nsfgroup

2020 Emerging from the pandemic

Non-Standard Finance plc
Annual Report & Accounts 2020

Whilst 2020 was a challenging year, we have a clear plan to return the Group to profitability

Our purpose

We aim to meet customers face-to-face

Whilst expensive to operate, our approach often means we can lend when others can't (or won't)

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

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
[illegible]	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
[illegible]	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
[illegible]	By focusing on long-term returns we can secure the capital we need to fund future loan book growth and associated investment
[illegible]	Our position in local communities and the contributions we make are important for all of our stakeholders

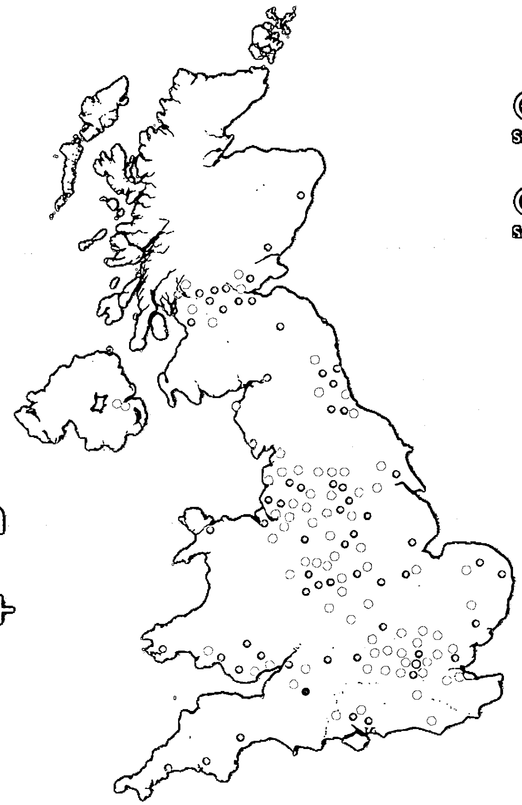
Read more about our approach to stakeholders on pages 40 to 49

Despite the challenges of the past year, NSF remains a leading provider of unsecured credit

£258.2m
Net loan book[1]

166,000+
Customers

c.140
Locations



c.870
Staff

c.895
Self-employed agencies

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

- Everyday Loans (75)
- Loans at Home (64)
- NSF (1)
- Guarantor loans (1)

1 A reconciliation of the calculation of combined net loan book is set out on page 29.

Having faced a number of challenges in 2020, we are seeking to strengthen our balance sheet through a substantial capital raise and pursue a path to recovery, one that will allow the Group to realise its full potential.

Reported results

Combined loan book

[illegible]

[illegible] (2019: £361.6m)

Revenue

[illegible]

[illegible] (2019: £180.8m)

Loss before tax

[illegible]

[illegible] (2019 loss before tax: £(76.0)m)

Basic and fully diluted (loss) per share

[illegible]

[illegible] (2019: (24.45)p)

Dividend per share

[illegible]

(2019: 0.70p)

Normalised results[1]

Combined loan book

[illegible]

[illegible] (2019: £360.2m)

Revenue

[illegible]

[illegible] (2019: £183.7m)

Loss before tax

[illegible]

[illegible] (2019 profit before tax: £14.7m)

Basic and fully diluted (loss)/earnings per share

[illegible]

[illegible] (2019: 3.67p)

Dividend per share

[illegible]

[illegible] (2019: 0.70p)

- Total loan book[2] reduced by 29%
- Over 38,700 customers affected by COVID-19 received forbearance from the Group
- Branch-based lending: rapid pivot to home working in April 2020; branches reopened in May 2020
- Home credit: shift to remote lending and collections post-lockdown
- Guarantor loans: redress programme expected to be finalised and executed in H2 2021; business now in managed run-off
- Cash balances increased to £78.0 million (2019: £14.2 million)

1 Before fair value adjustments, amortisation of acquired intangibles and exceptional items. See glossary of alternative performance measures and key performance indicators in the Appendix. For a reconciliation of normalised results to reported results please see page 27
2 For a reconciliation of net loan book growth see table in the 2020 financial review on page 29.

NSF Group at a glance

When lending to non-standard credit customers, we know that understanding our customers' needs is paramount: we don't look to issue loans they can't afford; and if they get into difficulty, we try and find a solution that works for all.

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

Our values

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

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.

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.

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.

[illegible]

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.

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

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

Our divisions

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

74

Locally-based branches[1]

everydayloans

For more information see pages 31-33

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

197

Agencies[1]

Loans at Home

For more information see pages 33-35

Guarantor loans
Following a challenging 2020, the division is now in run-off and with no new lending, the loan book will continue to decline until the business is ultimately closed.

For more information see pages 35-38

Our balance sheet

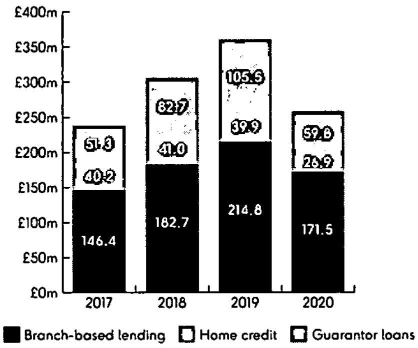
£73m
Cash balances

£330m
Gross debt

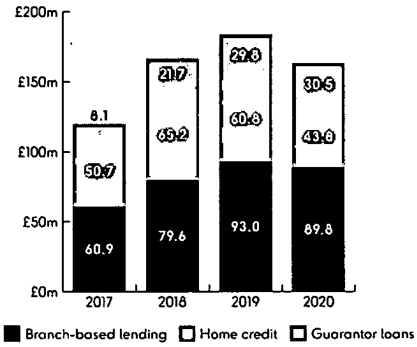
£(1)m
Net liabilities

[illegible]

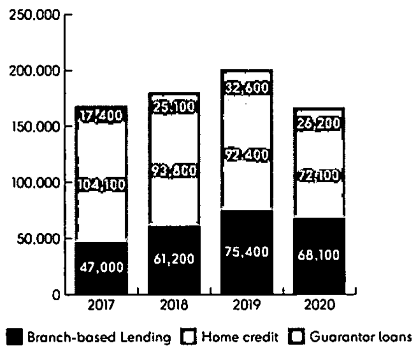
Net loan book[2]



Normalised revenue[2]



Number of customers



1 As at 31 December 2020.
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 29.

Chairman's statement

DESPITE THE ENORMOUS CHALLENGES OVER THE PAST YEAR, OUR PEOPLE HAVE CONTINUED TO DELIVER FOR OUR CUSTOMERS.

CHARLES GREGSON
NON-EXECUTIVE CHAIRMAN

Introduction

The past year has been the Group's most testing period to date and whilst we are committed to raising additional equity capital which, if successful, will mean that the current constraints on our ability to execute our business strategy will be removed and the prospects for the Group significantly improved, this is dependent upon the Group concluding its discussions with the Financial Conduct Authority ('FCA') regarding its proposed redress methodology for guarantor loans and ensuring that there are no implications for the Group's other divisions.

If the capital raise is unsuccessful or takes longer than expected to execute, based on the Group's downside case (see page 78), it is expected that the Group would breach certain borrowing covenants during the next 12 months and as a result would not be able to access further funding over the period of breach and would require waivers from its lenders. In such circumstance, the Group may fall under the control of its lenders and there would be a possibility of the Group going into insolvency.

As outlined in the Group CEO's report, the Board has concluded that shareholder interests will be best served by collecting out the existing loan book and ultimately closing the Group's Guarantor Loans Division.

I would like to thank all of my colleagues for their enormous effort over the past year and to Heather McGregor in particular for her considerable support and dedication in going above and beyond what was asked of her in her various roles on the Board over the past six years.

2020 results

The financial results for 2020 were disappointing and the large pre-tax loss reflected a weaker operating performance as well as a number of non-operating items. While the pandemic impacted revenues and increased impairment as we provided forbearance to a large number of customers experiencing difficulty, we also had to impair certain intangible assets and goodwill on the Group's balance sheet. The results were also impacted by the requirement to redress a number of customers of the Group's Guarantor Loans Division, further details of which are set out below.

Following the introduction of government restrictions in late March 2020, all three of our businesses pivoted to a home working model. With little or no lending taking place in April 2020 as we adapted to the new business environment, combined with robust, albeit lower levels of collections, our cash balances began to build while the size of the Group's net loan book began to decline. Whilst branch-based lending and home credit staged a sustained recovery in lending volumes through the summer of 2020, the findings from the FCA's review into guarantor loans meant that lending for that division reduced back down to almost nil in August 2020 where it remained, pending a conclusion to the FCA's review.

For these and the other reasons outlined in the Group CEO's report on pages 15 to 19, Group revenue was down 10% to £162.7m (2019: £180.8m) and the Group delivered an operating loss of £24.5m (2019: operating profit of £32.1m). The Group provided an unprecedented level of support to customers affected by COVID-19 and this contributed to a marked increase in impairment and loan loss provisions with a corresponding impact on profits. Whilst reduced levels of lending coupled with a robust collections performance by all three divisions meant that cash balances increased significantly, an increase in average gross borrowing meant that there was no corresponding reduction in net interest costs.

On a normalised basis[1], the Group produced a loss before tax of £35.2m (2019 profit before tax: £14.7m) and a loss per share of 11.25 pence (2019 earnings per share: 3.67 pence). Exceptional charges of £97.8m included goodwill impairment, a provision for customer redress, the write-off of capitalised fees on the Group's securitisation facility and restructuring costs that resulted in a statutory loss before tax of £135.7m (2019 loss before tax: £76.0m) and a statutory loss per share of 43.39 pence (2019: statutory loss per share of 24.45 pence).

On 3 August 2020 the Group announced that, as part of a multi-firm review into the guarantor loans sector, the FCA had a number of concerns regarding certain aspects of the operating procedures at the Group's Guarantor Loans Division. The Group launched an immediate and in-depth review, working closely with the FCA, to clarify the scope and scale of its concerns and to develop a possible redress methodology for affected customers. Whilst this work continued, lending by the Group's Guarantor Loans Division was reduced to almost nil although collections continued on the outstanding loan book.

Whilst discussions with the FCA regarding the methodology of redress for affected customers has not yet concluded, the Group has made a £15.4m provision for redress in the 2020 full year results which is broadly in-line with the provision made at the time of our half year results. The redress programme is now expected to commence in the second half of 2021.

Separately, the Group has commissioned an independent review of both its branch-based lending and home credit businesses to ensure that there are 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.

Capital raise, balance sheet and funding

In order to address high levels of gearing, the impact of the pandemic and the FCA requirement to redress certain customers of the Group, the Group has made clear its intention to raise in the region of £80m additional equity capital (the 'Capital Raise') and expects to announce the terms of such an exercise during the third quarter of 2021.

If successful, the Capital Raise would strengthen the Group's balance sheet significantly and whilst 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, it is hoped that in due course, the Group would be better placed to broaden its source of debt funding. Work is continuing on the Capital Raise and the Board expects to be in a position to make a further announcement during the third quarter of 2021.

1 See glossary of alternative performance measures in the Appendix.

Despite having grown our customer base and loan book every year since 2015, the events of 2020 resulted in a large reported pre-tax loss which was disappointing. It masked a solid operational performance given the circumstances and one that was achieved in large part due to a strong and positive business culture.

We remain committed to meeting the needs and helping those consumers who are either unable or unwilling to borrow from mainstream lenders.

Our business strategy to help meet these objectives comprises three elements:
- Being a leader in our chosen markets;
- Investing in our core assets; and
- Acting responsibly.

This is a large market and even before the pandemic it was estimated to comprise between 20-25% of all UK adults or approximately ten to twelve million people. We now believe that this number has increased, presenting a significant opportunity for the Group. Given its scale and market position, we believe that branch-based lending is particularly well-placed to benefit from an increasing proportion of mainstream credit customers being driven into the non-standard sector following a significant tightening of mainstream credit. Similarly, albeit on a smaller scale, our home credit business is also expected to benefit as a number of former home credit customers return to the sector and as the market consolidates to a smaller number of players. As noted above, our guarantor loans business is being placed into a managed run-off and will not write any new loans in the future.

Whilst our ability to execute our business strategy is contingent on raising additional equity capital, as explained on page 78, despite the challenges faced, the Board remains confident of being able to execute the Capital Raise as planned.

Further details on each of the three elements of our business strategy can be found on pages 20 to 21.

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

In addition to the usual channels of forbearance that are a key feature of the Group's business model and in response to the pandemic, the FCA required firms to offer customers an opportunity to pause repayments on their loans through an 'Emergency Payment Freeze'. Initially set for up to three months, this was later extended for up to six months, resulting in an unprecedented level of forbearance being offered to customers.

As noted above, the multi-firm review into the guarantor lending sector resulted in the Group having to develop a detailed redress methodology for customers that may have suffered harm. Whilst clear that our interpretation of what processes were required in guarantor loans fell short of the regulator's expectations, a positive working relationship with the regulator has helped us to improve our processes and overall business approach.

Having noted an increased volume of complaints across the sector as a whole, together with an increased number of cases and upheld decisions from the Financial Ombudsman Service during 2020, we commissioned an extensive review into the possible implications for branch-based lending and home credit. The Directors recognise that, whilst the review work done so far has not identified any systemic issues requiring an increase in provision, there remains a risk that the final outcome of these reviews may result in the identification of customers who may require redress, and the cost of redress for the Group could be materially higher than is currently provided for in the financial statements.

Whilst these regulatory developments were in addition to the already significant changes that have been made to the consumer credit regulatory framework in recent years, the Board is hopeful that as the economy recovers there will now be a period of relative stability in terms of regulatory change, thereby enabling firms to rebuild and restore the flow of credit to those that both need it and can afford it.

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

[illegible]

As a result of having to write-off goodwill and other intangibles, together with trading losses in 2020 and prior years, as at 31 December 2020 the Company no longer had any distributable reserves and so was unable to pay cash dividends. It is expected that following the Capital Raise, the Company will undertake a process 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.

Whilst the Group continues to face a number of challenges, it is the Directors' reasonable expectation that the Group and Company can and will raise sufficient equity and continue to operate and meet its liabilities as they fall due for the next 12 months and therefore it has adopted the going concern basis of accounting. Following the Capital Raise, it is expected that the Group will have a stronger balance sheet, significant cash balances and an opportunity to replace its long-term credit facilities on reasonable terms, improving its future growth prospects. Whilst the pace of macroeconomic recovery remains unclear, recent trading in both branch-based lending and home credit has been encouraging. Lead volumes are healthy and there has been a steady recovery in lending at attractive yields in both branch-based lending and home credit. Collections performance has also been robust as we benefit from better quality applicants and the improvements made to our lending and underwriting processes during the pandemic. As a result, rates of impairment remain in line with expectations and are notably better than the same period in 2020 when the UK economy was in the grip of the early stages of the pandemic.

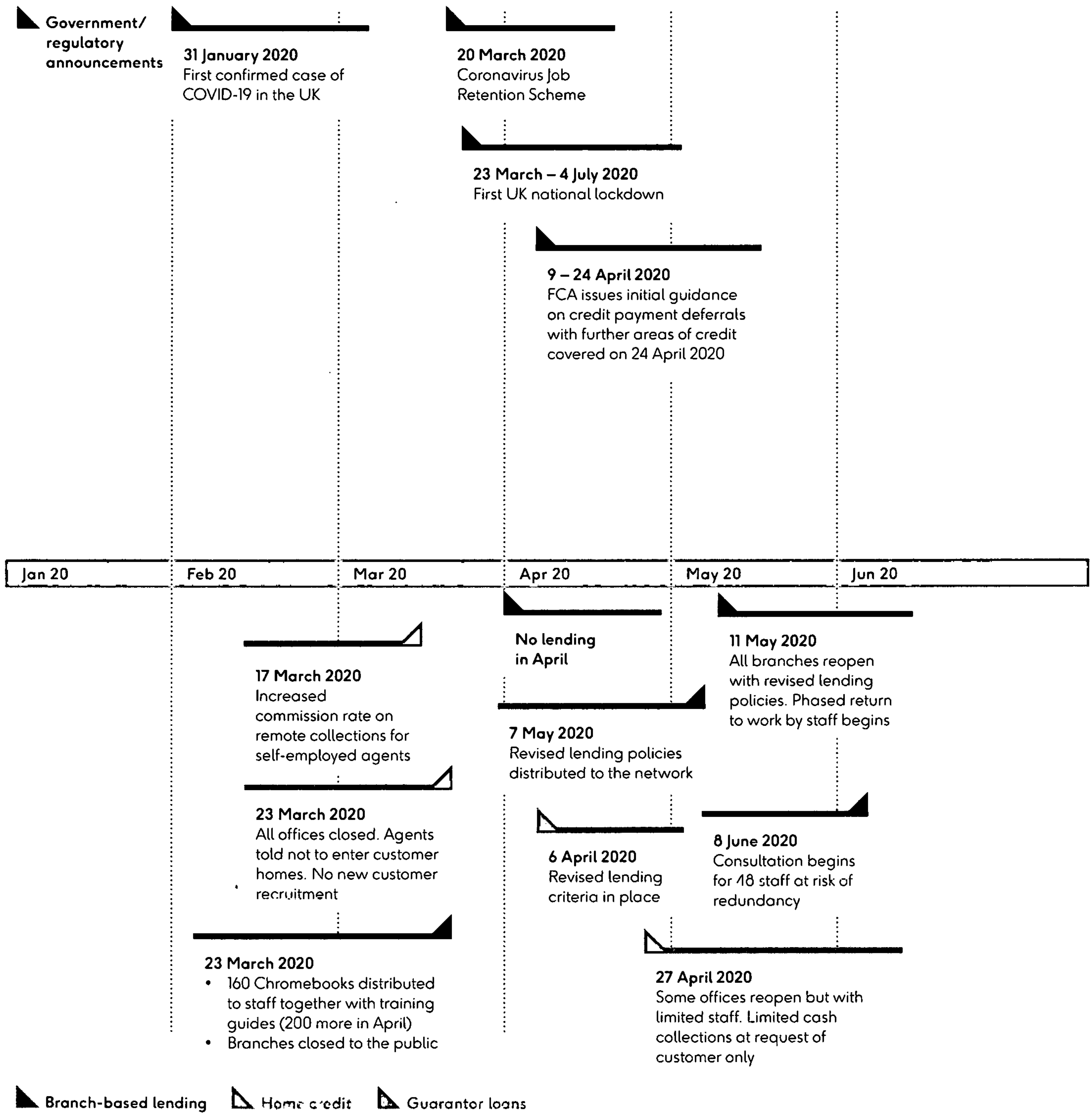
Looking forward and subject to funding, the current business environment represents a significant opportunity for NSF. During both the 1991-95 and 2007-2010 recessions when unemployment increased significantly, mainstream lenders tightened their credit criteria and the non-standard consumer lending sector experienced a marked increase in demand as the number of consumers that were unable to access mainstream credit increased. We believe that a similar pattern is starting to emerge in 2021. While not yet at our full profit potential, if we can execute a substantial capital raise as planned, our view of the road ahead will become clear and the long-term outlook for the Group significantly improved.

Charles Gregson
[illegible]

30 June 2021

Adapting to COVID-19

After a strong performance in January and February 2020, the pandemic really took hold during March 2020 and with the first national lockdown on 23 March 2020, had an immediate and, as described in the Group Chief Executive's report (see pages 15 to 19) and the 2020 financial review (see pages 27 to 39), significant impact on each of the Group's three business divisions.



Each of our businesses adapted quickly with a series of operational changes designed to minimise the impact of the pandemic on our service to customers. Whilst not possible to include all of the steps taken, some of the key milestones at each business are summarised in the graphic below, together with some of the steps taken by the FCA and HM Government as the crisis unfolded.

1 – 15 July 2020
FCA announces extension of credit payment deferral schemes

30 July – 11 October 2020
Various lockdowns, mainly in the midlands and the north

30 September 2020
FCA issues new guidance on credit deferrals in a move towards tailored support

12 October 2020
Tiered system introduced across the UK

16 October – 2 December 2020
England, Scotland, Wales and Northern Ireland implement stricter national restrictions at different times

31 October 2020
Coronavirus Job Retention Scheme expected to end

5 November 2020
Coronavirus Job Retention Scheme extended to end of March 2021

Jul 20 | Aug 20 | Sep 20 | Oct 20 | Nov 20 | Dec 20

Lending volumes increase steadily, despite tiered lockdowns

6 July 2020
48 staff made redundant following consultation

3 August 2020
Reduced levels of new lending pending outcome of FCA review

15 September 2020
Staff return to head office

25 October 2020
15 out of 25 'at risk' lending staff made redundant. 10 are redeployed in collections

3 November 2020
Agents are asked not to enter customers' homes following new restrictions

Advantages of face-to-face lending

Why the advantages of face-to-face lending far outweigh the costs

Branch-based lending

	Positives	Negatives (and mitigations)
For the customer	• Opportunity to build a relationship with a person who really understands my needs • Easier to understand all of the details when meeting in person • Local presence means that they understand my situation better • A private meeting means my application remains confidential	○ Less convenient than a pure online journey (it can sometimes be easier when you are guided through a process in person rather than lengthy online form-filling) ○ Could be embarrassing if I don't understand or cannot produce necessary documents or if I get rejected (our staff are well-trained and help applicants to feel comfortable and avoid any embarrassment)
For the lender	• Easier to build a relationship and educate the customer about our products and the services we offer • Branded outlets help to stimulate brand awareness • Local branches have better intelligence on local economic and business-related issues	○ Network is expensive to run and manage (attractive returns can be achieved when processes are followed closely) ○ Having a physical presence can prompt adverse selection and an increase in the number of applications by poor quality applicants (having an appointment-driven model minimises this risk)

Home credit

	Positives	Negatives (and mitigations)
For the customer	• Opportunity to build relationship with a person who really understands my needs • Easier to understand when meeting in person • The weekly agent visit helps to keep me on track and means I don't have to go anywhere to make a payment • I can make payments in cash or by card, or by using other payment methods • My agent is flexible on when they come and visit and is happy to fit around me • I can update my agent in person on my latest situation and, if need be, ask to miss one or two payments before getting back on track in a few weeks' time • Lending process is faster when done face-to-face	○ Sometimes it is not desirable or convenient to have someone come to the house (the customer can easily rearrange the visit time via phone) ○ Could be embarrassing if I am unable to make the payment (we and our self-employed agents are highly experienced and have a strong forbearance culture that can help minimise any embarrassment) ○ I may feel awkward if I cannot understand the loan application process, cannot produce necessary documents or if I get rejected for a loan (agents are well-trained and help applicants to feel comfortable and avoid any embarrassment)
For the lender	• Easier to build a relationship and educate the customer about our products and the services we offer • Ensures we have an up-to-date insight into what is going on in the household (income and outgoings), informing our decisions on forbearance, if required, or if further credit is requested • Meeting customers face-to-face can often lead to personal introductions to potential new customers in the same area	○ Network is expensive to run and manage (attractive returns can be achieved when processes are followed closely) ○ Having lots of agents carrying cash is a risk for the Group (agents receive specialised training and we have developed systems and protocols to help minimise any associated risks and agent incidents are rare) ○ Performance can be affected by adverse weather conditions (we have a remote lending and collections capability if a period of bad weather is prolonged)

Drivers of recovery

1 There is a large demand for non-standard finance

Even before COVID-19, c.20-25% of UK adults were either unwilling or unable 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, this is expected to reverse in 2021. 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

15.1%

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

51.7%

Proportion of employees in the bottom decile of hourly pay in 2020 that were furloughed and receiving reduced pay. i.e. the lowest-paying jobs were over five times more likely than other employees to be furloughed with reduced pay[3]

Customers have low credit status/ are credit impaired

c.0.6m

County Court Judgments per annum[4]

14.2m

People have low financial resilience[2]

26%

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

2 Supply dynamics

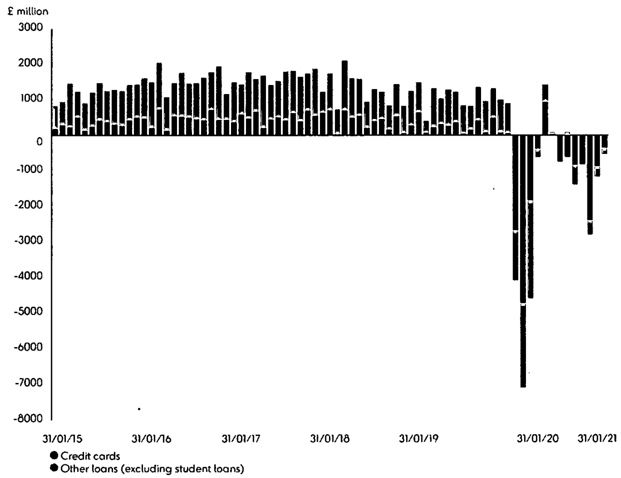
Prior to the pandemic, strong historic growth in consumer credit in the UK had been driven by prime customers, not those with lower credit scores[6].

