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.

As at 31 December 2020, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore, the options have lapsed as at the vesting date of 31 December 2020 with no options exercised at the end of the period.

	Percentage of pool allocated	Percentage of growth above £80m	Exercise price
Outstanding at 31 December 2019	100%	7.35%	-
Options granted	-	-	-
Lapsed in 2020	(100%)	(7.35%)	-
Exercised in 2020	-	-	-
Outstanding at 31 December 2020 and 2021	**-**	**-**	**-**
Exercisable at 31 December 2020 and 2021	**-**	**-**	**-**

Save As You Earn scheme
In 2017 and 2018, awards were made to employees of the Group under an 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.

There were no new sharesave plans during the year ended 31 December 2021 (2020: none). During the current year, the sharesave scheme granted on 14 May 2018 reached the end of its vesting period (2020: 7 June 2017 and 6 October 2017 reached the end of their vesting period). As the share price was below the exercise price, the options lapsed with nil exercised at the end of the period.

	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 2019	607,456	0.5606	836,209	0.606	3,088,995	0.495
Options granted	-	-	-	-	-	-
Replaced	-	-	-	-	-	-
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
Options granted	-	-	-	-	-	-
Lapsed	(263,594)	-	(372,926)	-	(743,511)	–
Exercised	-	-	-	-	-	-
Outstanding at 31 December 2020	**-**	**0.5606**	**-**	**0.606**	**450,412**	**0.495**
Options granted	-	–	-	-	-	-
Lapsed	-	–	-	-	(450,412)	-
Exercised	-	–	-	-	–	-
Outstanding at 31 December 2021	**-**	**0.5606**	**-**	**0.606**	**-**	**0.495**

b) Fair value of options granted

The main assumptions in the valuations for the share-based awards which lapsed during the prior year ended 31 December 2020 were 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 could be made in the form of shares in a subsidiary company or nil-cost options.

In the prior year, as at 31 December 2020, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore, the options lapsed as at the vesting date with no options exercised at the end of the period. The FV of the plan was £1.61m spread over the vesting period. A charge of £nil (2020: £0.483m) was recognised in the 2021 financial year.

The following information was 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%

Guarantor Loans Division Long-Term Incentive Plan
In 2018, the Guarantor Loans Division Long-Term Incentive Plan was adopted. Under the Plan, awards could be made in the form of nil-cost options.

In the prior year, as at 31 December 2020, 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. The FV of the awards made in April 2018 was £0.248m spread over the vesting period. A charge of £nil (2020: £0.092m) was recognised in the 2021 financial year.

The following information was 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 was £0.213m spread over the vesting period. The FV of the awards made in October 2017 was £0.378m spread over the vesting period. The Company 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 £0.03m (2020: £0.24m) was recognised in the year ended 31 December 2021.

There have been no new sharesave plans during the year ended 31 December 2021 (2020: none). Awards made on 14 May 2018 lapsed during the current year with no options exercised at the end of the period. Awards made on 7 June 2017 and 6 October 2017 lapsed during the prior year with no options exercised at the end of the period.

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%

29. Net cash generated/(used) in operating activities – Group

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Operating loss	**(3,631)**	(106,885)
Taxation (refund)/paid	**-**	(1,093)
Interest portion of the repayment of lease liabilities	**(983)**	(1,038)
Depreciation	**3,833**	4,006
Share-based payment charge	**34**	1,142
Amortisation of intangible assets	**2,727**	3,556
Intangible assets impairment loss	**-**	1,298
Goodwill impairment loss	**-**	74,832
Fair value unwind on acquired loan book	**-**	1,437
Exceptional charge for write-down of assets and recognition of liabilities of home credit division	**8,542**	-
Profit/(loss) on disposal of property, plant and equipment	**1,022**	54
Decrease/(increase) in amounts receivable from customers	**48,522**	100,713
Decrease/(increase) in other assets	**-**	1
Decrease/(increase) in receivables	**(446)**	852
(Decrease)/increase in payables and provisions	**(1,858)**	3,318
Cash generated/(used) in operating activities	**57,762**	82,193