Whilst the market is highly fragmented, there is a limited number of national providers of non-standard credit to supply this large market.

The outbreak of COVID-19 prompted a significant reduction in credit issuance as lenders were forced to reassess their lending criteria and as consumers significantly reduced their borrowings in the face of a rapid economic slowdown. Certain lenders have withdrawn from the market that is likely to increase the mismatch of supply and demand if a strong economic recovery is mirrored by a strong return to credit growth.

The supply of consumer credit in the UK

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

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 Low pay is defined as the value that is two-thirds of median hourly earnings. For example, median hourly earnings for all employees in 2020 was £13.68, therefore low-pay employees were anyone earning below £9.12. High-pay employees were those earning anything above 1.5 times £13.68, which was £20.52. 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: 2020, 3 November 2020.
4 Registry Trust Limited – 12-month volume of CCJs issued against consumers to December 2020 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.
6 www.fca.org.uk/insight/whos-driving-consumer-credit-growth.

THE DEMAND FOR NON-STANDARD FINANCE IS EXPECTED TO RECOVER IN 2021

3

Macroeconomic

- In 2020, UK GDP declined by 9.9%[7]
- Overall demand for unsecured lending was unchanged in Q1 2021, but was expected to increase in Q2 2021 with demand for both credit card and other unsecured lending expected to increase[8]
- Extensive government support meant that employment rates in 2020 remained robust at 75.0% (2019: 76.5%) although unemployment increased to 5.1% (2019: 3.8%)[9]
- Inflation (consumer price index including owner occupiers' housing costs) was low at 0.9% in the year to January 2021[10]
- This meant that in real terms, total pay grew at a faster rate than inflation, at positive 3.8%, and regular pay growth in real terms was also positive, at 3.3%[9]
- Long-term impact of the pandemic remains unclear and uncertainty over the pace of recovery is expected to continue to affect the UK economy in 2021 and possibly 2022
- Brexit is not expected to have a material effect on most of the Group's customers, all of whom are UK-based

Competition

- Highly fragmented with limited number of large, national firms
- Many mainstream lenders left the market post-2008 together with a number of high-cost lenders in 2019. Regulatory pressures and the fallout from the pandemic are also expected to result in changes to the competitive landscape
- Technology evolution may mean that new business models emerge
- Certain segments are expected to consolidate following regulatory developments

Regulation

- Strict regulatory framework helps to ensure a level playing field for all operators
- Repeat lending is a key feature of the home credit market and the FCA has made clear that there is no limit on the number of loans that can be issued
- Firms have provided significant forbearance to customers experiencing difficulty as a result of the pandemic
- Social distancing measures meant that the Group had to adapt its face-to-face approach in order to keep lending and collecting
- An increase in customer complaints driven by claims management companies has seen an increase in complaint handling costs for a number of firms with the largest player in the guarantor loans segment and the largest player in the home credit segment having announced that they may go into administration

4

Branch-based lending

In the market	**branches**	**customers**

Home credit

In the market	**offices**	**customers**

7 ONS – GDP Monthly estimate UK: December 2020, February 2021.
8 Bank of England – Credit Conditions Survey 2021 Q1, April 2021
9 ONS – Labour market overview: February 2020, released 18 February 2021.
10 ONS – Consumer price inflation, UK: January 2021, released 17 February 2021.

Business model

Providing affordable credit to those excluded by mainstream providers

The pandemic placed a significant strain on the Group's business model, impacting our ability to deliver benefits for key stakeholders. But, despite the challenges faced, we remained focused on delivering high levels of service to our customers – a service that they recognise and value.

Why we are different

Long-term funding
The Group uses equity and significant long-term debt facilities to help fund its business

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

Infrastructure
Branch-based lending and home credit are well-invested and highly scalable

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

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

What we do

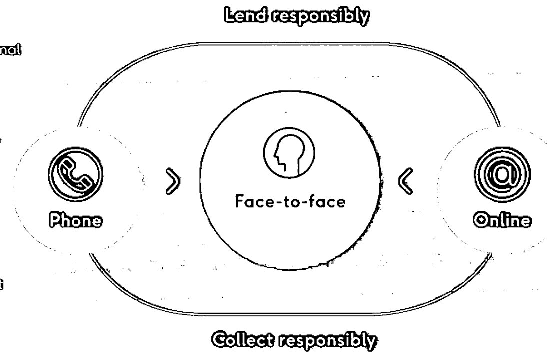
Seek to understand our customers' financial and personal circumstances

+

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
Through our business model we seek to deliver benefits for each of our key stakeholders.

Customers
High satisfaction ratings[1]
4.9/5
(2019: 4.9/5)

Our people
Total training days[2]
3,634
(2019: 5,402)

Communities
Total workforce[3]
1,766
(2019: 1,837)

Shareholders
Loss before tax[4]
£(6.3)m
(2019: Profit before tax of £14.7m)

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 2020. The total number of training days for Everyday Loans: 1,183 (2019: 2,946); Loans at Home (staff and agents): 2,022 (2019: 1,992); and Guarantor Loans Division: 428 (2019: 465).
3 NSF plc: 11 (2019: 11), Everyday Loans: 467 (2019: 476), Loans at Home (staff and agents): 1,201 (2019: 1, 209), and Guarantor Loans Division: 87 (2019: 141).
4 Normalised (loss) profit 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 2020.

Group Chief Executive's report

Year to 31 December	2020 £000	2019 £000	% change
Normalised revenue[1]	**164,102**	183,657	*-11%*
Reported revenue	**162,665**	180,784	*-10%*
Normalised operating profit[1]	**(6,316)**	42,165	*-115%*
Reported operating profit	**(24,452)**	32,066	*-176%*
Normalised profit before tax[1]	**(35,152)**	14,707	*-339%*
Reported (loss) before tax	**(135,721)**	(75,976)	*-79%*
Normalised profit after tax[1]	**(35,152)**	11,446	*-407%*
Reported (loss) after tax	**(135,557)**	(76,308)	*-78%*
Normalised earnings per share[2]	**(11.25)p**	3.67p	*-407%*
Reported (loss) per share	**(43.39)p**	(24.45)p	*-77%*
Full-year dividend per share	**0.0p**	0.7p	*-100%*

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) profit after tax of £(35.2)m (2019: £11.4m) divided by the weighted average number of shares in issue of 312,437,422 (2019: 312,126,220).

The 2020 and 2019 reported results include fair value adjustments, the amortisation of acquired intangibles and the write-off of goodwill assets. The 2020 results were severely impacted by the pandemic and also include exceptional items (see below) totalling £97.9m that relate to a number of different items including goodwill impairment, provision for customer redress, the write-off of certain capitalised fees and costs related to restructuring. Exceptional items in 2019 totalled £80.6m and included the costs arising from the lapsed offer to acquire Provident Financial, goodwill impairment and restructuring in all three business divisions. Normalised results are presented to demonstrate Group performance before these items.

The impact of the pandemic has been severe and has affected all areas of our business, requiring each of our divisions to adapt to a highly dynamic and uncertain business and macroeconomic environment. Social distancing rules as well as a series of national and regional lockdowns, in conjunction with the offer of unprecedented levels of forbearance for customers, placed significant strain on our business model. In addition, the Group has been the subject of a number of regulatory issues that have, among other things, impacted performance and required the payment of redress to certain of the Group's customers, placing further strain on our business, operations and people. However, despite such challenges, our staff and self-employed agents have been outstanding in their dedication to serving their customers and ensuring that we were able to continue to operate through what has been a most difficult trading period.

Whilst the pandemic forced us to adapt our approach temporarily in both branch-based lending and home credit, we remain committed to our traditional face-to-face lending models in both businesses and continue to believe that our approach can deliver superior outcomes for customers and significant and sustainable benefits for our other key stakeholders over the medium term.

However, having completed a detailed review of the Group's Guarantor Loans Division and its prospects, the Board has concluded that shareholder interests will be best served by placing the division into a managed run-off and ultimately closing the business. Whilst hugely disappointing, collecting out the loan book is the only rational conclusion given the combined impact of the pandemic, the FCA review into guarantor loans and the expected increase in costs in order to meet revised FCA requirements that would necessarily impede any potential recovery in profitability in the future.

Whilst disappointed to be announcing our exit from this segment, the Board remains focused on concluding its discussions with the FCA regarding redress and completing the independent reviews of its other businesses so that it can then expedite the completion of a substantial capital raise of around £80m (the 'Capital Raise') during the third quarter of 2021. The Capital Raise, if successful, would fund the payment of redress and mean that the current constraints on our ability to execute our business strategy would be removed. At the same time, the outlook for the Group would be significantly improved on the back of a strengthened balance sheet and with the prospect of a substantial growth opportunity in both branch-based lending and home credit.

It remains the Directors' reasonable expectation that the Group and Company will raise sufficient equity in the timeframe required and will continue to operate and meet its 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.

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 during the next 12 months and as a result would not be able to access further funding over the period of breach and would require waivers from its lenders. In such circumstance, the Group may fall under the control of its lenders and there would be a possibility of the Group going into insolvency.

After an encouraging first two months' trading in January and February 2020, the world was turned upside down as the pandemic gripped the UK during March 2020. A summary of some of the key operational developments that took place during the year are highlighted below:

- *Branch-based lending:*
  - net loan book[3] down 20% to £171.5m
  - pivot to home working in March 2020 with 360 Chromebooks formatted and despatched to staff at their homes
  - 185 staff were furloughed as branches were temporarily closed during April 2020 (the number on furlough was quickly reduced to nil) and 48 staff were made redundant
  - no lending in April 2020, restarted in May 2020 but further impacted by regional and national lockdowns
- *Home credit:*
  - net loan book[3] down 32% to £26.9m
  - commission rate on remote collections increased and all agents switched to remote collections within seven days of first lockdown
  - four staff were furloughed, no COVID-related redundancies
  - rapid development and roll-out of remote lending process
  - 'Amazon-style' collection protocol developed for customers unable to access remote channels
- *Guarantor loans:*
  - net loan book[3] down 43% to £59.8m
  - minimal lending since August 2020 while collections remained robust
  - eight staff were furloughed, 15 lending staff made redundant and a further 10 were redeployed into collections
  - whilst redress methodology not yet finalised, a total charge of £15.4m has been made based on the Directors' best estimate of the expected costs

On a like-for-like basis, the combined net loan book at 31 December 2020 fell by 28% to £258.2m before fair value adjustments (2019: £360.2m) and was down by 29% to £258.2m (2019: £361.6m) after fair value adjustments. A summary of the other key performance indicators for each of our businesses for 2020 is shown below:

Key performance indicators[3] **Year ended 31 Dec 20**	**Branch-based lending**	**Home credit**	**Guarantor loans**
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)%**

Key performance indicators[3] Year ended 31 Dec 19	Branch-based lending	Home credit	Guarantor loans
Loan book growth	17.6%	(2.7)%	27.7%
Revenue yield	46.4%	167.5%	31.7%
Risk adjusted margin	36.1%	122.2%	23.2%
Impairments/revenue	22.2%	27.0%	26.8%
Impairments/average net loan book	10.3%	45.2%	8.5%
Cost:income ratio	45.4%	58.0%	43.2%
Operating profit margin	31.9%	15.0%	29.4%
Return on assets	14.8%	25.1%	9.3%

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

The events of the past 18 months had a severe impact on each of our three business divisions and in the 12 months to 31 December 2020 the Group's normalised revenue before fair value adjustments fell by 11% to £164.1m (2019: £183.7m) and a normalised operating profit of £42.2m in 2019 was reduced to an operating loss in 2020 of £6.3m. A small increase in interest charges meant that the Group generated a normalised loss per share of 11.25p (2019: normalised earnings per share of 3.67p).

The Group's 2020 and 2019 reported, or statutory results are significantly affected by fair value adjustments, the amortisation of acquired intangibles associated with the acquisitions of Everyday Loans and George Banco and exceptional items. On a statutory basis, reported revenue, which is after fair value adjustments, was £162.7m (2019: £180.8m) while total exceptional items of £97.8m (2019: £80.6m) and £1.3m amortisation and write-off of acquired intangibles (2019: £7.2m) meant that the Group reported a loss before interest and tax of £106.9m (2019: loss before interest and tax of £48.5m) and the reported loss before tax was £135.7m (2019: £76.0m).

A summary of the exceptional items, a number of which were included in the Group's 2020 half year results, is shown below (see note 7 to the financial statements).

Year ended 31 December	2020 £000	2019 £000
Impairment of goodwill asset (non-cash) – branch-based lending	**(47,107)**	(44,788)
Impairment of goodwill asset (non-cash) – guarantor loans	**–**	(8,597)
Impairment of goodwill asset (non-cash) – home credit	**(27,725)**	(12,452)
Advisory fees	**(1,444)**	(12,807)
Write-off of capitalised fees associated with the Group's securitisation facility	**(5,795)**	–
Provision for customer redress	**(15,401)**	–
Restructuring costs	**(362)**	(1,939)
Total	**(97,834)**	(80,583)

Our focus on meeting the majority of our customers face-to-face means that we are heavily invested in large distribution networks for both our branch-based lending and home credit divisions. Whilst such infrastructure is expensive to operate, personal contact with our customers provides additional and invaluable insight for our underwriting process, insight that is not available to remote-only lending models and is only made possible through meeting the customer personally. Building a strong relationship with our customers helps us to better manage the rate of impairment and ensure that customers in financial difficulty are given due forbearance in a way that works for them.

The imposition of national as well as local government restrictions on social distancing forced us to adapt to new ways of working in 2020, particularly for our two face-to-face lending models: branch-based lending and home credit. Whilst the pandemic threw up many challenges, each of which contributed to us reporting a significant pre-tax loss in 2020, we remain confident that the face-to-face lending model can continue to meet the needs of our customers, whilst also generating profitable growth over the long term.

A summary of the performance of each division in 2020 is given below with further details in the 2020 financial review.

After a strong performance in the first two months of 2020, the decision to close all 74 branches, albeit temporarily, had a significant impact on our branch-based lending business. New borrower lead volumes began to decline during March 2020 and whilst they started to recover in May 2020, for the year as a whole, leads were down 28% versus 2019. With fewer leads and more stringent screening criteria for new customers given the pandemic, total applications to branch ('ATBs') fell by 32% and the total number of loans booked fell by 36%. The net result was a 55% reduction in normalised operating profit to £13.4m (2019: £29.7m). Higher interest costs, restructuring costs and the write-off of set-up fees incurred in respect of the Group's securitisation facility, resulted in a reported loss before tax of £11.2m (2019: profit before tax of £12.0m).

Being unable to visit customers at their homes, either to make collections or to issue loans, placed a significant threat to the livelihoods of our self-employed agents and severely tested our core business model. However, we pivoted rapidly to remote-only collections and accelerated the delivery of a remote lending process that was developed in-house and was operational within just a few weeks. Minimal lending in April 2020 was followed by a steady recovery during the summer months but the usual seasonal peak in November and December was curtailed by regional and then national lockdowns, as well as a lower than usual level of demand due to Christmas being a more low-key affair for many due to the pandemic. As a result, there was a marked reduction in loan issuance for the year as a whole and while collections held up reasonably well, they were still down 26% versus the prior year. The net result was that the division delivered a normalised operating loss of £2.5m versus an operating profit of £9.1m in the prior year. Strong cashflow in the year led to lower interest costs resulting in a reported pre-tax loss of £3.7m (2019: profit before tax of £6.8m).

Young adults were amongst the hardest hit in financial terms and were the most likely age group to have either lost their job or been furloughed as a result of the pandemic[4]. As the vast majority of our borrowers are under the age of 40, the division's performance was severely impacted with a high proportion of customers seeking COVID-related forbearance, coupled with a marked increase in impairment. In addition, concerns raised by the regulator regarding certain lending processes meant that lending effectively stopped in August 2020, pending a review by the regulator and approval of a redress methodology for customers that may have suffered harm. Minimal lending and an increase in impairments whilst collections continued meant that the loan book shrank rapidly and by the end of 2020 it was approximately 40% smaller than a year earlier. This contributed to a normalised operating loss of £11.7m in the period (2019: operating profit of £8.8m). Whilst discussions with the FCA have not yet concluded, a provision for customer redress is included as an exceptional charge totalling £15.4m (see note 7 to the financial statements) which is based on the Directors' best estimate of the costs involved and is broadly in-line with that included in the 2020 half year results. The net result was that the division reported a loss before tax of £36.0m (2019: £2.2m).

Whilst the Group already carried a higher level of provision against outstanding loans than more mainstream lenders, the onset of the pandemic, together with the outputs from an ongoing assessment of expected credit losses resulted in the Group increasing its coverage ratios in all three divisions during 2020. As a result, as at 31 December 2020 on a combined basis, the coverage ratio increased to 19.5% (2019: 12.0%). Further details are set out in the 2020 financial review below.

4 Resolution Foundation analysis of YouGov. Adults between the age of 18-65 and the Coronavirus (Covid-19), January wave.

Group Chief Executive's report

As at 31 December 2020 the Group had cash at bank of £78.0m (2019: £14.2m) and gross borrowings of £330.0m (2019: £323.2m). As at 31 May 2021, cash balances had increased to £101.4m while gross borrowings remained unchanged.

On 11 March 2020 the Group announced that it had entered into a new six-year £200m securitisation facility. Having drawn down £15.0m from the new facility in April 2020, the onset of the pandemic subsequently prompted a breach of certain performance triggers in the facility agreement which were then cured by the repayment of the drawn amount in full in August 2020. 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.

The Group's other facilities, namely a £285m term loan facility that matures in August 2023 and a £45m revolving credit facility maturing in August 2022, remain fully drawn. The Group is in discussions with its lenders regarding a possible extension to the term of its existing facilities. Any such amendments to the existing facilities would be conditional on the completion of the Capital Raise.

The Directors acknowledge the considerable challenges presented over the last year and the material uncertainty which may cast significant doubt on the ability of both the Group and the Company to continue to adopt the going concern basis of accounting. However, despite these challenges, it is the Directors' reasonable expectation that the Group and Company will raise sufficient equity in the timeframe required and will continue to operate and meet its liabilities as they fall due for the next 12 months and beyond and therefore it has concluded the business is viable.

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 during the next 12 months and as a result would not be able to access further funding over the period of breach and would require waivers from its lenders. In such circumstance, the Group may fall under the control of its lenders and there is a possibility of the Group going into insolvency.

Regulation

During 2020, the FCA announced a series of measures as part of a coordinated effort to support borrowers affected by the outbreak of COVID-19. These included an 'Emergency Payment Freeze' or 'EPF' of up to three months, during which affected borrowers would not be required to make any payments on their outstanding loan but during which interest could continue to be charged. During 2020, the EPF deadline was extended from 30 June 2020 to 31 October 2020 and then again to 31 March 2021 with the additional proviso that affected borrowers could take advantage of an EPF for up to six months in aggregate.

Following completion of the FCA's multi-firm review of the guarantor loans sector, on 3 August 2020 the Group announced that the FCA had raised a number of concerns regarding certain procedures within the Group's Guarantor Loans Division and that the Group had begun to develop a redress methodology for affected customers. Whilst this work is not yet complete, the Group has made an exceptional charge based on the Directors' best estimate of the expected cost of redress totalling £15.4m (refer to note 24 of the financial statements). Whilst clear that our interpretation of what processes were required in guarantor loans fell short of the regulator's expectations, a positive working relationship with the regulator has helped us to improve our processes and overall business approach. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, based upon a detailed methodology and analyses developed in conjunction with its advisers, the FCA has not yet approved the methodology proposed. Therefore, although the Directors believe their best estimate represents a reasonably possible outcome, there is a risk of a less favourable outcome.

Complaint handling remains a key area of focus following a marked increase in the number of complaints received from claims management companies ('CMCs') as well as from consumers direct. While the Group is focused on addressing all complaints in compliance with FCA rules and has increased its resources in this area, it has also raised concerns with regulators regarding certain CMCs that appear to be lodging large numbers of claims without proper authority from customers or by using customer data that has been obtained without proper authorisation.

In the light of its proposed redress methodology in guarantor loans, the Group is also conducting an independent review of its lending processes and procedures in both of its other divisions, taking account of recent decisions at the Financial Ombudsman Service. The Directors recognise that, whilst the review work done so far has not identified any systemic issues requiring an increase in provision, there remains a risk that the final outcome of these reviews may result in the identification of customers who may require redress, and the cost of redress for the Group could be materially higher than is currently provided for in the financial statements.

The Group has continued to contribute, both directly and through trade associations, to a number of consultations including HM Treasury's Future Regulatory Framework Review and the Treasury Select Committee's review of the Future of Financial Services.

A summary of the more pertinent regulatory developments during 2021 and into 2020 are available on the Group's website: **www.nsfgroupplc.com.**

1 Resolution Foundation analysis of YouGov. Adults between the age of 18-65 and the Coronavirus (COVID-19), January wave.

STRATEGIC REPORT

As an exclusively UK-focused lender, our exposure to changes in EU-orientated legislation is limited, but we nonetheless have been monitoring the impact of Brexit and its potential effect on both our own business model and those of our commercial partners, such as Credit Reference Agencies ('CRAs'). The Credit Rating Agencies Regulations 2019 came into effect on 31 December 2020 and effectively 'onshored' previous EU legislation and enshrined it into UK law without any material changes. Our CRA partners are shown on the FCA register with full permissions as required to carry on regulated activities.

Whilst we do not trade with, or send data to businesses in the EU, some of our legal documents referenced the EU or at least EU regulation, some of which has also been onshored in recent months. This has meant changes to some domestic legislation affecting us directly such as The Financial Services and Economic and Monetary Policy (Consequential Amendments) (EU Exit) Regulations 2020, changing pre-contract consumer credit information documentation as well as changes to The Data Protection Act 2018 and the associated changes to what is now the UK GDPR which sits alongside it as per the Keeling Schedule. We have therefore taken the requisite steps to ensure that all of our legal and contractual agreements reflect such changes ahead of the required deadlines.

EU/EEA citizens seeking to continue working in the UK after 30 June 2021 need to have applied for settled status under the EU Settlement Scheme. Whilst the number of EU/EEA nationals directly employed by the Group is small, each of the Group's regulated entities have reminded staff of these requirements for them to apply for pre-settled or settled status. If the Group or one of its subsidiaries wishes to employ anyone from the EU/EEA who is not eligible for EU settled status then the company concerned will have to apply to the Home Office to become eligible to sponsor applications.

Since the start of 2021, the Group overall has traded better than expected, with both branch-based lending and home credit having performed ahead of expectations on the back of increasing lending volumes and solid collections, whilst guarantor loans has now been placed into run-off. The Group is trading ahead of budget, with a steady growth in monthly sales and historically low levels of impairment in both branch-based lending and home credit whilst the number of complaints has reduced substantially.

Given the scale of losses in 2020 and prior years, as at 31 December 2020 the Company no longer had any distributable reserves and so is unable to pay cash dividends. 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, completing the reviews of its other two divisions and on the completion of the Capital Raise in the third quarter of 2021. If successful, such a capital raise would 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 safeguard the interests of shareholders and other stakeholders and to avoid insolvency.

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 2020 Annual Report.

The Directors acknowledge the considerable challenges presented over the last year and now facing the Group and the Company and therefore the material uncertainty which may cast significant doubt on the ability of both the Group and the Company to continue to adopt the going concern basis of accounting. However, despite these challenges, it is the Directors' reasonable expectation that the Group and Company can and will raise sufficient equity and continue to operate and meet its liabilities as they fall due for the next 12 months and therefore it has adopted the going concern basis of accounting.

The assumption of shareholder support for additional equity, 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.

The AGM of the Company is scheduled to take place on 30 June 2021. A separate notice of meeting has already been dispatched to shareholders and a copy is available from the Group's website: **www.nsfgroupplc.**

As the 2020 audit has taken longer to complete than expected and in accordance with DTR 4.1.3R, the Company has used the additional time granted before publishing audited accounts, to consider "all aspects of their business and operations" and to ensure that the forward looking elements of our Annual Report adequately considered and took into account the impact of the pandemic insofar as possible upon the business.

Given the timescales, it has been necessary to apply to Companies House for an extension to the filing date of the Group's audited accounts. As the anticipated date for completion of the audited accounts did not allow a clear 21 days' notice prior to the required AGM date, the Company is required to hold a separate general meeting to approve our audited accounts. This will now take place at 2.00pm on 16 August 2021 and the notice of meeting will be dispatched to shareholders with the Annual Report.

John van Kuffeler
30 June 2021

Strategic framework

Our business strategy has three elements, each of which remains central to our long-term success:

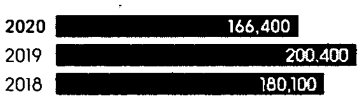
Strategic priorities | **2019-2020 performance**

01. Being a leader in each of our chosen segments

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.

NET LOAN BOOK

TOTAL NUMBER OF CUSTOMERS

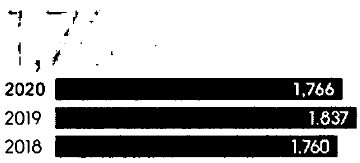


02. Investing in our core assets

Other than the loans we make to customers, our core assets tend to be intangible in nature and include things such as distribution networks, our people, our technology and our brands.

NUMBER OF LOCATIONS

SIZE OF WORKFORCE*



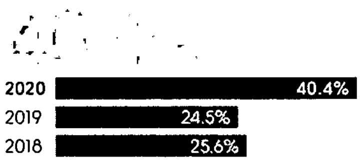
* Including self-employed agents.

03. Acting responsibly

'Doing the right thing' is easy to say but harder to do, especially during a pandemic.

Whilst impairment increased in 2020, being responsible remains at the heart of our business values and culture and we work hard to ensure that it is embedded into all of our behaviours, policies and procedures.

IMPAIRMENT AS % REVENUE



The Group continues to support a range of charities including Loan Smart, that is focused on raising awareness of the dangers of illegal lending.

For more on our stakeholder engagement see pages 40-49

2019-2020 developments		2021-2022 objectives
• The pandemic tested every area of our business including our systems, procedures, people and culture • Whilst total loan book declined, previous investments in our people, infrastructure and culture helped to ensure that we maintained a strong market position in both branch-based lending and home credit • We maintained high levels of contact with staff and self-employed agents through regular and informative communications both in person and via the Group's intranet • Wherever possible we continued to meet customers face-to-face as this remains a core part of our lending process in branch-based lending and home credit	• Everyday Loans was named Non-Mainstream Loan Provider of the Year for the second year running by Moneyfacts Consumer Awards 2020 • A larger proportion of the guarantor loans customer base was affected financially by the pandemic • The FCA's multi-firm review in to guarantor loans and the requirement to pay customer redress meant that lending reduced significantly and the whole sector shrank in 2020	• 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 on average incomes that are also credit impaired • Position Loans at Home as the preferred home credit provider for self-employed agents, enabling the Group to build market share as others withdraw from the market • Stabilise and then grow the loan books of both branch-based lending and home credit • Wind down and collect out the guarantor loans portfolio whilst controlling costs • Continue to invest in driving good customer outcomes whilst supporting our staff and self-employed agents
Branch-based lending • Temporary shift to home working with over three hundred devices configured and distributed to our branch-based staff • Safety screens, personal protective equipment and other appropriate measures installed in branches and head office • Enhanced telephony installed across the network • Open banking pilot launched • Approximately three days' training completed for every member of the workforce	**Home credit** • Development and launch of all new remote lending tools and online customer portal • Enhancements made to remote collections process • 24 remote learning modules completed, over 2,000 training days in total – approximately two days' training per member of the workforce (staff and self-employed agents) **Guarantor loans** • 75 devices configured allowing seamless homeworking for staff • Enhanced lending and collections training introduced for all staff	**Branch-based lending** • Grow loan book and continue to evolve our creditworthiness assessment processes • Develop more tailored lending process using open banking tools • Continue to leverage technology to drive operational efficiency **Home credit** • Seek to attract more self-employed agents and grow active customer base • Continue to evolve our technology to support agents and customers • Launch open banking pilot **Guarantor loans** • Focus on collections whilst continuing to manage costs

Branch-based lending
• Provided forbearance to over 14,900 customers that were adversely affected by COVID-19
• At 31 December 2020 the number of customers[1] still being affected was 2,700
• Waived all interest during the period of any emergency payment freeze as a result of the pandemic customers
• Improved branch assurance metrics
• Developed further enhancements to creditworthiness assessments
• Staff engagement remained high despite the pandemic
Home credit
• Provided forbearance to over 14,900 customers that were adversely affected by COVID-19
	• At 31 December 2020 the number of customers[1] still being affected was 200
	• Increased commission rate on remote collections for agents to help mitigate the impact of the pandemic on their income
	• Staff engagement remained high despite the pandemic
	• Improved identification and capture of customer vulnerabilities
	Guarantor loans
	• Provided forbearance to 8,900 customers that were adversely affected by COVID-19
	• At 31 December 2020 the number of customers[1] still being affected was 3,500
	• Development of customer redress methodology for customers where harm was suspected
		• Whilst branch-based lending and home credit are very different, they share a number of common objectives:
		  • Further enhance complaints handling procedures and incorporate any learnings from the independent reviews of both businesses
		  • Develop a coherent assessment and plan to help mitigate any environmental impact
		  • Continue to support Loan Smart that is focused on awareness-raising events in locations where we have a presence
		  • Continue to enhance our procedures for identifying and servicing vulnerable customers

1 Excludes customers that had been cured or whose balances had been written-off.

Risk management

The Group faces a number of potential risks that could have a material impact on overall performance and might cause financial results to differ materially from both expected and historic results.

The impact of the pandemic on the UK economy generally, and on our business specifically, brought a number of the Group's key risks into sharp focus during 2020. They include the risk that: the costs of customer redress are much higher than expected; the Capital Raise is not successful, or takes longer to execute than planned; the financial performance of the Group is worse than expected; and that as a result, the Group breaches its loan covenants and the firm falls under the control of its lenders.

Having embedded Xactium, the Group's integrated risk management system that was first deployed in 2018, into all areas of our business, we were better placed to anticipate and manage key risks as the pandemic unfolded. Whilst a number of the challenges faced were new and unexpected, the framework in place helped to improve our first line risk management activity and also helped to provide executive management and the Board with clear second line oversight across the Group during what was a highly dynamic and unpredictable period (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 helping the Group to navigate what was a significant macroeconomic shock.

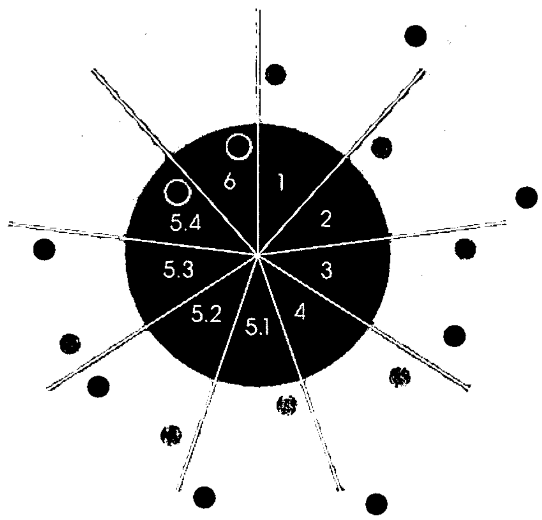
The chart opposite illustrates the principal risk categories identified by the Board (i.e. those with the highest residual risk ratings for the Group) and how they have changed over the past year. The following pages provide further detail and seek to identify for each risk category: (i) what we are 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.

For further information on our approach to risk, please see the Risk Committee report on page 80.

Our principal risk categories

- ■ Very high
- □ High
- Medium
- ● 2020 assessment
- ● 2019 assessment

1 Conduct
2 Regulation
3 Credit
4 Business strategy
5.1 Business risk – operational
5.2 Business risk – reputational
5.3 Business risk – cyber
5.4 Business risk – coronavirus (COVID-19)
6 Funding and liquidity



Principal risks

Risk definition	Mitigation	Change in 2020	Explanation
1. C[illegible]			
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 • Close and active monitoring of all customer complaints with learnings fed back into our lending and collections practices • Whilst less than in 2019 due to the pandemic, we continued to invest in developing our procedures and systems, supported by extensive training with over 3,600 training days completed in 2020 • Whilst less than in 2019 due to the pandemic, we continued to invest in developing our procedures and systems, supported by extensive training with over 3,600 training days completed in 2020 • Clear policies and procedures, including whistleblowing • Carefully designed and balanced incentive programmes with appropriate malus and clawback provisions when required standards are not met • Diligent application of 'three lines of defence': – policies, procedures and quality assurance in customer-facing roles; – compliance and conduct assurance; and – internal audit.	Increased	Each of the Group's divisions has a Risk and Compliance Director that reports to their respective CEO as well as the Group Chief Risk Officer. This helps to ensure a consistent approach in our management of key risks, including conduct risk across the Group. As part of its role in supporting the in-house internal auditor, KPMG also conducts periodic reviews of the Group's lending and collections practices. Despite this robust framework, the number of complaints received increased significantly in 2020, in large part due to an uplift in cases coming from solicitors and claims management companies (a number of which have been reported to the regulator for breaches of their obligations under the rules). To address this, the Group increased significantly its resources to manage such claims and is working with the FCA and the Financial Ombudsman Service ('FOS') to ensure a consistent approach and to improve our service to customers. Following completion of a multi-firm review into the guarantor loans sector, several firms, including the Group's Guarantor Loans Division, were required by the FCA to develop a redress methodology for certain customers that may have suffered harm. Whilst discussions with the FCA have not yet concluded, the Group has made an exceptional charge of £15.4m in 2020 to cover the expected costs of redress and expects to begin a process to execute the redress programme in the second half of 2021. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, based upon a detailed methodology and analyses developed in conjunction with its advisers, the FCA has not yet approved the methodology proposed. Therefore, although the Directors believe their best estimate represents a reasonably possible outcome; there is a risk of a less favourable outcome.
2. Regulation			
All authorised firms are subject to a rigorous approval process as well as ongoing supervision by the FCA. Non-compliance can result in fines, 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.**	• Open and active engagement with the FCA as well as industry peers • Diligent monitoring/assessment of all regulatory change both in-house as well as through external advisers • An active regulatory affairs programme identifying and addressing the concerns of key stakeholders • A continuous process of investment, quality assurance and internal audit reviews seeks to ensure we meet all of our regulatory obligations • Review of all FOS decisions so that learnings can be applied across each of our business divisions, as appropriate • In guarantor loans, the Group engaged fully with the FCA's multi-firm review and developed a proposed methodology for redress • The Group has commissioned a detailed and independent review of its lending, collecting and complaints handling activities in both branch-based lending and home credit. The Directors recognise that, whilst the review work done so far has not identified any systemic issues requiring an increase in provision, there remains a risk that the final outcome of these reviews may result in the identification of customers who may require redress, and the cost of redress for the Group could be materially higher than is currently provided for in the financial statements.	Increased	Each of the Group's business divisions is fully authorised by the FCA and is committed to the highest standards of regulatory conduct. Whilst clear that our interpretation of what processes were required in guarantor loans fell short of the regulator's expectations, a positive working relationship with the regulator has helped us to improve our processes and overall business approach. HM Treasury's review of the future regulatory framework for financial services together with the appointment of a new CEO and other senior management changes at the FCA, as well as the FOS, may signal that further regulatory change could be on the horizon. The FCA continues to conduct a rolling programme of research and thematic reviews to maintain its oversight of various sectors of the non-standard finance market and this work remains ongoing. The FCA requirement to provide borrowers affected by COVID-19 with an emergency payment freeze contributed to an increase in provisions and lower net book values (see principal risks 5.4 and 6 below). The Group continues to monitor closely the nature and number of complaints so that it can adjust its lending and collections practices as well as its approach to complaint handling.
3. C[illegible]			
Any marked increase in the rates of impairment or defaults by the Group's customers could impact the performance of the Group.	• Detailed weekly and monthly management information on historic and expected future credit performance • In 2020 this was analysed separately for COVID-flagged and non-COVID flagged customers • In response to the pandemic, each business adapted its lending criteria to the new business environment • Continuous process of review and refinement of each business's credit scorecard, creditworthiness assessment process and lending criteria • Regular credit committee reviews of policies and outcomes	Unchanged	As expected, COVID-19 increased credit risk in 2020 and also resulted in an increase in macroeconomic uncertainty. While this combination prompted an increase in impairment and loan loss provisioning in 2020, adjustments to our lending processes and creditworthiness assessments, together with a continued flow of quality applicants meant that the performance of lending conducted since the start of the pandemic in both branch-based lending and home credit has been better than expected. There was very little lending in guarantor loans after the end of July 2020 and the business is now in a managed run-off.

Increased Unchanged Decreased

Principal risks continued

Risk definition	Mitigation	Change in 2020	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 impacted the Group's financial performance and contributed to a significant strain being placed on the Group's balance sheet. As a result, the Guarantor Loans Division is in run-off and there are material uncertainties as 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. Such support remains subject to the outcome of the Group's engagement with its lenders, Alchemy's analysis of the FCA's and the Group's regulatory reviews and greater levels of certainty around redress and claims, including in relation to the home credit division • The Board has significant and relevant experience of the non-standard sector and conducts an annual review of all aspects of the Group's strategy • Detailed due diligence is completed on all acquisitions with advice from specialists on legal, financial and regulatory aspects • Detailed review of weekly and monthly management information on operating performance • Careful monitoring of market dynamics, competitor behaviour and performance		Whilst it is expected that the Capital Raise would strengthen the Group's balance sheet significantly, underpinning the future growth plans of both branch-based lending and home credit, uncertainty remains over whether the Capital Raise can be completed as planned. If the Capital Raise is successful then, as set out in the Group Chief Executive's report on pages 15 to 19, the Board believes that a major opportunity exists as a result of, inter alia, a more cautious approach taken by mainstream lenders, applicants that would have previously qualified for mainstream credit, now have to seek credit from alternative lenders such as those owned and controlled by the Group. The decision to place the guarantor loan book into run-off means that, going forward, the Group will be focused on two divisions: branch-based lending and home credit. Whilst engagement to date indicates that Alchemy Special Opportunities LLP 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.
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 • changes in the self-employed status of home credit agents • threats to agent safety • failure to recruit and retain key staff • underperformance by key staff • disaster recovery and business continuity • large numbers of upheld customer complaints	• 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 are in place to mitigate risk including disaster recovery plans • Policies, procedures and extensive training is in place to identify, investigate and report fraud • Careful monitoring with our advisers of the tax status of home credit agents • Agents receive regular training about personal safety and any incident is carefully monitored to inform policy and procedures • A series of recruitment, retention and incentive programmes are already in place • Members of the NSF management team sit on and attend all board meetings of the operating subsidiaries • Detailed business continuity plans have been prepared and adopted by all three business divisions • The Group has enhanced its complaint handling procedures and is able to flex its resourcing in this area, if required		Having developed new technology and adapted working arrangements in order to adapt to a revised working environment during COVID-related restrictions, the Group has created a number of opportunities to drive new revenue streams as well as reduce costs and increase operational efficiency. The use of electronic signature by branch-based lending applicants increased significantly in 2020, facilitating lending without having to meet face-to-face, improving the customer journey and accelerating the completion of loan applications. Digital payments in home credit also increased following government restrictions on social distancing. All three businesses have disaster recovery plans in place. Contingency plans have proven to be effective during the pandemic in helping to safeguard the health and safety of staff and self-employed agents, as well as helping to mitigate the impact on business performance. The shift to homeworking was smooth and without incident and all three businesses are able to lend and collect remotely. There have been a number of court cases regarding the employment status of certain workers and the government has conducted a series of consultations into working practices in the UK, including one on employment status. As a result, the employment status of self-employed workers for a number of UK business models may be subject to change. While agent-related incidents are rare, we continue to ensure that agents follow carefully designed procedures so they remain safe. A tight span of control helps to provide appropriate oversight of all areas of our home credit business. The Group is able to recruit the people that it needs to execute its plans and while there is a degree of staff turnover, this is within accepted levels of tolerance. 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.

Decreased Increased Unchanged

Risk definition	Mitigation	Change in 2020	Explanation
5.2 Business risk (reputational)			
Lending money at high rates of interest means that consumer finance can attract a higher level of media and political scrutiny than certain other business sectors. Whilst the Group is committed to meeting all of its regulatory obligations, including the delivery of positive customer outcomes, its reputation may become tarnished by 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. An increased focus on environmental, social and governance ('ESG') matters and the need for additional disclosures may incur additional costs for the Group and may damage the Group's reputation if it fails 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 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 • Whilst still a relatively new company, we have embarked upon a Group-wide exercise to ensure that 'what we say is what we do' and that our processes and procedures are consistent with our desired culture, values and behaviours (see page 4). • 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 are expected to come into force in April 2022. As part of this exercise, the Group is also considering the recommendations of the Sustainable Accounting Standards Board ('SASB').		We continue to engage actively with all of our key stakeholders, including customers, regulators, suppliers, Members of Parliament, debt-related charities, the media, think-tanks, investors and debt providers (see Stakeholder management and our commitment to Section 172 on pages 40 to 49). Through this process of engagement, we aim to demonstrate why we are different from other consumer credit firms and why we believe that NSF stands out from competitors. This has included supporting Loan Smart, a charity focused on helping consumers understand the dangers of illegal lending. The tightening of lending criteria by mainstream lenders during the pandemic means that the Board expects that the pool of consumers seeking access to non-standard credit is set to increase. In developing a redress methodology for guarantor loans, the Group has sought to ensure that all those eligible for redress will receive such amounts in full.
5.3 Business risk (cyber)			
The Group may suffer data loss or be subject to an unauthorised change that causes a security issue, data or systems abuse, cyber-attack or denial of service to any of the Group's systems.	• The Group has dedicated internal teams, supported by external providers that monitor and assess such risks • Divisional and Group Risk Committees oversee cyber risks including monitoring and crisis management plans in line with industry best practice • Regular internal audit and external third-party review of cyber security status across all businesses • Full disaster recovery plans have been developed and are in place for all three operating divisions • Much of the Group's technology infrastructure is now cloud-based thereby delivering a number of operational benefits including enhanced levels of security • The Group is conducting an operational resilience assessment in 2021 to identify any areas of potential risk and recommend steps to help improve resilience		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.