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	Cash changes			**Non-cash changes**			
Group	**1 Jan 2021 £'000**	**Financing cash flows £'000**	**Lease payments £'000**	**Amortised fees £'000**	**Interest charge £'000**	**Lease additions and disposals £'000**	**31 Dec 2021 £'000**
Total borrowings (note 24)	326,587	-		2,175	-	-	328,762
Lease liabilities (note 24)	10,889	-	(3,535)	-	983	1,208	9,545
Total	337,476	-	(3,535)	2,175	983	1,208	338,307

	Cash changes			Non-cash changes			
Group	1 Jan 2020 £'000	Financing cash flows £'000	Lease payments £'000	Amortised fees £'000	Interest charge £'000	Lease additions and disposals £'000	31 Dec 2020 £'000
Total borrowings (note 24)	317,590	6,800	-	2,197	-	-	326,587
Lease liabilities (note 24)	11,105	-	(2,844)	-	1,039	1,589	10,889
Total	328,695	6,800	(2,844)	2,197	1,039	1,589	337,476

Net cash used in operating activities – Company

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Operating loss	**(22,720)**	(127,736)
Interest portion of the repayment of lease liabilities	**(4)**	(14)
Depreciation	**155**	190
Share-based payment charge	**1**	371
Impairment of investment and intercompany receivables	**19,538**	122,848
Decrease in receivables	**2,147**	979
(Decrease)/increase in payables	**507**	(8,058)
Cash used in operating activities	**(376)**	(11,420)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

		Cash changes		**Non-cash changes**			
Company	**1 Jan 2021 £'000**	**Financing cash flows £'000**	**Lease payments £'000**	**Amortised fees £'000**	**Interest charge £'000**	**Lease additions and disposals £'000**	**31 Dec 2021 £'000**
Lease liabilities (note 24)	43	-	(6)	-	3	-	40
Total	43	-	(6)	-	3	-	40

		Cash changes		Non-cash changes			
Company	1 Jan 2020 £'000	Financing cash flows £'000	Lease payments £'000	Amortised fees £'000	Interest charge £'000	Lease additions and disposals £'000	31 Dec 2020 £'000
Lease liabilities (note 24)	204	-	(175)	-	14	-	43
Total	204	-	(175)	-	14	-	43

30. Government grants and support

During the year ended 31 December 2021, the Company received grants totalling £0.06m (2020: £0.7m) under the Coronavirus Job Retention Scheme ('CJRS') which has been presented within 'other operating income' in the statement of comprehensive income (refer to accounting policies note 2).

Coronavirus Job Retention Scheme

The Group implemented a series of steps designed to mitigate, as far as possible, the impact of COVID-19 on its business operations. These measures included the furloughing of over 120 employees, and utilisation of government grants offered through the CJRS. The original direction was signed by the Chancellor on 15 April 2020 and further directions were signed on 22 May 2020 and 25 June 2020 and then the Budget 2021 to extend the end of the furlough scheme to 30 September 2021. A breakdown of these grants is provided below:

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000
Salaries	**61**	632
National Insurance contributions	**-**	11
Pension contributions	**-**	26
Total CJRS grants received	**61**	669

Deferred payroll taxes

In addition to the steps taken above to mitigate the impact of COVID-19 on business operations, the Group deferred its payroll taxes due in the months May to August during the 2020 financial year. The balance of amounts deferred equated to £2.2m including interest as at 31 December 2020. The current interest rate as published on HMRC's website is 2.6% per annum as at 31 December 2020. The Group agreed a Time to Pay Arrangement with HMRC during the year which completed in April 2021 and deferred amounts were fully settled. During the year ended and as at 31 December 2021, there were no deferred payroll taxes.