Decreased Increased Unchanged

Principal risks continued

Risk definition	Mitigation	Change in 2020	Explanation
5.4 Business risk (COVID-19)			
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 • Both branch-based lending and home credit are now able to lend and collect remotely, without the need for face-to-face contact with customers • Having put in place the requisite protocols and procedures to be able to operate during government lockdowns and related restrictions, the Group's staff and self-employed agents are well-versed in such procedures, helping to minimise the risk of additional disruption • During the pandemic, HM Government put a series of measures in place to support the economy and to help soften the impact on consumers as well as the business community • Enhanced creditworthiness assessments and revised lending procedures have helped to improve the quality of lending since the start of the pandemic in March 2020 • It is expected that a future capital raise, if approved by shareholders, 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 the level of lending across the Group		COVID-19 began to impact the UK economy in March 2020. Whilst government restrictions can impact lending and collections activity together with an increase in expected credit losses due to the pandemic, the Group also believes that such conditions 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 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. Whilst extended from an initial period of three months to six months in 2020, the final deadline for opting for such an EPF was 31 March 2021. Any reintroduction of EPF or similar measures could impact the future financial performance of the Group.
6. Funding and liquidity			
The Group may not be able to meet its financial obligations because: • it is unable to borrow to fund lending by its operating businesses • it has failed to renew/replace existing debt facilities as they become payable • it cannot fund growth and further acquisitions • declines in net book value may impact the Group's ability to access existing debt facilities	• The Group intends to complete a substantial capital raise of around £80m, subject to shareholder approval • Excluding any proceeds from such capital raise, as at 31 May 2021 the Group had cash at bank of £101m and net debt of £229m • 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		Whilst the Board is pursuing a capital raise to strengthen the Group's balance sheet and avoid any possible covenant breach of its current debt facilities, there is no certainty it will be successful. If the Capital Raise is not successful and/or if there is a further economic slowdown; or if the FCA requires lenders to provide borrowers affected with additional levels of forbearance, over and above that already embedded within the Group's business model; and/or if poor business performance results in a significant increase in provisions and lower net book values, there is a risk that the loan-to-value covenants for the Group's debt facilities may come under pressure leading to a risk that the Group will no longer be viable and will become insolvent. As a result, whilst the Directors expect that a substantial capital raise will be completed in the required timeframe, a material uncertainty exists regarding the Group's ability to remain a going concern.

Decreased Increased Unchanged

2020 financial review

IF THE CAPITAL RAISE IS SUCCESSFUL, WE WILL BE WELL-PLACED TO MEET THE NEEDS OF AN EXPANDING CUSTOMER BASE.

[illegible]
GROUP CHIEF FINANCIAL OFFICER

[illegible]

Normalised revenue was down 11% to £164.1m (2019: £183.7m) reflecting the significant reduction in lending by all three divisions. The reduction in reported revenue to £162.7m (2019: £180.8m) reflected the continued reduction to the unwind of the fair value adjustment made to the George Banco loan book at the time of its acquisition in August 2017. Increased forbearance in the form of greater numbers of rescheduled and deferred loans in both branch-based lending and guarantor loans meant that modification and derecognition losses increased substantially versus 2019. The impact of the pandemic on the Group's customers was significant and whilst there were differences between the divisions, the overall level of collections reduced, prompting a marked increase in delinquency and loan loss provisions so that overall impairment costs increased by 47% to £66.3m (2019: £45.1m). Despite a number of cost reduction measures implemented by all three divisions, higher complaints costs and advisory fees meant that administration costs were slightly higher at £96.4m (2019: £95.8m), resulting in a normalised operating loss of £6.3m (2019: normalised operating profit of £42.2m).

The Group incurred £97.8m of exceptional items during the year (2019: £80.6m) of which the most significant items were the non-cash impairment to the remaining value of goodwill attributable to the Group's operating subsidiaries totalling £74.8m (2019: £65.8m); and a charge for redress to certain customers of the Group's Guarantor Loans Division totalling £15.4m (2019: nil). Despite a large increase in cash balances during the year, low deposit rates and an increase in average gross debt balances meant that net finance costs increased slightly to £28.8m (2019: £27.5m).

The net result was that the Group reported an increased statutory loss before tax of £135.7m (2019: loss of £76.0m). A small tax credit of £0.2m (2019: tax charge of £0.3m) meant that the reported loss after tax was £135.6m (2019: £76.3m) and the reported loss per share was 43.39p (2019: loss per share of 24.45p.

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

Year ended 31 December	2020 Normalised[1] £000	2020 Fair value adjustments, amortisation of acquired intangibles 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.

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

Normalised divisional results
The table below provides an analysis of the 'normalised' results for the Group for the 12-month period to 31 December 2020. 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 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**

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

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

[illegible]

	2020 Normalised[2] £m	**2020 Fair value adjustments £m**	**2020 Reported £m**	2019 Normalised[2] £m	2019 Fair value adjustments £m	2019 Reported £m
Branch-based lending	**171.5**	**–**	**171.5**	214.8	–	214.8
Home credit	**26.9**	**–**	**26.9**	39.9	–	39.9
Guarantor loans	**59.8**	**–**	**59.8**	105.5	1.4	106.9
Total	**258.2**	**–**	**258.2**	360.2	1.4	361.6

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

[illegible]

The Group's coverage ratio increased from 12.0% at 31 December 2019 to 19.5% at 31 December 2020. This was due to a number of factors including: the significant increase in credit risk across all divisions as a result of extensive forbearance offered to customers experiencing financial difficulty due to COVID-19; an increase in subsequent missed repayments as customers came to the end of their Emergency Payment Freeze ('EPF'); and an increase in provisions following a detailed review and assessment of the Expected Credit Losses ('ECL') from active loan balances not affected by COVID-19.

	31 Dec 2020	31 Dec 2019	Increase
Branch-based lending	**7.6%**	7.3%	0.3%
Home credit	**49.9%**	39.8%	10.1%
Guarantor loans	**26.7%**	5.3%	21.4%
Group	**19.5%**	12.0%	7.5%

The coverage ratio in branch-based lending increased by 0.4% to 7.6%, reflecting a modest increase in underlying delinquency due to: the impact of the pandemic; the output of a detailed review of the ECL from outstanding loan balances not affected by COVID-19; the impact of a more severe macro-economic outlook; and a reduction in new lending that contributed to a 20% reduction in receivables.

While the absolute level of provision was broadly unchanged year on year, the coverage ratio in home credit increased by 10.1% to 49.9% reflecting a significant increase in the proportion of customers moving into Stage 3. During 2020, home credit customers who would normally have been written-off due to greater than 26 weeks' consecutive missed payments remained on the book so as to allow the customer time to pay following the introduction of the EPF. While such balances were fully provided for, they were still present in the year end gross carrying value and therefore affected the overall coverage ratio. If such balances and the associated provision had been written-off at the year end, then the overall coverage ratio in home credit would have been 45.2% which is still a significant increase from 2019.

Guarantor loans saw the largest increase in provisioning, moving from 5.3% in 2019 to 26.7% in 2020. This reflected the relatively high proportion of customers that were impacted financially by COVID-19 and the fact that, under FCA rules and guidance, the Group was unable to approach guarantors whilst a borrower had opted for an EPF. It was also driven by a significant reduction in new lending and the consequent decline in the size of the outstanding loan book.

The requirement to provide support in the form of an EPF for customers affected by the pandemic impacted the ECL recognised in the branch-based lending and guarantor loans divisions for the year ended 31 December 2020. In order to quantify this, the Group has reviewed the behaviour of customers who opted for an EPF and/or notified us as being affected by COVID-19 and have used this data to inform updates to the Probability of Default ('PD'), Loss Given Default ('LGD') and staging profile of those receivables that were affected. The Group recognises that, in line with IASB guidance, the activation of an EPF by a customer is not automatically deemed a significant increase in credit risk ('SICR').

Throughout 2020, the Group therefore made adjustments in order to reflect the higher PD, LGD and expected loss at default ('EAD') for that proportion of branch-based lending and guarantor loans customers who were financially impacted by the pandemic. This process was also informed by the Group's detailed analysis of past repayment behaviours and expected repayments behaviour across the entire customer base. In the branch-based lending division, a COVID-19 overlay was derived based on the recent collection performance on COVID-affected accounts and whether any impact on collection performance was deemed to be temporary or permanent. An overlay adjustment increased the provisions for accounts that were deemed to be permanently impacted and/or who were not making full payments. In guarantor loans, the recent payment performance of customers affected by COVID-19 but no longer on an EPF was used to inform expected delinquency trends of customers who had not yet resumed payment following an EPF. A provision overlay was then applied to those accounts to reflect expected performance consistent with the recent performance behaviours observed.

Macro-economic considerations

The provisioning model for both branch-based lending and guarantor loans also includes consideration of future economic conditions and scenarios. The macroeconomic variables which are modelled include Bank of England ('BoE') base rate, Gross Domestic Product ('GDP'), Consumer Price Inflation ('CPI'), House Price Inflation ('HPI') and unemployment rate. As the weightings used for the year ended 31 December 2019 Annual Report and Accounts did not consider the impact of recent economic changes arising from the effects of COVID-19, for the year ended 31 December 2020, the Group reflected the worsening macro-economic variables and also increased the downside weighting as reflected in the table below.

Macroeconomic variables and scenarios

	31 Dec 2020	31 Dec 2019
Base	**50%**	50%
Downside stress	**40%**	30%
Severe downside stress	**0%**	15%
Positive	**10%**	5%

As noted above, in addition to the change in weightings of the relevant scenarios, the macroeconomic forecasts for each of the variables have also changed since 31 December 2019. In 2019, the Group used economic forecast data from the BoE Annual Cyclical Scenario. As the BoE did not produce any new forecasts for 2020, the Group has instead used the Fiscal Sustainability Report published by the Office for Budget Responsibility ('OBR') from November 2020 as the basis for its macroeconomic scenarios. For variables where the OBR report did not provide sufficient information, the BoE 2019 scenarios, updated for actuals, have remained in use.

A summary of the peak and average for unemployment under each of the scenarios is detailed below.

For the year ended 31 Dec 2020	Positive	Base	Downside stress
2021			
Maximum (Peak) unemployment rate	**5.1%**	**7.5%**	**9.3%**
Average unemployment rate	**4.9%**	**6.0%**	**6.8%**
2022			
Maximum (Peak) unemployment rate	**4.6%**	**7.3%**	**11.0%**
Average unemployment rate	**4.0%**	**6.9%**	**10.4%**

As noted by other companies in the sector, due to the nature of the home credit industry and based on historical evidence, management has determined that the impact of traditional macroeconomic downside indicators is minimal for the industry and therefore a macroeconomic adjustment is currently not necessary for the home credit division. This was noted in the 2019 Annual Report and Accounts and still holds true for the 2020 consolidated financial statements. There are therefore no adjustments required with respect to the macroeconomic data for this division.

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

Divisional review

Branch-based lending

Year ended 31 December	2020 Normalised[3] £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)
Loss before tax	**(5,175)**	**(6,017)**	**(11,192)**
Taxation	–	–	–
Loss after tax	**(5,175)**	**(6,017)**	**(11,192)**

Year ended 31 December	2019 Normalised[3] £000	2019 Fair value adjustments and exceptional items £000	2019 Reported £000
Revenue	93,002	–	93,002
Other operating income	954	–	954
Modification loss	(951)	–	(951)
Derecognition loss	(482)	–	(482)
Impairments	(20,635)	–	(20,635)
Revenue less impairments	71,888	–	71,888
Administration expenses	(42,235)	–	(42,235)
Operating profit	29,653	–	29,653
Exceptional items	–	(332)	(332)
Profit/(loss) before interest and tax	29,653	(332)	29,321
Finance cost	(17,355)	–	(17,355)
Profit/(loss) before tax	12,298	(332)	11,966
Taxation	(2,815)	63	(2,752)
Profit/(loss) after tax	9,483	(269)	9,214

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

The key performance drivers in branch-based lending, namely network capacity, lead volume and quality, network productivity and impairment management were all impacted by the pandemic. A summary of how these factors were affected during 2020 is summarised below.

Network capacity – Having planned to open a number of new branches in 2020, the majority of these planned openings were put on hold once the potential impact of the pandemic became apparent and with it the significant uncertainty regarding the outlook for the UK economy. As a result, only one new branch was opened in 2020 taking the total number to 74. However, in anticipation of more branch openings and further growth in 2020, a planned increase in staffing was already underway when the pandemic struck with the result that the number of network staff peaked at 416 in May 2020, an increase of 50 since the start of 2020. However, given the impact of the national lockdown and a marked reduction in demand, coupled with tightening of our own lending criteria, it was clear that there was excess capacity in the network and so the number of staff declined from May 2020 through natural attrition as well as through a redundancy programme that reduced the number of network staff to 353 and the total number of staff to 467 (2019: 474) by the year end.

Following the temporary closure of all branches, lending stopped in April 2020 before gradually rebuilding during the summer months only to then slow down again in the winter of 2020 as further lockdowns were introduced. This prompted a reduction in the number of active customers that fell by 10% to 68,100 (2019: 75,400) and the net loan book declined by 20% to £171.5m (2019: £214.8m).

2020 financial review

Lead volumes and quality – As noted above, lead volumes fell sharply as the pandemic started to grip the UK, reducing from almost 2.5 million in 2019 to less than 1.8 million in 2020 – a reduction of 28% with no leads processed in April 2020. This reduced the number of new borrower applications to branch ('ATBs') that fell by 32% to 337,700 (2019: 497,050). Financial brokers, whilst severely impacted by the sharp reduction in demand, still provided 94% of gross leads (2019: 90%) and 57% of completed loans (2019: 51%) with direct applications and renewals or former customers making up the balance. The Group continues to draw upon the support from a broad number of financial brokers, thereby mitigating any risk of being overly exposed to a single firm or small group of firms.

Productivity – with a significant reduction in leads and ATBs, coupled with a greater degree of caution regarding new lending, it was expected that conversion rates would fall and the number of loans booked in 2020 fell to 33,499 in total (2019: 52,130) and the total value of loans issued fell by 39% to £104.3m (2019: £169.9m).

Delinquency management – The pandemic prompted a number of specific, as well as more general challenges in managing levels of delinquency. Whilst impairments did increase sharply, this was against a backdrop of unprecedented levels of forbearance being offered to customers through an EPF, a mechanism that was originally available for periods of up to three months before being extended to periods of up to six months. Since the start of the pandemic, out of a total of almost 15,000 customers that requested COVID-related forbearance, less than 1,200 remain COVID-flagged (or below 2% of outstanding accounts), 7,600 are resolved but still active, and approximately 6,200 have been closed. The consequent increase in credit risk due to: the impact of the pandemic; increased forbearance offered to affected customers; and the outcome of a detailed review into the expected cashflows from outstanding loans not affected by COVID, each contributed to an increase in the rate of impairments from 10.3% to 16.3% of average net receivables and from 22.2% to 35.0% of normalised revenue. Whilst such rates of impairment are high, they are below that experienced during the global financial crisis in 2008.

[illegible]

Revenue fell by 3% to £89.8m (2019: £93.0m) driven by the reduction in net loan book and a small reduction in average yield due to increased levels of rescheduling and loan deferrals. Whilst other income benefited from a debt sale in the period and temporary furlough support from HM Government, the increased number of rescheduled and deferred loans prompted a £1.3m increase in modification losses and a £2.1m increase in derecognition losses respectively. Higher rates of delinquency together with higher charge-off and an increase in loan loss provisions increased impairments to £31.4m (2019: £20.6m).

In response to the reduction in revenue, a number of initiatives were deployed throughout the year to reduce costs such as the loss of 48 staff and access, albeit for a limited period, to the Government furlough scheme, as well as cuts to marketing and travel expenses. Offsetting some of these savings was an increase in complaint-related costs contributing to a slight increase in the division's cost:income ratio from 45.4% to 45.9%. Taken together with the reduction in revenue, the increased cost of impairments and higher levels of forbearance meant that normalised operating profit fell from £29.7m to £13.4m.

An exceptional charge of £6.0m related to the £5.8m write-off of capitalised fees associated with the Group's securitisation facility (2019: nil) and restructuring costs of £0.2m (2019: £0.3m).

Despite having generated cash during 2020, finance costs increased slightly from £17.4m to £18.6m with the result that the division produced a normalised loss before tax of £5.2m (2019: profit before tax of £12.3m) and after the exceptional items, a reported loss before tax of £11.2m (2019: profit before tax of £12.0m).

[illegible]

While there were increased numbers of rescheduled and deferred loans, revenue yield remained broadly unchanged at 46.5% (2019: 46.4%), it was the 20% decline in the net loan book that drove the decline in revenue. As noted above, higher rates of delinquency, increased charge off and a step-up in provisioning meant that impairment as a percentage of revenue increased sharply, impacting the risk adjusted margin that fell from 36.1% to 30.2%.

The combination of each of these factors meant that normalised operating profit margin halved to 14.9% (2019: 31.9%) which also fed through into a much reduced return on asset that fell to 7.0% (2019: 14.8%).

Year ended 31 December Key Performance Indicators[1]	**2020** **Normalised**	2019 Normalised
Number of branches	**74**	73.0
Period-end customer numbers (000)	**68.1**	75.4
Period-end loan book (£m)	**171.5**	214.8
Average loan book (£m)	**193.0**	200.4
Loan book growth (%)	**(20.2)%**	17.6%
Revenue yield (%)	**46.5%**	46.4%
Risk adjusted margin (%)	**30.2%**	36.1%
Impairments/revenue (%)	**35.0%**	22.2%
Impairment/average loan book (%)	**16.3%**	10.3%
Cost:income ratio (%)	**45.9%**	45.4%
Operating profit margin	**14.9%**	31.9%
Return on asset (%)	**7.0%**	14.8%

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

Emerging from the pandemic – actions and plans for 2021

Whilst uncertainty about the pace and trajectory of any recovery remains, subject to being able to complete the Capital Raise as planned, we are optimistic about the opportunities for our branch-based lending business. Despite having been affected by regional and national lockdowns that impacted lead volumes and our ability to write quality business, as the economy has started to reopen, we have begun to see some encouraging signs with increasing numbers of quality applications that are feeding through into rising numbers of applications to branch. Our highly experienced staff have embraced a number of enhancements to our lending procedures so that conversion has also been improving and this bodes well as we seek to rebuild our loan book to previous levels. This process of improvement will continue in the second half of 2021 and will include any learnings from the proposed redress methodology in guarantor loans and the independent review of our processes and procedures, taking into account recent FOS decisions that commenced during the first half of 2021.

Our collections performance has also been positive and although a small number of our customers remain 'COVID-flagged', the vast majority of those affected have either returned to full or part-payment, where the performance has been above our previous expectations. In addition, the changes we have made to our lending processes are delivering good results which are helping to drive an encouraging delinquency performance.

Having effectively suspended the opening of new branches over the past 12 months, we remain cautious about further openings but also believe that once the recovery starts to gather momentum, subject to funding, there is a major opportunity to take advantage of what we believe could be a significant uptick in demand through further network expansion over the next few years.

Home credit

Year ended 31 December	2020 Normalised[1] £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 loss	**(2,509)**	**–**	**(2,509)**
Exceptional items	**–**	**–**	**–**
Loss before interest and tax	**(2,509)**	**–**	**(2,509)**
Finance cost	**(1,228)**	**–**	**(1,228)**
Loss before tax	**(3,737)**	**–**	**(3,737)**
Taxation	**–**	**–**	**–**
Loss after tax	**(3,737)**	**–**	**(3,737)**

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

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

Face-to-face lending lies at the heart of the home credit business model, and so the onset of the pandemic and the associated rules and guidance around social distancing required a radical shift in our business approach so that we could continue to service our customers whilst ensuring their safety and wellbeing, as well as that of our self-employed agents and staff. As a result, agents stopped visiting customers in their homes in March 2020 and we pivoted to a remote-only model whilst restrictions remained in place.

2020 financial review continued

Although we were able to encourage the vast majority of our customers to switch to one of our remote collections channels within just a few weeks, the development of a robust remote lending capability took longer, with the result that lending reduced to almost nil in April 2020. For customers unable or unwilling to switch to remote channels, we developed an 'Amazon-style' physical collections protocol so that such customers were still able to stay on track with their repayments and were not forced into arrears simply because they were unable to make a remote payment.

In order to maintain our competitive position in the market we launched a new 52-week product to supplement our existing and most popular 46-week product. By spreading the cost over a further six weeks, we were able to reduce the APR and weekly rate, increasing its appeal relative to other offerings in the market. We also launched a new 26-week and 34-week product during the year.

Remaining competitive is vital for sustaining our network of self-employed agencies that, despite the challenges faced during the pandemic, remained broadly flat at 897 agencies at the end of December 2020 (2019: 896). Our decision to boost commission rates on remote collections (in order to help support agents that saw their incomes reduce as collections and new lending also reduced), was particularly well-received and certainly helped us to keep vacancies low and agent satisfaction levels high, even during some of the most challenging market conditions seen in recent years.

However, with a slowdown in lending in March 2020, followed by minimal lending during April and May, despite a good recovery over the summer months as the economy began to open up and face-to-face contact resumed, further lockdowns in the autumn and before Christmas 2020 meant that the usual seasonal uptick failed to materialise to the degree expected and the net loan book declined by 32% to £26.9m (2019: £39.9m).

2020 results

The impact of a smaller net loan book was compounded by a reduction in yield that meant revenue fell by 28% to £43.8m (2019: £60.8m). The reduction in new lending, coupled with a strong collections performance meant that impairment fell by 36% in absolute terms to £10.5m (2019: £16.4m). Even with the drop in revenue, impairment as a percentage of revenue also fell to 23.9% (2019: 27.0%) which is the lowest it has been since we acquired the business in 2015. This performance is a testament to the efforts made in recent years to improve both the quality of our loan book and the capabilities of our agent network that have been enhanced through improved training, market-leading technology and strong management.

An increase in bank charges with greater use of remote payment methods, higher complaint costs and professional fees, meant that administration costs increased by 2% to £35.9m (2019: £35.3m) resulting in a £2.5m operating loss (2019: operating profit of £9.1m). Lower finance costs of £1.2m (2019: £2.1m) reflected the strong cashflow during the year and with no exceptional costs the net result was a reported loss before tax of £3.7m (2019: profit before tax of £6.8m).

Key performance indicators

Whilst revenue yield fell to 155.2% (2019: 167.5%), the impact on risk adjusted margin was mitigated by the significant improvement in impairment. The drop in revenue meant that the cost:income ratio increased significantly to 81.8% (2019: 58.0%), impacting operating profit margins and the return on asset.

Year ended 31 December Key Performance Indicators[1]	2020 Normalised	2019 Normalised
Period-end self-employed agencies	**897**	896
Period-end number of offices	**64**	64
Period-end customer numbers (000)	**72.1**	92.4
Period-end loan book (£m)	**26.9**	39.9
Average loan book (£m)	**28.2**	36.3
Loan book growth (%)	**(32.5)%**	(2.7)%
Revenue yield (%)	**155.2%**	167.5%
Risk adjusted margin (%)	**118.0%**	122.2%
Impairments/revenue (%)	**23.9%**	27.0%
Impairment/average loan book (%)	**37.2%**	45.2%
Cost to income ratio (%)	**81.8%**	58.0%
Operating profit margin	**(5.7)%**	15.0%
Return on asset (%)	**(8.9)%**	25.1%

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

Meeting the customer and building a longstanding personal relationship with them through the regular weekly or bi-weekly visit to their home, lies at the core of a successful home credit business and so, despite the many benefits of being able to operate remotely, we remain committed to conducting our business face-to-face, whenever possible. Paying funds direct into the customer's bank account will remain an option for borrowers, as well as being able to make payments via our customer portal or other remote channels. We will continue to develop our systems and tools and embed any learnings from the proposed redress methodology in guarantor loans and the independent review of our processes and procedures, taking into account recent FOS decisions so as to improve the quality of our service and to support our self-employed agents.

As the economy has started to open up, we have seen an increase in monthly lending volumes and have also started to see a return to growth in customer numbers. Whilst we remain cautious about the pace of recovery, our focus on quality customers and the benefits of the changes made to our lending process during the pandemic have contributed to a better than expected collections performance since the start of the year that in turn has helped to sustain low rates of impairment relative to previous years.

As the economy has started to open up, we have seen an increase in monthly lending volumes and have also started to see a return to growth in customer numbers. Whilst we remain cautious about the pace of recovery, our focus on quality customers and the benefits of the changes made to our lending process during the pandemic have contributed to a better than expected collections performance since the start of the year that in turn has helped to sustain low rates of impairment relative to previous years.

Home credit remains a vital source of credit for many of the UK's lowest income households and we are determined to continue to support our customers through this very challenging time. The news that Provident Personal Credit is to close its doors after 140 years of trading marks the end of an era but also presents a significant opportunity for our home credit business. Whilst the completion of a substantial capital raise remains the primary focus for the Group, drawing upon the experience gained in 2017 when we grew the home credit business significantly, we believe that a similar opportunity now exists to expand organically and are examining a number of options to achieve this. In the meantime, subject to funding, we are determined to rebuild the net loan book through the addition of quality customers and by remaining focused on being the preferred choice for self-employed agents seeking to grow their business.

Guarantor loans

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 loss	(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 loss	(11,727)	(16,838)	(28,565)
Other exceptional items	–	–	–
Loss before interest and tax	(11,727)	(16,838)	(28,565)
Finance cost	(7,467)	–	(7,467)
Loss before tax	(19,194)	(16,838)	(36,032)
Taxation	–	–	–
Loss after tax	(19,194)	(16,838)	(36,032)

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

2020 financial review continued

Guarantor loans

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

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

The Group's Guarantor Loans Division faced a number of operational, financial and regulatory challenges in 2020. First, it is now clear that young adults were among those worst hit financially by the pandemic. As the vast majority of our guarantor loans customers fall into this demographic, the division was more severely impacted than the other two divisions. Second, following its multi-firm review into the guarantor loans sector, the FCA raised a number of concerns and required that the Group develop a proposed redress methodology for affected customers. This prompted a number of operational changes but also meant that our appetite for new lending was significantly curtailed until the work on the redress methodology was completed.

Having seen healthy growth in the number of leads during the first two months of the year, things went into reverse during March 2020 as the realities of the pandemic began to filter through into the wider economy. Our decision to introduce stricter lending criteria and a lack of leads through broker channels meant that no loans were written in April and whilst there was a modest recovery in May, June and July, the announcement in early August that the FCA had raised a number concerns about our approach meant that loan volumes fell back to close to zero and stayed there for the rest of the year. As a result, the total number of loans written fell to 4,601 (2019: 19,458) and the value of loans issued fell from £71.7m in 2019 to £16.4m. At the same time, the economic impact of the pandemic on young adults saw large numbers of borrowers opt for COVID-related forbearance that at its peak reached over 7,000, or 25% of the then active customer base. As at 31 December 2020, this figure was 3,500, or 14% of the active total. With few loans being written, a small number of staff were furloughed and 15 staff were made redundant. We also redeployed a number of former lending staff into collections where, given the volume of customers experiencing difficulty, there was a need for greater resources. Being unable to collect from or contact either the borrower or the guarantor whilst a borrower was 'COVID-flagged' meant that collections were much reduced and impairments increased sharply as the coverage ratio also increased. As a result, the net loan book fell by 43% to reach £59.8m at 31 December 2020 (2019: £105.5m).

[illegible]

Despite the lack of lending and a rapidly shrinking loan book from March 2020, previous strong loan book growth and an increase in average yield meant that normalised revenue increased slightly to £30.5m (2019: £29.8m). A smaller fair value adjustment to revenue of £1.4m (2019: £2.9m) meant that reported revenue increased by 8% to £29.0m (2019: £27.0m).

The high numbers of COVID-flagged customers together with a weaker collections performance, contributed to sharp increase in impairments that rose to £24.3m (2019: £8.0m), or 79.8% of revenue (2019: 26.8%) and 28.2% of average loan book (2019: 8.5%). As noted above there was a marked increase in provision coverage from 5.3% in 2019 to 26.7% at the end of 2020 as a large number of loans moved from stage 1 into stage 2 and stage 3.

Whilst staff costs fell year-on-year, an increase in complaint handling costs and professional fees contributed to an overall increase in administration costs to £13.8m (2019: £12.9m). The net result was that the business delivered a normalised operating loss of £11.7m (2019: operating profit of £8.8m). Finance costs were slightly higher at £7.5m (2019: £7.3m) resulting in a normalised loss before tax of £19.2m (2019: profit before tax of £1.4m). Exceptional items comprise a charge for customer redress of £15.4m that is broadly in line with that included in the 2020 half year results. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, based upon a detailed methodology and analyses developed in conjunction with the Group's advisers, the final cost of redress remains uncertain and is heightened by the fact that the FCA has not yet approved the methodology proposed. Therefore, although the Directors believe their best estimate represents a reasonably possible outcome, there is a risk of a less favourable outcome (see note 24 to the financial statements for more detail regarding the customer redress provisions). With a reduced fair value adjustment to revenue of £1.4m (2019: £2.9m), the net result was that the reported loss before tax was £36.0m (2019: loss before tax of £2.2m).

Key performance indicators

The significant reduction in lending volume and the fact that a high proportion of the active customer base was affected by COVID-19 impacted most of the division's KPIs in 2020. An increase in revenue yield was more than offset by the sharp increase in impairment to 79.8% of revenue (2019: 26.8%) as large numbers of customers and/or guarantors struggled to keep up with their payments with the result that the risk adjusted margin reduced from 23.2% to 7.1%. This fed through into a negative operating profit margin and a negative return on assets of (13.6)% (2019: 9.3%).

Year ended 31 December Key Performance Indicators[1]	2020 Normalised	2019 Normalised
Period-end customer numbers (000)	**26.2**	32.6
Period-end loan book (£m)	**59.8**	105.5
Average loan book (£m)	**86.2**	94.1
Loan book growth (%)	**(43.3)%**	27.7%
Revenue yield (%)	**35.3%**	31.7%
Risk adjusted margin (%)	**7.1%**	23.2%
Impairment/revenue (%)	**79.8%**	26.8%
Impairment/average loan book (%)	**28.2%**	8.5%
Cost:income ratio (%)	**45.2%**	43.2%
Operating profit margin (%)	**(38.5)%**	29.4%
Return on assets (%)	**(13.6)%**	9.3%

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

2020 financial review

As outlined in the Group Chief Executive's review, the Board has concluded that shareholder interests will be best served by placing the division into a managed run-off and ultimately closing the business. Whilst hugely disappointing, collecting out the loan book is the only rational conclusion given the combined impact of the pandemic, the FCA review into guarantor loans and the expected increase in costs in order to meet revised FCA requirements that would necessarily impede any potential recovery in profitability in the future (see note 34 to the financial statements).

Year ended 31 December	**2020 Normalised[1] £000**	**2020 Amortisation of acquired intangibles 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)

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

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

Normalised administrative expenses were broadly unchanged at £5.5m (2019: £5.4m). The amortisation of acquired intangible assets includes the write-off of the remaining acquired intangible assets at the Group's operating subsidiaries totalling £1.3m (2019: £7.2m).

As noted in the Group Chief Executive's review, the Group incurred a number of exceptional costs totalling £97.8m (2019: £80.6m). The key items within this total were: the impairment of the remaining goodwill assets relating to the Group's operating subsidiaries totalling £74.8m (2019: £65.8m); £1.6m of advisory fees (2019: £12.8m); the write-off of £5.8m of capitalised fees associated with the Group's securitisation facility (2019: nil); a charge for redress totalling £15.4m (2019: nil); and £0.2m (2019: £1.9m) of restructuring and redundancy costs that took place during the year. The impairment of goodwill in each business division is a non-cash item and was driven primarily by the losses incurred during the year, uncertainties in the regulatory environment and the reduction in stock market valuations and multiples across the non-standard finance sector (see note 14 to the financial statements).

Despite having significant cash balances of £78.0m at 31 December 2020, as a result of the write-off of all of the remaining goodwill assets associated with the Group's operating subsidiaries, the exceptional provision for redress and the impact of the pandemic on the Group's operating performance in 2020, the Group's balance sheet has moved into a negative net tangible assets position. A summary of the Group's balance sheet as at 31 December 2020 is shown below:

Year ended 31 December	2020 £000	2019 £000
Loan book	**258,201**	359,647
Fair value	**–**	2,000
Adjusted loan book	**258,201**	361,647
Cash	**77,956**	14,192
Trade receivables and other assets	**3,630**	4,321
Property, plant and equipment, intangibles and right of use assets	**24,593**	25,688
Payables and provisions	**(37,708)**	(28,374)
Lease liability	**(10,889)**	(11,105)
Debt	**(326,587)**	(317,590)
Tangible net (liabilities)/assets	**(10,804)**	48,779
Goodwill and acquired intangibles	**–**	74,832
Net (liabilities)/assets	**(10,804)**	123,611

The Group is focused on completing the Capital Raise that, if successful, is expected to, amongst other things, 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:

- **Liquidity, going concern and solvency** – while as at 31 May 2021 the Group has c.£101m in cash, the Directors note that material uncertainties exist 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. The range of assumptions 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 may cast significant doubt on both the Group's and the Company's ability to continue as a going concern. In such circumstance, the Group may fall under the control of its lenders and there would be a possibility of the Group going into insolvency;
- **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. This risk may be impacted by the outcome of the ongoing reviews of each of the Group's divisions. Following a multi-firm review, the Group has developed a proposed methodology for redress to certain guarantor loans customers and has made an exceptional charge £15.4m to cover the expected costs. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, based upon a detailed methodology and analyses developed in conjunction with its advisers, the FCA has not yet approved the methodology proposed. Therefore, although the Directors believe their best estimate represents a reasonably possible outcome; 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 large and complex and so there are many areas of operational risk that include technology failure, fraud, staff management and recruitment risks, underperformance of key staff, the risk of human error, taxation, 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.

On behalf of the Board of Directors

Jono Gillespie
Chief Financial Officer
30 June 2021

Stakeholder management and our commitment to Section 172

The Group's Board of Directors and senior management team share the view that sustainability and operational resilience are vitally important factors in driving long-term financial returns and are wholly consistent with our corporate strategy.

Underpinning these factors is a complex collection of relationships with key stakeholders, each of whom play an important role in helping us to execute our strategy and realise our objectives. Whilst the onset of the pandemic meant that opportunities for face-to-face meetings with key stakeholders were severely restricted in 2020, within the confines of government guidelines and our focus on ensuring that our customers, staff and self-employed agents remained safe and well, we continued to engage with key stakeholders, many of whom were also severely impacted by COVID-19.

Our overall approach to stakeholder management is underpinned by a clear focus on maintaining a strong and positive business culture – a vitally important factor behind 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).

To discharge our responsibilities under these requirements, on the following pages we have provided a summary of each of our key stakeholder groups, why they are important to us, how we have engaged with them in 2020 and the key topics that have been addressed.

We have also provided some examples on page 49 of where decisions have been taken or where future actions were proposed as a result of our engagement during 2020.

The Board considers that this section of the Annual Report (pages 40 to 49) constitutes its disclosure against the requirements of Section 172(1) of the Companies Act 2006.

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;	[illegible] 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;	[illegible] 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	[illegible] 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.	[illegible] The interests of all members are considered and treated fairly.

Engaging with our stakeholders

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.

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

- Debt providers receive regular management reports and engage directly with the Group CFO and 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 four equity research teams and aims to maintain strong relationships with each of them as well as other analysts covering the sector

- Regular 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 together with an update to the consensus of equity analyst forecasts
- Taking these views into account is an essential part of the business management process at NSF

Our customers lie at the heart of our business model (see page 14). Should we fail to deliver great service or treat our customers unfairly, we are unlikely to meet our long-term financial and strategic objectives.

- 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
- Having an effective complaint handling process

- Face-to-face contact is a key part of the lending process in branch-based lending and home credit, providing immediate feedback on how we are performing and how we might improve
- 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 datapoints that we track and monitor closely

- Updated processes and systems embedding FCA guidance on COVID-related forbearance
- Amended face-to-face lending processes to comply with government guidelines
- Key learnings from 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 22)
- Everyday Loans received a number of awards in recognition of its focus on consumers[2].

1 For the second year running, Everyday Loans was awarded with the top accolade by Feefo in 2020: 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; George Banco is also rated by TrustPilot while Loans at Home commissions a quarterly customer survey conducted by an independent third party. In the three months to December 2020, 86% of the 200 customers surveyed were 'very satisfied' with the service provided by Loans at Home (2019: 77% of 200 surveyed).

2 Everyday Loans received the Non-mainstream Loan Provider of the Year Award for the second year running at the Moneyfacts Consumer Awards 2021. This award is based primarily on reviews provided by our customers who are solicited directly by MoneyFacts and asked to complete a survey questionnaire.

If we really care about our customers, why are our APRs so high?

Compared to lenders that are focused on only serving consumers with good credit scores, our APRs can seem high. Whilst additional credit risk is one factor, for our highest APR products (in home credit), it is also because loans tend to be for short periods of less than one year and because they tend to be for small amounts.

Another factor is that the costs of delivering and collecting loans, mainly face-to-face, are relatively high – in other words, while our business model (see page 14) is effective in reaching large numbers of customers that are on low or variable incomes, or that have an impaired or thin credit history, it is an expensive model to operate.

The chart opposite illustrates what happens to NSF Group revenue, based upon the 2019 normalised results (2020 was severely impacted by COVID-19 and so is not a representative guide). The key deductions to revenue are:

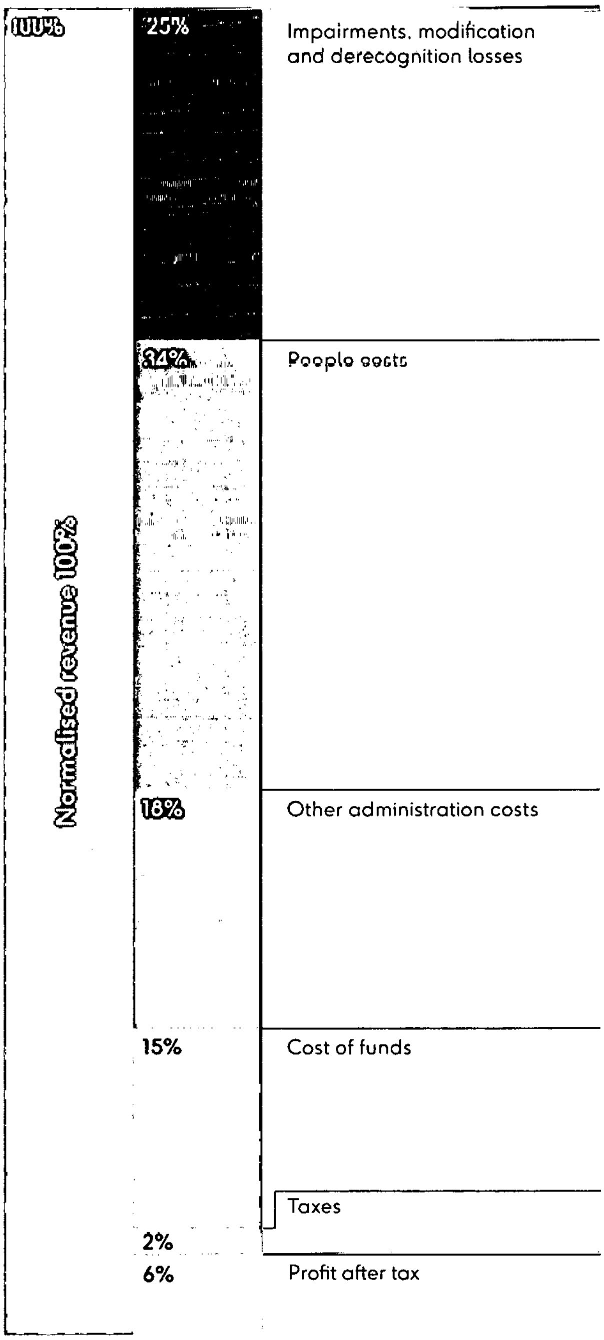
Lending to customers with low or impaired credit ratings is a risky business and a significant proportion of revenue is lost through the impairment of loans that don't get repaid. There is also a loss of revenue when loans are rescheduled, modified or derecognised in order to help any customers that may be experiencing financial difficulty. Higher risk customers tend to result in higher impairments and so when lending to such customers, lenders need to charge higher APRs to compensate for this risk.

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

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

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

NSF normalised Group revenue[1]



1 As 2020 results were severely impacted by a number of factors, the graphic above is based on the normalised results for 2019 (see glossary of alternative performance measures in the Appendix).

Engaging with our stakeholders

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

- Sustaining a positive business culture is a key driver of behaviour within firms
- 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 recent FOS cases

- 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 strategic plans

- Culture is monitored closely at both subsidiary and NSF Board level through a series of measures that are monitored as part of a continuous assessment process
- A 'three lines of defence' model is in place to identify and address any potential regulatory risks
- Following the FCA's review into guarantor loans we developed a redress methodology for customers deemed to have suffered harm to ensure that all affected customers receive their full redress amount
- We also take note of other sector developments to ensure that any read-across to our own business is assessed and any adjustments to processes and procedures made
- We respond to periodic information requests from the FCA that continues to track the performance and dynamics of the non-standard finance market

The different business models and customer demographics of each of our divisions means 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.

- 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

- 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

- 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

As a relationship lender, our workforce (that includes 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.

- Despite the challenges of 2020, our staff and self-employed agents 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

- Comprehensive induction process for new joiners
- Continuous programme of training and development for staff and self-employed agents
- 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

- The pandemic prompted a shift to home working and reduced levels of personal contact that drove a concerted effort to ensure staff and self-employed agents remained connected to the business
- We furloughed a total of 185 staff in branch-based lending, 4 staff in home credit and 8 staff in guarantor loans
- All furloughed staff continued to receive 100% of their salary
- When staff returned to offices additional safeguards were in place to ensure a safe working environment
- A number of staff were made redundant and we managed such processes sensitively
- Regular contact with all staff, including those on furlough and self-employed agents to identify any mental health or other issues
- We increased the commission rate on remote collections in home credit to mitigate the impact of less physical collections on agents' income

For further details regarding our workforce engagement see page 66

of Loans at Home staff believe that the company is run on strong values and principles, almost unchanged from a year earlier

were delivered in 2020, at Everyday Loans, equivalent to approximately three days per member of staff

at Everyday Loans were happy with their work-life balance, providing a clear signal to management that there is a need to review how things can be improved

Engaging with our stakeholders

As an equal opportunities employer, our workforce has a healthy mix of gender. The following table sets out the breakdown by gender of the Directors and senior managers of the Company as well as the total number of employees:

April 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**

April 2019	Male	Female	Total
Number of Company Directors	5	1	6
Number of senior managers (excluding Executive Directors), directors of subsidiary businesses and heads of function	29	10	39
Total number of employees	477	410	887

As noted in the 2020 financial review on pages 27 to 39, the planned opening of a number of new branches in 2020 meant that the associated increase in the number of staff was already underway when the pandemic hit in March 2020.

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. Each of the Group's divisions started to capture ethnic diversity during 2020 and will provide annual data in future annual reports.

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 2020 (hourly pay) and bonus paid in the 12 months to 5 April 2020. The figures for 2020 are as follows (the comparative figures for 2019 are also included for reference):

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

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

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 2020 and 2019 (hourly pay) and bonus paid in the 12 months to 5 April 2020 and 2019.

	Male	Female
2020	**73.9%**	**64.2%**
2019	87.2%	78.5%

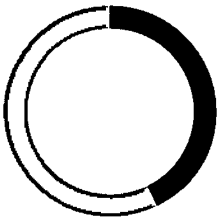
The calculation behind the gender pay gap is not the same as equal pay. As with last year, the underlying reason behind the gap is predominantly due to the structure of our workforce where there is a lower representation of women in senior leadership roles within our business, although there has been a notable improvement versus last year (approximately 67% of senior roles were held by men (2019: 76%) and 33% were held by women (2019: 24%) 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).

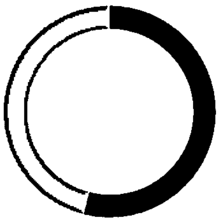
2020

Quartile 1



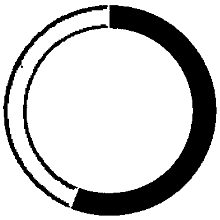
● Male 43%
○ Female 57%

Quartile 2



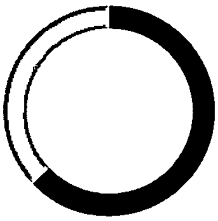
● Male 54%
○ Female 46%

Quartile 3



● Male 56%
○ Female 44%

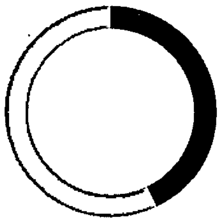
Quartile 4



● Male 63%
○ Female 37%

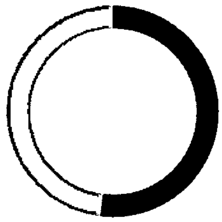
2019

Quartile 1



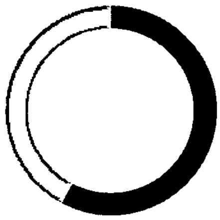
● Male 43%
○ Female 57%

Quartile 2



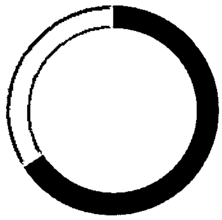
● Male 52%
○ Female 48%

Quartile 3



● Male 58%
○ Female 42%

Quartile 4



● Male 66%
○ Female 34%

Whilst we acknowledge we have a gender pay gap, we're clear on why it exists and are focused on the steps we need to take to close the gap. We are confident that we do not have any processes or practices where people are being paid differently due to their gender.