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 £nil from its subsidiary undertakings during the year (2020: £11.9m). The Company 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 2021, the Company was owed £0.03m from its subsidiary undertaking S.D. Taylor Limited in relation to employee costs for the year ended 31 December 2021 (2020: £nil) and £0.07m to its subsidiary undertaking Everyday Loans Limited in relation to Group relief tax charges (2020: £0.07m). Intra-Group transactions between the Company and the fully consolidated subsidiaries or between fully consolidated subsidiaries are eliminated on consolidation. Please refer to note 21 for the year-end amounts due from subsidiaries to the Company and note 24 for year-end amounts due to subsidiaries from the Company.

There were no Executive Directors of Non-Standard Finance plc who were Trustees of the charity Loan Smart as at 31 December 2021 (2020: one). During the year, the Company donated £15,000 to Loan Smart (2020: £111,000).

One Director was a member of the Non-Standard Finance plc Long-Term Incentive Plan which lapsed in the prior year as at 31 December 2020 (as detailed in note 28). Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 81 to 97.

In the prior year ended 31 December 2020, the Group put in place a new six-year securitisation facility, of which £15m was drawn in April 2020. The nature of the facility required the setup of a Special Purpose Vehicle ('SPV') NSF Funding 2020 Limited, which is consolidated into the Group in line with the requirements of IFRS 10. Over the course of the current year, the SPV transacted multiple times with Everyday Lending Limited (a subsidiary within the Group) to facilitate the payment of maintenance fees (2020: transactions related to securitisation of loans and associated fees). As these transactions took place between two or more subsidiaries, they are deemed to be related party transactions, and have been eliminated on consolidation. In August 2020, the Group repaid the £15m (£10.5m net) previously drawn on its £200m securitisation facility such that the amount currently drawn under this facility is £nil as at 31 December 2021 (2020: £nil).

In the prior year in October 2020, the Group appointed Toby Westcott to the Board. Toby Westcott as a Nominee Director receives no direct remuneration from the Company. However, Alchemy Special Opportunities LLP were remunerated for the services of Toby Westcott through a services agreement. This figure equates to a £75,000 fee plus VAT per annum. Total fees paid in relation to these services totalled £75,000 (plus VAT) for the year ended 31 December 2021 (2020: £18,750 plus VAT).

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 2021 was estimated to be 93.4% (2020: 87.8%).

The average EIR on financial liabilities of the Group at 31 December 2021 was estimated to be 9% (2020: 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.

Interest rate risk

The Group has an exposure to interest rate risk arising on changes in interest rates which leads to an increase in the Group's cost of borrowing. 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 2021 would not have had a material impact on the Group's result for the year.

There is minimal interest rate risk on financial assets including amounts receivable from customers as interest rates are fixed.

LIBOR reform

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by IBOR regulators. Key benchmark interest rates and indices, such as the London Interbank Offered Rate ('LIBOR'), are being reformed in favour of risk-free rates such as the Sterling Overnight Index Average ('SONIA') in the UK. LIBOR was withdrawn at the end of 2021. The Group currently only has reference rate linked liabilities relating to the Group's term loan and revolving credit facility which were fully drawn as at 31 December 2021, and its securitisation facility which remains undrawn as at year end. There is no impact to the Group's financial assets or fixed rate liabilities, which are all on administered rates. The Group has transitioned to SONIA during the year ended 31 December 2021. This transition is not considered to have had a material impact on the Group.

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 19. 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 following tables 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 where A1 represents the lowest credit risk, 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 2021
Branch-based lending

Year ended 31 December 2021	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**Gross balance £000**
A1-A3	109,893	21,924	3,637	135,454
A4-A6	26,485	9,545	2,606	38,637
A7-A8+	5,601	2,254	895	8,749
Total gross receivables	**141,979**	**33,723**	**7,138**	**182,840**
Loan loss provision	(6,831)	(13,347)	(5,481)	(25,659)
At 31 December 2021	**135,148**	**20,376**	**1,657**	**157,181**

Home credit[1]