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

How are we addressing the gap?
The Office for National Statistics' 2020 figures[1] put the mean salary gap at 34.1% for financial institution managers and directors. Whilst pleased that we appear to have a smaller gap than the industry more generally, we are committed to reducing this further through a series of actions as follows:

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

As well as providing competitive compensation arrangements for both staff and self-employed agents, we also have a Save As You Earn scheme for all eligible Group employees. This scheme enables staff to buy shares in Non-Standard Finance plc in a tax-efficient way and thereby participate in the future success of the Company. 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: 2020, 3 November 2020.

Engaging with our stakeholders

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.

- Our impact on the environment as well as how the environment can impact our business
- Use of energy and natural resources as well as CO_2 emissions
- Supply chain, workforce management
- The Taskforce on Climate-related Financial Disclosures ('TCFD') has recommended a series of disclosures expected to be required from April 2022

- 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
- 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 three years' time

- The pandemic meant that resource usage and mileage were significantly reduced in 2020
- 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 2020 together with comparisons with 2019 across all three business divisions is summarised below

The majority of our business is conducted face-to-face through extensive national networks. As a result, being a valued member of the towns and cities where we have a physical presence is key. With around 870 staff, 900 self-employed agencies and 166,000 customers that we serve from c.140 locations across the UK, we are already embedded within the communities where our employees, customers, suppliers, regulators and other key stakeholders are based.

- 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, damage our reputation in the community and damage our long-term business prospects

- 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

- In 2020 the Group donated a total of £132,260 (2019: £53,220) to a range of charities including Loan Smart that seeks to help raise awareness about the dangers of illegal lending
- As well as financial donations, our staff are able to take part in community-based events although the pandemic meant that most events were cancelled in 2020

2020	**CO_2 production**	**Electricity usage**	**Gas usage**	**Water usage**
Total usage in 2020	260,030KG	1,112,632KWH	116,393KWH	8,595m^3
Total reported revenue	£162.7m	£162.7m	£162.7m	£162.7m
Intensity metric (per £m of reported revenue)	1,599KG	6,840KWH	716KWH	53m^3

2019	CO_2 production	Electricity usage	Gas usage	Water usage
Total usage in 2019	315,752KG	1,151,684KWH	264,091KWH	74,982m^3
Total reported revenue	£180.8m	£180.8m	£180.8m	£180.8m
Intensity metric (per £m of reported revenue)	1,747KG	6,370KWH	1,461KWH	415m^3

Our engagement in action

The onset of the pandemic prompted a large number of Board decisions focused on addressing issues affecting our key stakeholders. Some examples are summarised below.

We suspended all face-to-face agent/manager meetings in home credit and stopped agents from attending customers' homes on 17 March 2020, five days before HM Government's announcement on 23 March 2020 that the UK would be entering a state of national lockdown. In branch-based lending, in anticipation of the potential shift to home working, we procured and began to configure over 350 Chromebooks in March 2020. As a result, when we took the decision to close the branch network ahead of the Government announcement on 23 March 2020, we were able to switch seamlessly to a home working model so that staff were able to replicate our service to customers, albeit remotely. Despite the significant impact on our business, the health and safety of both our workforce and our customers was paramount and there was a need to display clear leadership to instil confidence at a time of major uncertainty.

The suspension of all face-to-face lending and collecting was discussed at length with each of the Divisional CEOs and key members of the senior management team who had been in touch with staff that had in turn been speaking directly to customers. Whilst we also assessed carefully all available information published by HM Government on the latest developments, the situation was changing rapidly. Whilst an imperfect process, it was important to make decisions quickly so as to demonstrate positive leadership and also to provide clarity on our chosen course for all stakeholders. Customers, staff and self-employed agents were very understanding and reacted positively to the steps taken.

We have maintained a regular dialogue with each of our lenders throughout the pandemic. This has ensured they remain fully up to speed with the latest developments and has helped us to navigate many of the challenges of the past year. One example was our decision, following discussions with our lenders, to limit the drawdown on a new securitisation facility to just £15m, even though we could have drawn more. As a result, when there was a performance breach of one for the covenants on that facility due to the pandemic, we were able to rectify the breach through repayment of the facility in full thereby avoiding an event of default. Continuous dialogue also helped to minimise costs and avoided the need for any covenant waivers on the Group's main debt facility in 2020.

As a face-to-face lender, COVID-19 presented a real challenge for both branch-based lending and home credit. To minimise any disruption to our service, remote lending solutions needed to be refined quickly (in the case of branch-based lending) and invented from scratch (in the case of home credit). Whilst there was minimal lending in April 2020, lending did resume in earnest in May 2021. While the collections process in branch-based lending was broadly unaffected, the vast majority of our home credit customers switched to using one of our remote payment solutions. But, listening to feedback from our customers it was clear that a number of home credit customers were unable or unwilling to switch and so we arranged to conduct less frequent 'Amazon-style' collections, thereby ensuring that the customer remained on track whilst minimising the risk of infection. All of these changes were appreciated by our customers who recognised the challenges being faced and were reflected in the latest external and independent customer survey conducted in Q1 2021 that showed that 90% of those surveyed were very satisfied with their agent versus 88% in the same period in 2020.

A number of staff were put on furlough but were all spoken to individually and were informed that while the Government would effectively underwrite 80% of their salary, the Group would make up the shortfall so that overall, they would receive the same salary as before. Once we reopened our Everyday Loans branches in May, for any staff that still had to use public transport and had no other means of travel, we arranged private transport to help minimise the risk of infection whilst travelling to and from work. In home credit, we increased the commission payable to agents for remote collections to help mitigate the impact of switching away from our traditional face-to-face model on their income. Despite the challenges from the pandemic, our latest staff engagement surveys show that engagement remains high and there was an increased response rate of 81% (2019: 71%) from the Everyday Loans branch network. Whilst some staff were also made redundant, such processes were handled sensitively in order to ensure a smooth exit for those affected. Heather McGregor, as the Board member responsible for workforce engagement, attended a number of online employee forums when a range of topics including work-life balance, hours of work and remuneration were all discussed.

The impact of the pandemic on financial brokers, that represent the lion's share of our loan applications in branch-based lending, was very significant. The sudden cessation of lending across the sector and significant reduction in applications from consumers severely squeezed brokers' cash flows and as a Group we sought to mitigate this shock by offering commercial arrangements to help them get through a temporary hiatus as the world adjusted to the new environment. We received excellent feedback and believe that our actions have further strengthened our already strong and long-standing broker relationships.

Throughout the pandemic we have continued to remain actively engaged with the FCA. Whilst clear that our interpretation of what processes were required in guarantor loans fell short of the regulator's expectations, a positive working relationship with the regulator has helped us to improve our processes and overall business approach. Our proposed redress methodology in guarantor loans, whilst not yet approved by the FCA, aims to ensure that all eligible customers will receive their redress in full. In the light of its proposed methodology, the Group is also conducting an independent review of its lending processes and procedures in both of its other divisions, taking account of recent decisions at the Financial Ombudsman Service. The FCA first announced its proposed 'payment holiday' or 'Emergency Payment Freeze' support scheme for borrowers affected by COVID-19 on 2 April 2020 that became effective on 9 April 2020. Whilst the scheme allowed lenders to continue to accrue interest, where appropriate, NSF chose to waive all such interest with zero charges as we believed that this would be in the best interests of customers and from our discussions with the regulator that such action would be well received.

1 Loans at Home tracker research results to March 2021 – PCP Market Research Consultants, April 2021.

Corporate Governance

THROUGHOUT THE YEAR, THE BOARD HAS REMAINED COMMITTED TO APPLYING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE.

[illegible]
CHAIRMAN

Dear Shareholder,

I am pleased to present our 2020 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 69 to 94.

As summarised in my Chairman's statement on pages 6 to 7, 2020 presented a number of significant challenges for the Group. Despite these, 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 2020, 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 and which, if successful, together with the current cash balances, will mean that the current constraints on our ability to operate effectively and execute our business strategy will be removed and the prospects for the Group significantly improved.

However, material uncertainty exists regarding, inter alia, the Group's ability to complete a successful capital raise as planned.

The performance of the Board and its committees are explained in the following sections of this Annual Report and for the purposes of this report, are benchmarked against the UK Corporate Governance Code. If a provision of the Code has not been met, the details have been highlighted together with an explanation under the heading: 'Statement of compliance with the Code' on page 53 below.

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

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 49). 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.

Key developments

Without wishing to repeat the contents of my Chairman's statement or the Group Chief Executive's report on pages 15 to 19, the events over the past 18 months have severely impacted the Group's performance and required significant operational change across many areas of the Group's business. This prompted increased levels of oversight and control in order to ensure that, despite the challenges faced, a robust governance process remained in place to ensure that the interests of all stakeholders were appropriately considered in what was, and remains, a challenging and fast moving environment.

In branch-based lending, the loan book fell by 20% as the economy slowed and lending volumes reduced. During the initial lockdown period we adjusted our lending criteria and staff switched to a home-working model whilst our branches were temporarily closed to protect the health and safety of our staff and customers and also to allow additional safety measures to be installed in each branch. Whilst a number of forbearance tools are already embedded within our business model, the introduction of an 'Emergency Payment Freeze' for consumers affected by the pandemic, allowing them to suspend loan repayments for a period of up to six months, was an additional forbearance measure that also impacted performance. Since reopening on 11 May 2020, our 74 branches remained open to customers, providing much needed access to credit.

Our home credit business underwent an even greater shift in some of its key operations. Building on the significant investment in technology over the past few years, we accelerated the introduction of a remote lending option for customers and promoted the rapid adoption of existing and new remote payment solutions, including a much-improved customer portal. The resilience of our technology allowed us to continue to operate effectively, with all of the usual management controls in place but with a marked reduction in physical face-to-face contact. This resulted in a significant reduction in lending volume whilst collections remained robust, prompting a decline in the size of the home credit loan book that fell by 32% year-on-year.

Of all three divisions, it was the Guarantor Loans Division that was particularly hard hit as its core customer demographic of younger adults was the one that appeared to suffer the greatest economic impact from the pandemic. Having reduced lending significantly in April 2020, we began to rebuild volumes through June and July before being informed by the FCA, following completion of its multi-firm review into the guarantor loans sector, of a need to amend certain processes and procedures and to prepare a redress methodology for any customers that may have suffered harm. As a result, it was decided that lending should be kept to a bare minimum until the process had finally been concluded. Addressing the issues raised by the FCA was a significant workstream throughout the second half of 2020 and into 2021. Whilst discussions with the FCA have not yet concluded and the redress methodology is not yet finalised, an exceptional charge of £15.4m has been made based on the Directors' best estimate of the expected costs. This figure is broadly in line with the provision made at the time of our half year results. In light of developments, having completed a detailed review of the Group's Guarantor Loans Division and its prospects, the Board has concluded that shareholder interests will be best served by placing the division into a managed run-off and ultimately closing the business. Whilst hugely disappointing, collecting out the loan book is the only rational conclusion given the combined impact of the pandemic, the FCA review into guarantor loans and the expected increase in costs in order to meet revised FCA requirements that would necessarily impede any potential recovery in profitability in the future.

Separately, the Group has commissioned an independent review of both its branch-based lending and home credit businesses. These reviews remain ongoing and include an assessment of whether the issues identified in guarantor loans have any implications for the divisions. These reviews also include an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending. The Directors recognise that, whilst the review work done so far has not identified any systemic issues requiring an increase in provision, there remains a risk that the final outcome of these reviews may result in the identification of customers who may require redress, and the cost of redress for the Group could be materially higher than is currently provided for in the financial statements. The Board and Board Committee structure in place has been, and will continue to ensure rigorous oversight of this process.

Many consumer credit firms, including those owned by the Group, experienced an increase in the number of complaints received during 2020. Many such claims were driven by complaint management companies ('CMCs'), but also by customers direct. The Group reviews all such claims carefully and aims to respond promptly in accordance with FCA rules. Whilst the Group continues to defend its position vigorously against what has been an increasing number of spurious and/or vexatious claims, largely from CMCs, the Group has also included additional provisions in the year to 31 December 2020 to cover the expected cost of redress for current and future complaints.

Underpinning our ability to navigate these developments and sustain the business though what has been an extremely challenging period has been the strong and positive business culture to which, as a Board and senior management team, we have been committed since NSF was first formed. Whilst face-to-face contact became more difficult, we embraced the latest technologies to remain connected with our people and to keep abreast of developments. This certainly helped to maintain high levels of staff engagement in 2020, an outcome that reflected all of the hard work of previous years and was supported by a concerted effort across the Group to ensure staff received regular calls from their managers to discuss any welfare-related or other issues and to ensure they remained firmly connected to the business.

Having put in place a new £200m securitisation facility with an initial drawdown of £15m during April 2020, the onset of the pandemic resulted in the Group breaching certain performance triggers on the facility during the first half of 2020 and so the drawn amount was repaid on 26 August 2020, removing the outstanding breach. While the facility remains available for potential future use, current cash balances mean that there is no requirement for further borrowing at the present time. Accepting that the Board is committed to raising additional equity capital, it is pleasing to note that the Group has remained within its financial covenants on each of its other debt facilities since the start of the pandemic.

The usual programme of investor relations was somewhat curtailed by the pandemic although the Group maintained contact with investors through online channels and hopes to return to increased direct shareholder contact in 2021.

Following the external Board evaluation conducted in 2018 by Lintstock, a specialist governance consultancy and an internally conducted review in 2019, the Company followed the 'three-year cycle', with a further internal review in 2020, with a forward looking focus as the Group moves forward from a challenging year. It is anticipated that an external review will be conducted during 2021.

2020 saw a number of changes at Board level (see Governance at a glance on page 56), with Nick Teunon departing from the Board on 30 April 2020. Jono Gillespie joined the team formally as CFO from 1 April 2020, bringing a wealth of experience gained in the non-standard sector over the past 22 years, both at Provident Financial plc where he held the position of Consumer Credit Division CFO and more latterly the role of CTO, and then as CFO at Loans at Home, where he was instrumental in implementing the technological transformation over the past few years. Toby Westcott joined the Board as a nominee director on 1 October 2020, galvanising the continued support by Alchemy Opportunities Fund IV L.P., the Group's largest shareholder.

Corporate Governance

Toby is a member of the Audit, Risk, Remuneration and Nominations & Governance Committees. Heather McGregor announced her intended departure from the Board in 2020, indicating that she would not stand for re-election at the 2021 AGM having served on the Board since incorporation. I would like to thank Heather for her commitment and service to the Board, often going above and beyond her job description. As set out in the Nominations & Governance Committee report, the Board plans to seek to appoint a further Independent Non-Executive Director during 2021. Having been appointed as 'Senior Independent Director' ('SID') in 2019, Niall Booker has provided additional support to the Board acting as an additional point of contact for shareholders, where required.

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 2020, it has not been possible to do so given the other challenges faced. The Group plans to address this matter in 2021 following the completion of a successful capital raise.

In 2021, the Board's ongoing focus remains ensuing that the Group emerges from the pandemic and completes a successful capital raise so that it can strengthen its balance sheet and is in a position to capitalise on what we believe could be a significant market opportunity.

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 2021. These include, but are not limited to: the appointment of an independent Non-Executive Director; the appointment of a new external auditor; and the completion of an external Board evaluation.

Charles Gregson
30 June 2021

NSF is committed to high standards of corporate governance

During 2020, 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 maintains that a high standard of governance was achieved throughout 2020, 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 4 – The Company did not fully comply with provision 4 of the Code, as the results of the AGM in 2020, whilst published, did not include an explanation of the actions the Company proposed to take regarding the vote of more than 20% cast against the re-election of Charles Gregson as Chairman. The Company did however, consult with key shareholders at the time.

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 94. The Board determines that Charles Gregson would be an independent Non-Executive Director in the event he had not held Founder Shares.

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. For the majority of 2020 and prior to the appointment of Toby Westcott on 1 October 2020, the Company complied with provision 11 as half the Board (excluding the Chair) were independent Non-Executive Directors.

Provision 17 – The Company does not fully comply with provision 17 of the Code as the Nomination & Governance Committee has 50% rather than a majority of independent Non-Executive Directors. Prior to the appointment of Toby Westcott on 1 October 2020, the Company complied with provision 17 as a majority of the Committee were independent Non-Executive Directors.

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. The financial experience of the Committee was enhanced during the course of the year with the appointment of Toby Westcott, who is a chartered accountant, to the Board.

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.

Board of Directors

Group Chief Executive
Appointed 8 July 2014
Committees D °

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.

Non-Executive Chairman of Paratus AMC Limited.

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.

Group Chief Financial Officer
Appointed 1 April 2020
Committees D

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.

None.

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.

Senior Independent Non-Executive Director
Appointed 9 May 2017
Committees A °/N/R/RC

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

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

Chairman Glenalmond College Council.
Chairman of Monument Bank Ltd.

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.

Non-Executive Chairman
Appointed 10 December 2014
Committees A/N °/R/RC

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.

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

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).

Independent Non-Executive Director
Appointed 10 December 2014
Committees A/N/R °/RC °

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.

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.

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.

Nominee Non-Executive Director
Appointed 1 October 2020
Committees A / N / R / RC

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.

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

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.

Company Secretary
Appointed 27 November 2017
Committees D

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.

None.

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 latterly, established the UK Consumer Credit Division Governance and Company Secretarial function.

Chief Financial Officer (until 1 April 2020, Executive Director 1 April 2020-30 April 2020)
Appointed 8 August 2014 (stepped down 30 April 2020)
Committees D

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

At both FTSE International and the Press Association, Nick was responsible for all mergers and acquisitions activity and related debt funding, in addition to leading the finance function.

None.

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

Election and re-election of Directors
In accordance with the Company's Articles of Association and the Code, the Directors are required to submit themselves for re-election annually at the Annual General Meeting. With the exception of Heather McGregor, each current Director will offer themselves for re-election at the next Annual General Meeting taking place at 11.00 am on 30 June 2021.

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

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

Corporate governance report

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

Board time	
Number of Board meetings in 2020	25
Number of Board meeting in 2019	26

'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.

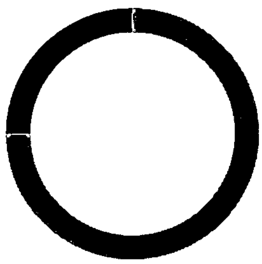
(based on those who were Board members for the whole of 2020)

5
Visits to Everyday Loans

5
Visits to Loans at Home

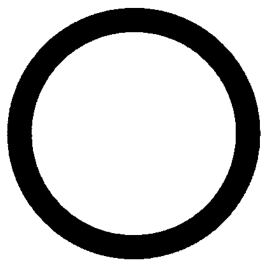
2
Visits to Guarantor Loans

Gender of the Board



- Male 3
- Female 1

Tenure of Directors



- 0-3 years 0
- 3-6 years 4

During the course of the year, the Board of Directors continued to develop with the appointment of Jono Gillespie as CFO on 1 April 2020 and the appointment of Toby Westcott as a Non-Executive Director on 1 October 2020. Nick Teunon left the Board on 30 April 2020.

Heather McGregor confirmed her intention not to stand for re-election at the Group's AGM on 30 June 2021.

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 2020
See pages 54 and 55

Meetings held in 2020:
25 (of which 11 were scheduled meetings and 14 related to ad hoc matters such as the response of the business to the pandemic).

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 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	Audit Committee	Risk Committee	Remuneration Committee	Disclosure Committee
Key objectives: To ensure that the Board and its committees comprise individuals with the requisite skills, knowledge and experience to ensure they are effective in discharging their responsibilities and that all governance requirements are being adequately addressed by the Board.	*Key objectives:* To assist the Board in discharging its duties and responsibilities for financial reporting and internal financial control.	*Key objectives:* To assist the Board in fulfilling its oversight responsibilities with regard to the Group's risk appetite and overall risk management.	*Key objectives:* Recommending to the Board the remuneration of the Chairman, Executive Directors, Company Secretary and senior management.	*Key objectives:* To assist the Board in discharging its duties and responsibilities with regard to disclosures, and disclosure controls and procedures.
The membership of the Nomination & Governance Committee and its report is on page 69.	The membership of the Audit Committee and its report is on page 71.	The membership of the Risk Committee and its report is on page 80.	The membership of the Remuneration Committee and its report is on page 81.	The membership of the Disclosure Committee is the Chief Executive, the Chief Financial Officer and the Company Secretary.

Corporate governance report

During 2020 the Board had 11 scheduled meetings to review current trading and operational performance of the business as well as to consider the following five categories of business: (i) strategic; (ii) financial; (iii) internal controls and risk management; (iv) governance and stakeholder management; and (v) people and culture. The Board also held 14 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.

A summary of the topics covered during the course of 2020 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 a Group Chief Risk Officer who oversees all divisions and in conjunction with the Company Secretary, reports into the Risk Committee regarding Group risk oversight. The Chief Risk Officer is a member of the Group's Executive Committee and is also invited to attend all Board meetings providing additional access for members of the Board.

All Directors are required to attend Board meetings as well as committee meetings for which they hold membership. Due to the pandemic, 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.

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

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

In light of the significant shareholding held by Alchemy Special Opportunities Fund IV L.P. that is a highly experienced investor in financial services businesses, the Board determined that it was appropriate to appoint Toby Westcott as an additional Non-Executive Director. Toby Westcott was appointed as a nominee director for Alchemy Special Opportunities Fund IV L.P. on 1 October 2020. Following Toby's appointment, the Board no longer complies with Provision 11 of the Code as there is not a majority of independent Non-Executive Directors (excluding the Chair).

During 2020, Heather McGregor informed the Board of her intention to stand down from the Board at the 2021 AGM. The Nomination & Governance Committee will seek to appoint an additional Independent Non-Executive Director in light of Heather's upcoming departure and hopes to do so before the end of 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 2021 as well as supporting the Board's process for succession planning.