Year ended 31 December 2021	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**Gross balance £000**
Up to 1 in the last 13 weeks missed	-	19,074	-	19,074
1 to 4 in the last 13 weeks missed	-	4,249	-	4,249
4 to 8 in the last 13 weeks missed	-	2,826	60	2,886
8 to 13 in the last 13 weeks missed	-	6,013	1,535	7,548
13 in the last 13 weeks missed	-	-	11,380	11,380
Total gross receivables	**-**	**32,162**	**12,975**	**45,137**
Loan loss provision	-	(9,186)	(11,911)	(21,097)
At 31 December 2021	**-**	**22,976**	**1,064**	**24,040**

1 Home credit make weekly collections.

Guarantor loans

Year ended 31 December 2021	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**Gross balance £000**
Homeowner	-	14,934	2,683	17,617
Non-homeowner	-	15,834	3,593	19,427
Total gross receivables	**-**	**30,768**	**6,276**	**37,044**
Loan loss provision	-	(5,965)	(4,316)	(10,281)
At 31 December 2021	**-**	**24,803**	**1,960**	**26,763**

As at 31 December 2020
Branch-based lending

Year ended 31 December 2020	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
A1-A3	106,937	25,570	3,006	135,513
A4-A6	27,836	11,440	2,109	41,385
A7-A8+	5,645	2,462	657	8,764
Total gross receivables	140,418	39,472	5,772	185,662
Loan loss provision	(6,011)	(3,095)	(5,096)	(14,202)
At 31 December 2020	134,407	36,377	676	171,460

Home credit

Year ended 31 December 2020	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
Up to 1 in the last 13 weeks missed	19,729	-	-	19,729
1 to 4 in the last 13 weeks missed	3,808	-	-	3,808
4 to 8 in the last 13 weeks missed	-	3,150	58	3,208
8 to 13 in the last 13 weeks missed	-	9,166	1,373	10,539
13 in the last 13 weeks missed	-	-	16,452	16,452
Total gross receivables	23,537	12,316	17,883	53,736
Loan loss provision	(1,876)	(8,124)	(16,789)	(26,789)
At 31 December 2020	21,661	4,192	1,094	26,947

Guarantor loans[1]

Year ended 31 December 2020	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
Homeowner	4,742	2,788	2,173	9,703
Non-homeowner	29,824	23,043	18,974	71,841
Total gross receivables	34,566	25,831	21,147	81,544
Loan loss provision	(1,366)	(5,864)	(14,520)	(21,750)
At 31 December 2020	33,200	19,967	6,627	59,794

1 *Guarantor loans excludes FV adjustments of £1.4m.*

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 has been assessed alongside investment impairment at note 18.

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 going concern position of the Group remains materially uncertain leading to a risk that the Group will have insufficient liquidity to fund its future growth plans beyond the next 12 months and this is reflected in the Group's going concern and Viability Statement on page 78.

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 page 78.

33. Distributable reserves of the Parent Company

At 31 December 2021, the Company had no distributable reserves (2020: nil distributable reserves).

34. Subsequent events

Subsequent to 31 December 2021, the Directors of the Company's indirect subsidiary S.D Taylor Limited (trading as 'Loans at Home') reluctantly concluded that the Loans at Home business was no longer viable, leading to the business being placed into administration on 15 March 2022. As a result, the financial results of the Group's home credit division have been prepared on a basis other than going concern. See note 1 and 7 for further detail. In line with IAS 37, the Group has not provided for costs for which an obligation did not exist as at 31 December 2021.

Additional information

Appendix

Glossary of alternative performance measures and key performance indicators

The Group has developed a series of alternative performance measures that it uses to monitor the financial and operating performance of each of its business divisions and the Group as a whole. These measures seek to adjust reported metrics for the impact of non-cash and other accounting charges (including modification loss) that make it more difficult to see the true underlying performance of the business. These APMs are not defined or specified under the requirements of International Financial Reporting Standards, however we believe these APMs provide readers with important additional information on our business. To support this, we have included a reconciliation of the APMs we use, how they are calculated and why we use them on the following pages.

Alternative performance measure	Definition
Net debt	Gross borrowings less cash at bank
Normalised revenue	
Normalised operating profit	Normalised figures are before fair value adjustments, amortisation of acquired intangibles and exceptional items (refer to note 7).
Normalised profit before tax	
Normalised earnings per share	

Key performance indicator	
Impairments/revenue	Impairments as a percentage of normalised revenues
Impairments (including modifications)/revenue	Impairments (including modification and derecognition losses) 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 2021 £000	31 Dec 2020 £000
Borrowings	**330,000**	330,000
Cash at bank and in hand[1]	**(114,544)**	(77,402)
	215,456	252,598

1 Cash at bank and in hand excludes cash held by the 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		Home credit		Guarantor loans		Group	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Reported revenue	**79,940**	89,788	**38,401**	43,834	**13,046**	29,043	**131,387**	162,665
Add back fair value adjustments	**–**	–	**–**	–	**–**	1,437	**–**	1,437
Normalised revenue	**79,940**	89,788	**38,401**	43,834	**13,046**	30,480	**131,387**	164,102

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/(loss)

	Branch-based lending		Home credit		Guarantor loans		Group	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Reported operating profit/(loss)	**13,654**	13,419	**(2,204)**	(2,509)	**(272)**	(28,565)	**7,092**	(24,452)
Add back fair value adjustments	**–**	–	**–**	–	**–**	1,437	**–**	1,437
Add back amortisation of intangibles	**–**	–	**–**	–	**–**	–	**–**	1,298
Add back exceptional provision for customer redress	**–**	–	**–**	–	**2,207**	15,401	**2,207**	15,401
Normalised operating profit/(loss)	**13,654**	13,419	**(2,204)**	(2,509)	**1,934**	(11,727)	**9,299**	(6,316)

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/(loss) before tax

	31 Dec 2021 £000	31 Dec 2020 £000
Reported loss before tax	**(29,610)**	(135,721)
Add back fair value adjustments	**–**	1,437
Add back amortisation and write-off of intangibles	**–**	1,298
Add back exceptional items	**12,930**	97,834
Normalised (loss)/profit before tax	**(16,680)**	(35,152)

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 7 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/(loss) for the year

	Group	
	31 Dec 2021 £000	31 Dec 2020 £000
Reported loss for the year	**(29,685)**	(135,557)
Add back fair value adjustments	–	1,437
Add back amortisation of intangibles	–	1,298
Add back exceptional items	**12,930**	97,834
Adjustment for tax relating to above items	–	(164)
Normalised profit/(loss) for the year	**(16,755)**	(35,152)
Weighted average shares	**312,437,422**	312,437,422
Normalised earnings/(loss) per share (pence)	**(5.36)p**	(11.25)p

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 7 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		Home credit		Guarantor loans		Group	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Normalised revenue	**79,940**	89,788	**38,401**	43,834	**13,046**	30,480	**131,387**	164,102
Impairment	**(18,994)**	(31,449)	**(6,230)**	(10,495)	**1,061**	(24,318)	**(24,163)**	(66,262)
Impairment as a percentage revenue	**23.8%**	35.0%	**16.2%**	23.9%	**(8.1)%**	79.8%	**18.4%**	40.4%

	Branch-based lending		Home credit		Guarantor loans		Group	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Normalised revenue	**79,940**	89,788	**38,401**	43,834	**13,046**	30,480	**131,387**	164,102
Impairment and modifications	**(20,337)**	(36,258)	**(6,230)**	(10,495)	**(417)**	(28,434)	**(27,024)**	(75,187)
Impairment and modifications as a percentage revenue	**25.5%**	40.4%	**16.2%**	23.9%	**3.2%**	93.3%	**20.6%**	45.8%