Meetings attended/Number of meetings eligible to attend	Board	Nomination & Governance Committee	Audit Committee	Risk Committee	Remuneration Committee	Disclosure Committee
John de Blocq van Kuffeler	25/25					6/6
Nick Teunon (until leaving the Board on 30 April 2020)	7/8					3/3
Jono Gillespie (from appointment on 1 April 2020)	17/17					3/3
Niall Booker	25/25	2/2	14/14	4/4	7/7	
Charles Gregson	25/25	2/2	14/14	4/4	7/7	
Heather McGregor	24/25	2/2	14/14	4/4	7/7	
Toby Westcott (from appointment on 1 October 2020)	4/4	1/1	4/4	1/1	2/2	

Attendance at scheduled Board meetings was 100%, non-attendance from Nick Teunon and Heather McGregor was as a result of short notice meetings.

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.

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 has adopted specific guidance notes detailing how board matters which may cause a conflict of interest should be addressed, which may include excluding the nominee director 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.

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 2020 due to the pandemic, it is anticipated that this will be reinstated during the second half of 2021);
- 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
- in the second half of 2020, the Board also enlisted the support of Grant Thornton to 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 22 to 26).

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 71 to 79) 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. In assessing the events of 2020, the Board does not believe that the impact of the pandemic, or the increased number of claims generated by CMCs could have been foreseen and that they therefore fell outside what the Group might reasonably have been expected to capture as part of its risk management process. However, each of these factors is now part of our forward-looking risk assessment process and we have also adapted a number of our operating processes and procedures accordingly.

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 22 to 26, the Audit Committee report on pages 71 to 79 and the Risk Committee report on page 80.

Corporate governance report

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.

The Board comprised seven Directors in 2020, four of whom have served throughout the financial year (John van Kuffeler, Charles Gregson, Niall Booker and Heather McGregor). Jono Gillespie joined the Board on 1 April 2020 and Toby Westcott joined on 1 October 2020. Nick Teunon stood down from the Board on 30 April 2020. Details of each member of the Board, their respective representation and a description of the Board's activities are summarised in the following table:

Role	Responsibilities	Description of activities
Non-Executive Chairman Charles Gregson	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	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.
Two independent Non-Executive Directors and One Nominee Director Niall Booker (SID) Heather McGregor Toby Westcott (Nominee)	The Non-Executive Directors along with the Non-Executive Chairman have a responsibility for: • providing an external focus to the Board's discussions • providing constructive challenge in light of wider experience gained outside of the Company/industry • helping to develop proposals put forward by the Executive Directors on strategy and other matters affecting the Group's operational and financial performance • upholding high standards of integrity and probity • satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible • taking into account the views of shareholders and other stakeholders • supporting the Chairman and Executive Directors in instilling the appropriate culture, values and behaviours in the boardroom and across 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	The Board sets the strategic objectives as well as the overall strategic direction of the Company. It also oversees the Group's values and standards and is responsible for nurturing and sustaining a positive corporate culture. These objectives facilitate the implementation of the strategy and provide indicators through which management performance can be measured. At Board meetings the Directors discuss the financial, operational, strategic, cultural, resource, and governance matters that affect the Group. The Directors recognise the importance of being a dynamic business with the ability to respond to both opportunities and threats, thereby sustaining the long-term viability of the Group. The Company's strategy and business plan is therefore reviewed regularly, taking into account macro- and micro-environmental factors as well as the needs and desires of key stakeholders.
In addition, the **Senior Independent Director** has responsibility for:	• 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	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.
Group Chief Executive John van Kuffeler **Executive Directors** Nick Teunon (until 30 April 2020) Jono Gillespie (from 1 April 2020)	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	

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

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

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

Independence

In accordance with principle 10 of the Code, the Board determines Niall Booker and Heather McGregor to be independent Non-Executive Directors. The Board's assessment is based on the fact that Niall Booker and Heather McGregor receive no additional benefits from the Group, have not previously held an executive role within the Group and have served less than nine years on the Board. The Board believes that there are no current or past matters which are likely to affect Niall Booker's or Heather McGregor's independent judgement and character.

The Board does not consider Charles Gregson to be independent as he is a holder of Founder Shares. More details on the Founder Shares are set out in the Directors' Remuneration Report on pages 81 to 94. 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 2020

1. Strategic
- Review of strategic initiatives
- Consideration of the impact of the pandemic on the customer-facing operating models of the business as well as staff and self-employed agents
- Consideration of the process required for a capital reduction in order to create additional distributable reserves
- Review of the component parts of the Group in the context of ensuring shareholder value was maximised
- Consideration of strategic options for the Group
- Review of the proposed redress methodology for customers that may have suffered harm
- Competitor analysis
- Customer redress

2. Financial
- Review and approval of subsidiary and Group budgets and quarterly forecasts
- Implementation 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 additional equity, review of solvency and going concern in conjunction with Grant Thornton
- Approval of full-year and half-year results

3. Internal controls and risk management
- Approval of Group Risk Appetites and Risk Management Framework
- Monitoring and oversight of risks posed by the pandemic
- Approval of corporate policies
- Annual review of information security
- Oversight of health and safety
- Review of Money Laundering Reporting Officer reports
- Director & Officer Insurance renewal
- Oversight of business continuity arrangements and wind down plans
- 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

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 CEO
- 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
- Closure of the ELL LTIP scheme
- Regulatory updates
- Liaison with regulator (including trading performance, pandemic-related updates and proposed redress methodology in guarantor loans)
- Stakeholder engagement including updates on investor views

5. People and culture
- Appointment of Jono Gillespie and Toby Westcott to the Board
- Resignation of Nick Teunon 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 the transition to remote working
- Consideration of the impact of the pandemic on the workforce, with particular reference to mental well-being
- Review of senior management composition across the Group
- Consideration of replacement for Heather McGregor

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

	Strategy	Financial	Internal control and risk management	Governance and stakeholder management	People and culture
Review strategic initiatives	✓				
Ongoing review of COVID-19 impact	✓	✓	✓	✓	✓
Review of the funding structures of the Group	✓	✓			
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			✓		
Review of information security, cyber security and data protection			✓		
Board evaluation, composition and succession planning				✓	✓
Approval of bonus scheme					✓
Review of gender pay gap reporting, CEO pay ratio reporting, equality and diversity across the Group				✓	✓
Corporate social responsibility, environmental performance, and community activities reporting				✓	✓
Review of matters reserved for the Board and 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		✓	✓	✓	✓

Our purpose of helping UK consumers to meet their financial needs is driven by the firm belief that everyone should have access to credit they can afford. We have developed a business model that seeks to provide affordable credit to those who are unable or unwilling to borrow from mainstream lenders. Central to our model is a focus on ensuring that we deliver our loan products and services in the right way. This requires us to nurture and maintain a positive culture so that we can continue to deliver great outcomes for our customers as well as broader benefits for our other key stakeholders (see 'Business model' on page 14 and 'Stakeholder management and our commitment to Section 172' on pages 40 to 49).

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

Culture forms a key component of the Group's overall governance framework with each business being responsible for the development of 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
- Integrity
- Shared purpose delivered through teamwork
- Clear communication
- Entrepreneurial leadership

Whilst each division describes these behaviours slightly differently, each business has developed its own 'cultural thermometer' that includes a number of metrics assessing a broad range of factors including good customer outcomes as well as satisfaction and engagement levels among both employees and self-employed agents. Whilst each of these measures feeds into a good customer outcomes dashboard, we recognise that 'measuring culture' is an inexact science and so we are careful not to focus on each metric alone but rather view each one in the context of the 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.

The Board has long recognised the value of experiencing our products and services first-hand by conducting periodic visits to our office locations and spending time to meet staff and, where possible, customers to hear about the hopes and challenges that they face on a daily basis. We believe such insight means that the Board will be better placed to infer a deeper understanding of the dynamics, challenges and opportunities for our business than simply reviewing management reports alone. During 2020, face-to-face meetings with staff and customers was more challenging given the restrictions on travel and personal contact. However, a limited number of visits did take place, where restrictions allowed and activities such as employee forums also took place through extensive use of digital technology.

Whilst Board meetings would ordinarily take place at the Group's head office in London, in recent years there has been a conscious effort to try and host some Board meetings at subsidiary venues, thereby providing the Board with additional perspective and the chance to meet employees directly (see 'Governance at a glance' on page 56). Unfortunately, this was not possible in 2020 and all plc Board meetings from March 2020 onwards were held via video conferencing. It is the intention of the Board to recommence holding some Board meetings at subsidiary venues as soon as it is safe and appropriate to do so.

The delivery of good customer outcomes is a key objective for all FCA-regulated consumer lending businesses. Whilst we continue to track a large number of performance measures, as a Group we have also identified a subset of these (including complaints data) that are captured at divisional level to form a single, good customer outcomes ('GCO') dashboard, thereby enabling executive management and the Board as a whole to identify potential issues before they become significant. During 2020, the GCO dashboard became 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, risk management, good customer outcomes, people and culture and strategic developments.

Having been notified during the summer of 2020 that the FCA had some concerns regarding certain practices and procedures in the Group's Guarantor Loans Division ('GLD'), this prompted a series of operational and policy changes within GLD as well as a number of improvements to the monitoring process outlined above. The 2021 metrics now include progress regarding the GLD redress programme as well as monitoring of complaints activity.

Stakeholder engagement

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

Stakeholder name	How the Board is kept informed
Customers	Monitoring of good customer outcomes via a good customer outcomes dashboard gives the Board a 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 all three 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. Agent engagement surveys and listening group results are reported to the Board.
Regulators	Regular updates are received by the Board regarding regulator contact and horizon scanning of any proposed or actual regulatory change that may impact the business. Board members are also directly involved in engagement with our regulators, as and when required. Regulatory affairs updates are provided to the Board on a regular basis including relevant details of engagement with MPs, Members of the House of Lords, civil servants, think tanks and relevant special interest groups.
Partners and suppliers	The Board is required to approve any significant financial commitment with key suppliers. Risk management reporting into the Board also identifies any key supplier risks to the business and how they may have changed or how they are expected to change in the future.
Communities and charities	The Board receives updates with regard to the various community-based activities and charities supported by the Group.
Providers of funding	The Board receives regular updates on the Group's interactions with equity and debt providers that take place through a number of formal processes such as the Annual General Meeting, investor roadshows and results briefings, as well as through more ad hoc interactions including one-on-one meetings, conference calls and presentations at industry conferences. By maintaining a positive relationship with a number of sell-side analysts, the Group also ensures that there is a broad range of third-party research that is available and published on the Company. Direct contact between the Non-Executive Directors and shareholders ensures that shareholder opinions are heard directly by the independent members of the Board.
Environment	The Board receives regular updates with regard to the Group's environmental impact in the form of updates from subsidiary boards.

We recognise that our workforce is central to us being able to drive our business model (see page 14). Members of the Board monitor and review the results of annual staff and self-employed agent surveys closely and also receive direct feedback from employee forums (see below).

When possible (although COVID-related restrictions during 2020 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 2020, 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.

Annual surveys have been running in all NSF operations for a number of years and are seen by the workforce as a key thermometer of engagement both in terms of response rate and overall scores. Despite the enormous challenges presented by the pandemic during 2020, 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 then play back the results and provide management's interpretation of the results, together with a summary of actions taken and to be taken. We always encourage teams to discuss the results and to try and come up with additional ideas for improvement that management then reviews and actions. Heather McGregor reviews all freeform comments received to ensure that there is a comprehensive review and no material feedback is overlooked. A summary is then provided to the Board.

of our people feel encouraged to 'do the right thing'

Due to the pandemic, employee forums moved online in 2020 and have played an important role in maintaining contact between management and staff, but also between staff, many of whom have worked remotely, sometimes for extended periods. The shift online enabled Heather McGregor to attend more forums than previously planned. Topics covered included culture, financial performance, business improvements, communications and consultation, with significant focus on each business' response to the pandemic.

As Heather McGregor is stepping down from the Board in 2021, it is intended that Sarah Day, who will take on responsibility for workforce engagement (Code Provision 5) will attend at least one forum for each division over a rolling 12-month period.

To complement the feedback from surveys and forums, when circumstances allow, members of the Board also attend subsidiary management conferences and culture development programmes while subsidiary members of staff are invited to attend NSF level stakeholder events including Board meetings as well as results presentations and investor days. This helps to ensure a two-way flow of communication between the parent and its subsidiaries and enhances the level of understanding between the two.

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. During the pandemic, contact has been maintained via video calls with senior management as well as online attendance at employee forums as noted above.

site visits were conducted by Board members during 2020 (in addition to Board meetings).

Through the use of an intranet-based recognition scheme, 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. As the process is online, the recognition is immediate and can also be 'liked' and 'commented' upon by fellow colleagues.

The wellbeing of our workforce remains a key area of focus, particularly in the context of a global pandemic. In addition to regular contact with staff by phone and online, we continued to conduct regular mood surveys to provide management with a 'temperature check' on how the organisation is feeling and to identify any concerning trends. Complementing this effort has been the presence of a number of trained mental health first aiders available to support staff during the pandemic. These initiatives have proved to be invaluable in providing support for staff either working from home or on furlough.

During the course of the pandemic, each of the Group's businesses sought to support communities in tackling the pandemic where possible; for example at Loans at Home, the Employee Forum decided to award the cash from the monthly recognition programme to support local charities including the NHS.

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

NSF operates a rolling approach to evaluation with an external review being conducted every third year. In 2020, following the three-year cycle, the Board evaluation was undertaken by the Group's in-house Company Secretarial team.

The Directors were provided with a comprehensive questionnaire covering Board composition, stakeholder oversight, Board dynamics, management of meetings, Board support, focus of meetings, strategic and operational oversight, oversight of subsidiaries, risk management and internal control, succession planning, human resource management, and priorities for change.

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

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

Adhering to the requirements of the Code, during 2020 the Chairman reviewed and agreed with each Director their training and development needs, taking into account their individual qualifications and experience.

A training programme was devised during the year and participants included those Directors on subsidiary boards, in addition to those on the Non-Standard Finance plc Board. The joint sessions have proved to be a valuable addition in helping to ensure that Director obligations are understood clearly across the Group. Topics covered during 2020 included operational resilience, accounting updates and ESG matters.

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

Board evaluation results

Key findings in 2019 and objectives for 2020	Enhancement of management information at Board level and increased focused on developing communication channels between Board members and subsidiaries.	Continued focus on succession planning and talent development.	Ongoing focus on Director reviews, induction and training.	Further development of monitoring and reporting on culture within the Group.
Actions taken during 2020	Introduction of business balanced scorecards populated by CEOs from the divisions, and now also reported at a consolidated Group level. The Group CEO chairs all three divisional boards and NSF executives sit on each board, which facilitates greater communication throughout the Group.	With the focus having been on developing internal talent, most previously identified 'successors' are now in new roles meaning that whilst the current team could address immediate role requirements, the focus of the plc was turned to the longer term and consideration of external recruitment possibilities.	Training during the year covered topics such as directors' duties refresher training provided by Grant Thornton. Operational Resilience, accounting updates and ESG reporting.	Reporting on culture as well as customer experience has been enhanced and is presented to the Nomination & Governance Committee on a regular basis.
Key findings in 2020	Carry out more 'deep dives' into key areas of focus where decisions need to be made on challenging topics that require great consideration.	Continued focus on increased engagement between the Board and colleagues within the operational businesses. Continued focus on succession planning and talent development in the subsidiaries.	Continued work on the Board's awareness of the organisation's information needs, to include more in-depth reporting of committee activity to the Board, and greater inclusion of remedial action in reporting, with clearer governance of project/programme post evaluation at Board level.	Continue to engage with, and gain shareholder views in respect of the design stage of the Remuneration Policy and relevant incentive schemes.

Corporate governance report

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

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

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

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

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, at the Group's annual Investor Day or via organised investor roadshows supported by the Group's brokers.

In October 2020, the Board appointed Toby Westcott as a Nominee Director, with the intention of maintaining a strong dialogue with Alchemy, the Group's largest shareholder.

Whilst shareholders are normally always invited to attend the Company's Annual General Meeting ('AGM'), where Board members and the Board's advisers are available to answer any shareholder questions, uncertainty over the status of government restrictions relating to the pandemic has meant that for the 2021 AGM, the Board is advising shareholders not to attend the AGM this year and to submit their votes in advance by proxy card so as to minimise any health and safety risks by reducing the number of attendees in person.

The 2021 AGM of the Company is scheduled to be held at 11.00 am on 30 June 2021 and a notice of meeting has already been dispatched to shareholders. A copy of the notice is also available to download from the Company's corporate website: **www.nsfgroupplc.com.**

As the impact of the pandemic is continuing to affect many areas of the Group's business and operations, in accordance with DTR 4.1.3R, the Company has used the additional time granted before publishing audited accounts, to consider "all aspects of their business and operations" and to ensure that the forward looking elements of our Annual Report adequately considered and took into account the impact of the pandemic insofar as possible upon the Group.

Given the timescales, it has therefore been necessary to apply to Companies House for an extension to the filing date of the Group's audited accounts. As the anticipated date for completion of the audited accounts did not allow a clear 21 days' notice prior to the required AGM date, the Company is required to hold a separate general meeting to approve our audited accounts. This will now take place at 2.00 pm on 16 August 2021 and the notice of that meeting will be dispatched to shareholders with the Annual Report. A copy of the notice is also available for download from the Company's website: **www.nsfgroupplc.com.**

Sarah Day
Company Secretary
30 June 2021

Nomination & Governance Committee report

for the year ended 31 December 2020

The Committee met on two occasions during the year ended 31 December 2020.

Membership and attendance

Director	Attendance and total number of meetings that the Director was entitled to attend
Charles Gregson (Chairman)	2/2
Niall Booker	2/2
Heather McGregor	2/2
Toby Westcott (from 1 October 2020)	1/1

The principal purpose of the Nomination & Governance Committee (the 'Committee') is to monitor the balance of skills, knowledge, experience and diversity on the Board and to recommend any changes to the composition of the Board. 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.

Aligning with the provisions of the UK Corporate Governance Code (the 'Code'), until October 2020, the Committee comprised a majority of members who are deemed to be independent Non-Executive Directors. The members of the Committee are: myself, Charles Gregson (Chairman), Niall Booker, Heather McGregor and Toby Westcott, each of whose biographical details are set out on pages 54 and 55. With the addition of Toby Westcott to the Board (and each committee) in October 2020, the Committee ceased to comprise of a majority of independent Non-Executive Directors and therefore ceased to comply with The Code (Provision 11). However, the Committee believes that Toby's addition to the Committee has broadened its experience, engendering a more complete discussion around matters raised. Note that I did not chair the Committee when it was considering the appointment of a successor to the chairmanship of the Company.

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

During 2020, the Nomination Committee assisted the Board in discharging its responsibilities relating to the composition of the Board and any other committees of the Board. To fulfil that role, the Committee's primary functions included:

- keeping under review the leadership needs of the organisation, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace, taking into account strategic issues and commercial changes affecting the Company;
- reviewing the structure, size and composition of the Board, taking into account the results of the Board evaluation and making recommendations to the Board with regard to any proposed changes;
- identifying and nominating candidates who are assessed as having the skills, knowledge, experience, and independence, as well as sufficient time to ensure that Board vacancies were filled in a reasonable timeframe and making appropriate recommendations to the Board for the appointment of Directors;
- considering and formulating succession planning for Directors and senior executives;
- 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**.

- 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.

Nomination & Governance Committee report

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

The Company and each of its operating subsidiaries seek to engage, train and promote employees on the basis of their capabilities, qualifications and experience. Discrimination or pressure to discriminate by any of the Group's employees, contractors or customers in respect of age, sex, sexual orientation, race, ethnic origin, marital status or civil partnership, nationality, disabilities, political or religious beliefs is strictly forbidden.

NSF seeks, where possible, to develop talent within the Group, drawing on the unique experience gained from individuals working in the non-standard financial services sector. This philosophy continued in 2020 and into 2021 with the appointment of a new CFO in branch-based lending who joined from a major competitor in November 2020 and the promotion of Jon Wiggins, former Managing Director of the branch network, to become CEO of branch-based lending in March 2021. This approach is underpinned by our desire to ensure that, where possible, those appointed to senior or approved roles within our operations have an in-depth knowledge of the Group's business and the wider sector. The promotion of Jono Gillespie to the role of Group CFO in 2020, having joined Loans at Home as CFO in 2016, also illustrates our commitment to developing talent within the Group. Jono brings significant knowledge and expertise of the non-standard finance sector from each of his roles over the last 22 years prior to joining the NSF Group whilst at Provident Financial plc.

The Group is also focused on ensuring 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 remains keen to increase diversity, the Board is not committing to any specific targets. The Group Board currently has one female Director (although Heather McGregor will be stepping down from the Board at the 2021 AGM) and a female Company Secretary and 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, there are two female Board members and two female Company Secretaries that help to ensure a variety of viewpoints are considered, 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.

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 2020 included Directors' duties and responsibilities, an update regarding Operational Resilience, a general update regarding corporate reporting (including S172 statements) and a review of the impact of COVID-19 on financial reporting.

It is pleasing to report that all matters identified in the 2019 external Board evaluation have been addressed. In 2020, the evaluation was facilitated in-house and was based upon the approach from both internal and external reviews in previous years.

The results of the 2020 evaluation were presented to the Board in early 2021. The results highlight the strength and expertise of the Board and the advantage gained through having a relatively small board with strong communication channels. The evaluation outlined a number of areas of focus for the future such as the enhancement of Board Management Information, including more 'deep dives' into key areas; continued activity re talent identification and succession planning and increased shareholder dialogue regarding remuneration and incentives.

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

During 2020 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.

In April 2020, as previously announced, Nick Teunon left the Board and was replaced as CFO on 1 April 2020 by Jono Gillespie. Following an extensive dialogue, the Company entered into a 'Services Agreement' with Alchemy Special Opportunities LLP, to provide the services of a nominee Director to the Board. Toby Westcott was appointed to the Board in this role on 1 October 2020. At that point the Board then comprised two Executive Directors and four Non-Executive Directors.

The composition and membership of the Board remains under regular review by the Nomination Committee. With the upcoming departure of Heather McGregor from the Board, the Nomination Committee has determined that the chairmanship of the Remuneration Committee will be taken on by Toby Westcott and the chairmanship of the Risk Committee will be taken on by me, Charles Gregson. The Board has determined that the valuable dialogue and insight gained through Heather's attendance at Employee Forums should continue and that following Heather's departure the role of employee representation at the Board along with role of Group Whistleblowing Champion will be undertaken by Sarah Day.