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		Home credit		Guarantor loans		Group	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Reported opening net loan book	**171,460**	214,783	**26,947**	39,904	**59,794**	106,961	**258,201**	361,648
Less fair value adjustments	**–**	–	**–**	–	**–**	(1,437)	**–**	(1,437)
Normalised opening net loan book	**171,460**	214,783	**26,947**	39,904	**59,794**	105,524	**258,201**	360,211
Reported closing net loan book	**157,181**	171,460	**24,040**	26,947	**26, 763**	59,794	**207, 984**	258,201
Less fair value adjustments	**–**	–	**–**	–	**–**	–	**–**	–
Normalised closing net loan book	**157,181**	171,460	**24,040**	26,947	**26,763**	59,794	**207,984**	258,201
Normalised opening net loan book	**171,460**	214,783	**26,947**	39,904	**59,794**	105,524	**258,201**	360,211
Normalised closing net loan book	**157,181**	171,460	**24,040**	26,947	**26,763**	59,794	**207,984**	258,201
Average net loan book	**163,724**	192,990	**24,423**	28,243	**40,609**	86,229	**228,756**	307,462
Impairment	**(18,994)**	(31,449)	**(6,230)**	(10,495)	**1,061**	(24,318)	**(24,163)**	(66,262)
Impairment as a percentage loan book	**11.6%**	16.3%	**25.5%**	37.2%	**(2.6%)**	28.2%	**10.6%**	21.6%

Impairment as a percentage loan book allows review of impairment level movements year on year.

8. Net loan book growth

	Branch-based lending		Home credit		Guarantor loans		Group	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Normalised opening net loan book	**171,460**	214,783	**26,947**	39,904	**59,794**	105,524	**258,201**	360,211
Normalised closing net loan book	**157,181**	171,460	**24,040**	26,947	**26,763**	59,794	**207,984**	258,201
Net loan book growth	**(8.3%)**	(20.2%)	**(10.8%)**	(32.5%)	**(55.2%)**	(43.3%)	**(19.4%)**	(28.3%)

9. Return on asset

	Branch-based lending		Home credit		Guarantor loans	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Normalised operating profit	**13,653**	13,419	**(2,204)**	(2,509)	**1,935**	(11,727)
Average net loan book	**163,724**	192,990	**24,423**	28,243	**40,609**	86,229
Return on asset	**8.3%**	7.0%	**(9.0%)**	(8.9%)	**4.8%**	(13.6%)

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		Home credit		Guarantor loans	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Normalised revenue	**79,940**	89,788	**38,401**	43,834	**13,046**	30,480
Average net loan book	**163,724**	192,990	**24,423**	28,243	**40,609**	86,229
Revenue yield percentage	**48.8%**	46.5%	**157.2%**	155.2%	**32.1%**	35.3%

Revenue yield percentage is deemed useful in assessing the gross return on the Group's loan book.

11. Risk adjusted margin

	Branch-based lending		Home credit		Guarantor loans	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Normalised revenue	**79,940**	89,788	**38,401**	43,834	**13,046**	30,480
Impairments	**(18,994)**	(31,449)	**(6,230)**	(10,495)	**1,061**	(24,318)
Normalised risk adjusted revenue	**60,946**	58,339	**32,171**	33,339	**14,107**	6,162
Average net loan book	**163,724**	192,990	**24,423**	28,243	**40,609**	86,229
Risk adjusted margin percentage	**37.2%**	30.2%	**131.7%**	118.0%	**34.7%**	7.1%

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		Home credit		Guarantor loans	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Normalised operating profit	**13,653**	13,419	**(2,204)**	(2,509)	**1,935**	(11,727)
Normalised revenue	**79,940**	89,788	**38,401**	43,834	**13,046**	30,480
Operating profit margin percentage	**17.1%**	14.9%	**(5.7%)**	(5.7%)	**14.8%**	(38.5%)

13. Cost to income ratio

	Branch-based lending		Home credit		Guarantor loans	
	31 Dec 2021 £000	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000	**31 Dec 2021 £000**	31 Dec 2020 £000
Normalised revenue	**79,940**	89,788	**38,401**	43,834	**13,046**	30,480
Administration expense	**(46,294)**	(41,236)	**(34,962)**	(35,866)	**(10,695)**	(13,773)
Operating profit margin percentage	**57.9%**	45.9%	**91.0%**	81.8%	**82.0%**	45.2%

This measure allows review of cost management.

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