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.

The main areas of focus for the Committee in 2021 include: an ongoing evaluation of Board composition; succession planning (including the appointment of a new Non-Executive Director); a review of the Committee's terms of reference; an external Board performance evaluation; a review of Board effectiveness as well as considering the prevailing culture of the business, the customer journey of each business and how environmental factors might affect the Group and its stakeholders. The Board will also consider the potential negative impact of the pandemic upon the wellbeing of employees.

Charles Gregson

30 June 2021

Audit Committee report

for the year ended 31 December 2020

The Committee met on 14 occasions during the year ended 31 December 2020.

Membership and attendance

Director	Attendance and total number of meetings that the Director was entitled to attend
Niall Booker (Chairman)	14/14
Charles Gregson	14/14
Heather McGregor	14/14
Toby Westcott	4/4

The Audit Committee (the 'Committee') comprises four Non-Executive Directors (since October 2020), two of whom are independent. Provision 24 of the Code requires that the Audit Committee for smaller companies comprises two independent Non-Executive Directors and that the Chair of the Board should not be a member of the Committee. The Company does not meet provision 24 of the Code due to the Chairman of the Board also being a member of the Audit Committee. However, due to his professionalism, independence of character and judgement, together with his experience, and taking into account the size and nature of the Company, it is deemed appropriate for him to remain a member of the Audit Committee. All four 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 and Toby Westcott each of whose biographical details are set out on pages 54 and 55.

The Committee met on 14 occasions during the year ended 31 December 2020, nine of which were scheduled meetings and five of which were additional meetings.

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

Committee meetings are attended by the Chief Financial Officer, 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 and the extended reporting timetable for the 2019 year end recommended by the Government, a number of additional Audit Committee meetings were convened, sometimes at short notice. Attendance at scheduled meetings was 100% for Committee members.

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.

Audit Committee report

Throughout 2020 the Committee determined that the following aspects of the financial statements were of significant interest:

Following the previous write down of goodwill at the end of 2019, a further goodwill impairment assessment as at 30 June 2020 was undertaken by determining the recoverable amount of each cash generating unit ('CGU'). This recoverable amount was then compared to the respective net asset values and carrying values of goodwill, with the Committee considering and challenging the appropriateness of management's key assumptions. It was identified at the time of the 2019 full year results, that there was a potential risk of a further write down in the future. During the year the further decline in the valuations of non-standard lenders, the uncertain regulatory environment and the impact of COVID-19 on the profitability of each of the Group's divisions meant that at the 2020 half year review the Group wrote off all the remaining goodwill assets on its balance sheet and this resulted in an exceptional non-cash charge of £75.5m.

Further detail is set out in notes 2 and 14 to the financial statements.

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.

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

During the course of the year, the Committee determined that the probability of a downside scenario had become more likely given the ongoing external uncertainty caused by both the COVID-19 pandemic and Brexit, which had, in the Committee's opinion, resulted in a less stable economic environment. As a result, having increased the risk weighting of a stressed scenario at the time of the 2019 full year results, the Committee agreed to further increase the risk weighting of a stressed scenario from a 30% downside and 15% severe downside stress to a 20% downside and 30% severe downside stressed weighting for the half year ended 30 June 2020.

As part of the year end macro-economic review of the branch-based lending and guarantor loans divisions, the Group worsened the underlying macro-economic variables used in its forecasts as well as increased the downside weighting in order to account for the impact of recent economic changes arising from the effects of COVID-19. The Committee reviewed additional analyses which indicated that, based on historical evidence, management had determined the effect of traditional macroeconomic downside indicators to be minimal and therefore, there would need to be a significant shift in the weightings to have a material impact on the probability of default for customers. As such, in addition to a change in macroeconomic weightings, in order to account for the specific forward looking macro-economic impact of COVID-19 on provisions, the Group has additionally included a COVID-19 overlay to reflect the increased risks associated with customers who have taken and/or come off payment holidays. In light of above, the Committee considered whether the weightings utilised at the half year remained appropriate for the year end. It was concluded that following additional challenge and scrutiny it was appropriate to amend the macroeconomic weightings to 50% base, 40% downside and 10% positive as at 31 December 2020.

There was no increase in provisioning in home credit due to the change in risk weighting because it also has a history of very low, or zero, correlation between macroeconomic factors and the probability of default. This approach remains valid notwithstanding the impact of COVID-19 and is unchanged from previous years for home credit.

The COVID-19 pandemic presented unique challenges to provisioning in 2020. During the year end review of provisions, it was felt that the system used within the branch-based lending and guarantor loans divisions to determine expected credit losses ('ECL') was relatively inflexible in adapting to the behaviours of customers in a COVID-19 impacted environment. As a result, a refinement to the approach was adopted in the current year whereby the determination of ECL was influenced by the PDs as derived from the model, future cash flows based upon observed historical data, updated as management considered appropriate to reflect current and future conditions, as well as the consideration of the performance of previously rescheduled loans. The Committee recognises that judgement is applied to the determination of provisions which includes whether past performance provides a reasonable estimate of future losses. In the case of 2020, even more reliance has been placed on judgement than previously given past customer performance may not be indicative of future performance as a result of the pandemic.

With regard to the impact of the implementation of the Government's 'Emergency Payment Freeze' scheme ('EPF'), the Committee considered the assumptions made by management with regard to the likelihood of the impact of such forbearance on a customer's ability to repay being temporary in nature in order to form a judgement as to whether the COVID-19 overlay being applied by management as part of the overall provisioning was appropriate.

The result of this was an increase in the level of overall provisioning for the loan books in the branch-based lending and guarantor loans businesses at year end, where the impact of EPFs for COVID-19 affected customers were not all assumed to be temporary. Due to the short-term nature of home credit loans, and the return to regular payment patterns for the vast majority of active customers, the impact of EPFs on home credit customers at year end was immaterial and therefore no overlays were made as at 31 December 2020.

In August 2020, following discussion at both the Audit Committee and the Board, the Group determined that in the current economic environment it was appropriate to repay the initial £15m tranche drawn down on the Group's securitisation facility.

The Committee considered that whilst a temporary waiver had been agreed to cure the breach of certain portfolio performance triggers, that the ongoing uncertainty resulting from the COVID-19 pandemic meant that continued access to the facility was highly uncertain.

Over the course of the year, the Committee considered the appropriate accounting treatment for the c.£6m fees associated with the set-up of the Group's securitisation facility. When the initial tranche of the facility was repaid, the appropriateness of retaining the set-up fees as a capitalised asset on the Group's balance sheet was considered and it was determined that whilst there was a possibility of accessing the facility in the future, that the fees should remain on the balance sheet as the facility was 'live'.

Towards the end of the year, the Committee revisited the subject and determined that whilst it remained possible that the facility could be accessed in the future, 'control' of the facility did not lie with management and the facility therefore no longer met the definition of an asset. As a result, it was considered appropriate to write-off the remaining capitalised fees. This charge forms part of the exceptional costs detailed within note 7 to the financial statements.

During the year, the Committee assessed the forecast levels of net debt, headroom on existing borrowing facilities 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 the next 12 months. For liquidity, the Group produced two scenarios: (i) the more likely (or 'base case') scenario which includes a substantial equity injection in the second half of 2021 in order to mitigate the risk of and/or cure covenant breaches; and (ii) a downside scenario which applies stresses in relation to the key risks identified in the base case and does not include an equity raise. The Group concluded that a material uncertainty continues to exist around the performance of the Group and its ability to stay within its financial covenants, with both very much influenced by a number of factors not entirely within the Group's control including the successful execution of a capital raise, current and future impacts of COVID-19 and the impact of potential levels of redress across the Group as well as the outcome of the independent reviews being performed at the branch-based lending and home credit divisions.

Under the base case, additional equity funds in the second half of 2021 mean that the Group does not breach its covenants in the next 12 months and therefore would not require covenant waivers from its lenders in order to remain viable. The base case assumes no breach in covenant as at 30 June 2021 as on the basis of current forecasts the Group does not expect to do so. However, the covenant headroom remains tight and there remains a risk, due to unforeseen and as yet unaccounted for matters, that the Group will breach its financial covenants as at 30 June 2021. If this were to happen, then the Group would maintain its strategy as described under the base case as management would have time to cure this breach. However, this would result in a requirement to either accelerate the capital raise or request a temporary waiver from lenders, neither of which have been considered in the base case. Therefore, if the Group finds itself in such a scenario, whilst the Directors remain confident of the ability to raise capital, they note the risks associated with executing on the base case would be increased and consequently the likelihood of the Group ending up in the downside scenario would also be increased.

Under the downside scenario, which assumes no additional equity in 2021, the Group would be expected to breach certain covenants during the next 12 months and would therefore not be able to access further funding over the period of breach. It is also therefore assumed that the Group would require waivers from its lenders in order to remain viable. The waivers required under this scenario are beyond the range discussed in previous negotiations with lenders and therefore, if the expected breach under this scenario occurs and if waivers are not forthcoming, the Group may fall under the control of its lenders and there is a possibility of the Group going into insolvency.

The Committee additionally ran a liquidity reverse stress test on the base case to identify the level that expected collections would have to fall by so as to cause the Group to deplete all cash reserves. This showed that, assuming no changes to lending levels and operating expenses, collections would be required to fall by over 23% 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 evidence to date, such a reduction in collections, with no mitigating actions, was thought by the Committee to be an unlikely event, though the Committee also recognised that access to such cash generated by the collections is ring fenced by the lenders and therefore in the event of a breach of covenants the ring fence is triggered and the cash would not to be available to the Group or Company.

With regards to the balance sheet solvency of the Group, the Committee noted that under the base case, whilst in a net liability position as at 31 December 2020, the Group will move forwards in a net asset position, however this is dependent on additional equity proceeds being received. Under the downside scenario, the Group would remain in a net liability position.

On the basis of the above analysis, 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. The range of assumptions and the likelihood of them all proving correct creates material uncertainty on liquidity and solvency under both the base case and downside scenarios.

In making their assessment, the Directors took account of the Group's current financial and operational positions, the status of conversations with the regulator and advisors, as well as recent trading activity and in particular, recent collections activity. They noted the proposed equity raise to support the Group and in particular the continued interest of the Group's major shareholder Alchemy in supporting a capital raise subject to the outcome of the Group's engagement with its lenders, Alchemy's analysis of the FCA and Group's regulatory reviews, and greater levels of certainty around redress and claims. In addition, they noted, contingent on a successful capital raise having been completed, the informal support of a proposed extension to the term of the Group's existing facilities by its lenders. The Directors also note the existence of the securitisation facility, however they noted that this is currently suspended and the ability to use this facility remains outside of the Group's control as it is subject to the consent of the lenders and the satisfaction of standard covenants for a facility of this type. The Directors recognise there exists a risk around covenant compliance as at 30 June 2021 due to matters unforeseen in its current forecasts and that should a breach eventuate, it would result in a requirement to either accelerate the capital raise or request a temporary waiver from the lenders.

The Directors acknowledge the considerable challenges presented over the last year and now facing the Group and the Company and therefore the material uncertainty which may cast significant doubt on the ability of both the Group and the Company to continue to adopt the going concern basis of accounting. However, despite these challenges, it is the Directors' reasonable expectation that the Group and Company can and will raise sufficient equity and have sufficient liquidity to continue to operate and meet its liabilities as they fall due for the next 12 months and therefore it has adopted the going concern basis of accounting.

The assumption of shareholder support for additional equity, 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 base case, forms a significant judgement of the Directors in the context of approving the Group's

Audit Committee report

going concern status.

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

The same conclusion has been made in relation to the statement on longer-term viability as discussed on pages 78 and 79 of this report.

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 the Group's Guarantor Loans Division and required that a programme of redress be put in place for those customers deemed to have suffered harm as a result.

Since that date, the Committee has undertaken an ongoing role to review and consider the assumptions adopted by management in determining the detailed redress methodology.

For the year ended 31 December 2020, the Group has recognised a provision for customer redress of £15.4m comprising the sum of all redress due to customers, which including penalty interest ('gross redress amount') of £16.7m, and cost of implementation of £1.0m, offset by existing impairment provisions of £2.3m, results in a net amount of £15.4m. This represent management's best estimate of the costs of the redress programme as at 31 December 2020. However, as the amount of redress payable increases over time due to the penalty interest element, the full and final costs will increase. The current best estimate of this cost as at 30 June 2021 is c.£1m higher than as at 31 December 2020.

As at the date of signing the financial statements, the Group is working closely with the FCA to reach a conclusion regarding the redress methodology. The FCA has raised questions around the Group's assessment of whether or not the customer has suffered harm (in instances where we have concluded that the affordability assessment at the time of underwriting was not appropriate). Under the Group's proposed methodology there are a range of factors which need to be met in order to conclude that a customer has suffered either internal harm (problems paying the loan in question), or external harm (problems external to the loan in question). The current methodology requires multiple indicators to be present to trigger redress, however, the Committee notes that should one of these factors in isolation be taken as a definition of harm, then the redress provision could be c.£10m higher than that currently provided for in the financial statements. Furthermore until such time as the redress approach has been agreed with the FCA, there remains uncertainty around this estimate and therefore the ultimate cost could be higher than this £10m sensitivity indicates. The ultimate redress 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 payout being higher than estimated under the currently proposed methodology.

As has been the case for a number of financial services firms over the course of the year, the Group has experienced an increase in the number of complaints received, primarily from Claims Management Companies ('CMCs') and also from customers. Following discussion at both the Audit Committee and the Board, the Group has recognised 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. As part of their assessment, the Committee also considered the current 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. These reviews remain ongoing and include an assessment of whether the issues identified in guarantor loans have any implications for the other divisions. The reviews also include an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending. As at the date of these financial statements, the Committee recognise that whilst the review work done so far has not identified any systemic issues requiring an increase in provision, there remains a risk that the final outcome of these reviews may result in the identification of customers who may require redress, and the cost of redress for the Group could be materially higher than is currently provided for in the financial statements.

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 the 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.

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

- reviewed the impairment of goodwill, intangibles and customer receivables valuation carried out by management;
- reviewed the accounting treatment proposed regarding IFRS 9;
- reviewed 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 2020 on a going concern basis, subject to the material uncertainty noted above;
- reviewed and approved the Viability Statement and related papers;
- reviewed the full-year results and the form and content of the draft Annual Report and financial statements;
- discussed with the external auditor without any Executive Director or employee being present;
- reviewed the audited results for the year ended 31 December 2020; and
- reviewed the statement on internal controls.

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

The internal audit function, which is now 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:

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

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

[illegible]

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 Deloitte LLP, who have conducted the external audit since 22 October 2014.

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

The Committee also reviews the performance of the auditor taking into consideration the services and advice provided to the Company and the fees charged for these services. Details of the auditor's total fees for the year can be found in note 5 to the financial statements.

The Committee has considered the independence of Deloitte and the level of non-audit fees and believes that the independence and objectivity of the external auditor are safeguarded and remain strong. Having been the external auditor to the Group since 2014, Deloitte notified the Company of their intent to stand down as external auditor following the conclusion of the 2020 full year audit. The Committee has completed a tender process to replace Deloitte and the Board will propose a resolution to be voted on at the forthcoming general meeting to be held on 16 August 2021 to appoint PKF Littlejohn LLP ('PKF') as the Group's new external auditor. PKF is a global network of accountancy firms. The network's 220 member firms operate under the PKF brand in 150 countries across five regions and encompasses over 20,000 professionals.

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 2020 were for the half-year review and these meet the Financial Reporting Council's ('FRC') definition of audit related services. These costs were incurred prior to the decision to publish unaudited interim results.

During 2020 the level of non-audit fees amounted to £0.22m (2019: £1.8m).

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 2020 represent 22% (2019: 313%) 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 2020, the Committee adopted a co-source internal audit model, with the appointment of 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. KPMG, one of the UK's leading accounting firms, continued to provide the external resource to the Group to facilitate the majority of the reviews undertaken during the course of the year as the new model bedded in.

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.

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. However as noted in the Viability Statement itself, the Committee felt that viability was subject to the same material uncertainties noted above in respect of going concern.

In accordance with the 2018 FRC Corporate Governance Code, Directors are required to confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for an extended period. The Committee agrees with management that the extended period should be 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 8 to 49) and the Group's principal risks and uncertainties, including COVID-19, the cost of redress, regulatory change and the activities of 'CMCs', and how these are managed (see pages 22 to 26).

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 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.

As part of its going concern and viability assessment, the Directors reviewed both the Group's access to liquidity and its future balance sheet solvency. The Group produced two scenarios: (i) the more likely (or 'base case') scenario; and (ii) the 'downside' scenario which applies stresses in relation to the key risks identified in the base case.

(i) Base case scenario

Liquidity

The base case forecasts assume additional equity is raised during 2021 and reflects a business plan where the Group rebuilds its loan book back up to historic levels and achieves further growth within its branch-based lending and home credit divisions. It also assumes that the Group's Guarantor Loans Division is placed into a managed run-off. In this model, any potential covenant breaches are cured by the injection of capital into the Group. As at the date of this Annual Report, the Group expects to raise equity funds in the region of £80m before expenses with support from Alchemy, its largest shareholder, and other investors, subject to the outcome of the Group's engagement with its lenders, Alchemy's analysis of the FCA and Group's regulatory reviews and greater levels of certainty around redress and claims, and therefore the Group has included this within its base case.

In this forecast, we have taken into account:

- the proportion of customers who have been impacted by COVID-19 and are expected to return to normal payments, are rescheduled and/or deferred, and those who will ultimately not return to normal payments based on detailed analysis of past and present customer behaviours;
- recent Government guidance around social distancing and the proposed roadmap out of lockdown;
- consideration of the macroeconomic impact on loan loss provisions since the year end as a result of COVID-19;
- no dividends are assumed to be paid over the forecast period;
- the requirement to pay HMRC-related taxes which were deferred from May-August 2020 in line with the time-to-pay arrangement agreed with HMRC;
- the potential costs of obtaining extensions to existing RCF and Term Loan facilities which currently mature in August 2022 and August 2023 respectively;
- the payouts required in relation to complaints across the Group;
- the potential future costs of complaints and the provision for customer redress made in the Group's Guarantor Loans Division and its associated costs (see note 24 to the financial statements). Whilst the methodology for redress has not yet been agreed with the FCA, the quantum of provision for redress represents the Directors' best estimate of the ultimate cost of the redress as at the reporting date;
- the independent reviews commissioned by the Group around the lending and complaints handling activities of the branch-based lending and home credit divisions.

Under the base case, it is forecast that the Group will breach its financial covenants within the next 12 months, however this breach will be cured by the injection of new equity capital as outlined above. The base case assumes no breach in covenant as at 30 June 2021 as on the basis of current forecasts the Group does not expect to do so. However, the covenant headroom remains tight and there remains a risk, due to unforeseen and as yet unaccounted for matters, that the Group will breach as at 30 June 2021. If this were to happen, then the Group would maintain its strategy as described under the base case as management would have time to cure this breach. However, this would result in a requirement to either accelerate the capital raise or request a temporary waiver from lenders, neither of which have been considered in the base case. Therefore, if the Group finds itself in such a scenario, whilst the Directors remain confident of the ability to raise capital, they note the risks associated with executing on the base case would be increased and consequently the likelihood of the Group ending up in the downside scenario would also be increased.

There are material uncertainties regarding the assumptions and outcome of the base case in the following areas:
- the ultimate execution of the planned equity raise and support of Alchemy and other investors for this;
- the impact of the macroeconomic environment, including COVID-19, on future trading performance, including the impact of the vaccination programme, potential new strains of the virus and the Government response to any changes in infection rates;
- the subsequent performance of COVID-19 impacted customers who have come off an emergency payment freeze;
- the impact of the guarantor loans division run-off on customer behaviour;
- the full and final cost of the redress programme in guarantor loans and any future complaint / redress costs across the Group;
- the outcome of the independent reviews commissioned by the Group around the lending and complaints handling activities of the branch-based lending and home credit divisions, and any associated cost of redress;
- the actions of CMCs and results of FOS decisions made which may increase the costs of complaints across the Group;
- the nature of any agreement with the debt providers in case covenants are breached; and
- the expectation that debt maturing in August 2022 and August 2023 will be rolled over and/or refinanced.

As at 31 May 2021, the Group had a total cash balance of £101m which, when combined with the Group's ability to conserve cash through a reduction in future lending, means the Group expects to be able to fund operating expenses and interest payments for at least the next three years, subject to the above assumptions not being materially different from the base case.

Solvency

Under the base case, 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 including: the Group raising additional capital and 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. In the absence of any 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. It is also likely to breach its financial covenants and as a result, if waivers are not forthcoming, the Group may fall under the control of its lenders. This is considered further in the downside scenario.

Due to the uncertainties regarding the current and future impact of COVID-19 on the macroeconomic environment and regulatory uncertainties, the Group notes that movement in any one or a number of these assumptions creates a material uncertainty in the liquidity and/or solvency position of the Group.

Key risks to the assumptions made include:
- the possibility that the Group is unable to raise sufficient capital within the time frame forecast;
- the possibility that the current performance of the loan book deteriorates beyond current expected delinquency trends and that recovery of customer 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;
- higher than anticipated payouts required in relation to complaints and the Guarantor Loans Division customer redress programme;
- the outcome of the independent reviews at the branch-based lending and home credit divisions resulting in the identification of customers who may require redress materially beyond that already provided for;
- costs relating to the managed run-off of the Guarantor Loans Division; and
- the Group is unable to agree acceptable terms with its lenders or they do not roll over loans when due and refinance is not available.

(ii) **Downside scenario**

Liquidity

This scenario assumes that no additional equity is raised in 2021 and also reflects stresses to the key risks described above.

Under this scenario we have assumed:

- the planned equity raise is not successful;
- there are prolonged social restrictions and lockdowns across the UK in response to COVID-19, therefore leading to lower lending than expected;
- a higher proportion of customers are at risk of losing their jobs therefore leading to even higher delinquency than expected under the base case;
- the ultimate cost of the guarantor loans customer redress programme is higher than the provision which has been included in the year end financial statements on the basis of amendments to the external harm criteria of the Group's proposed methodology (refer to note 24 to the financial statements); and
- higher complaint levels than expected under the base case across all divisions.

Under this scenario it is expected that the Group would breach certain borrowing covenants during the next 12 months, would not be able to access further funding over the period of breach and would require waivers from its lenders. If waivers are not forthcoming, the Group may fall under the control of its lenders and there is a possibility of the Group going into insolvency.

As at 31 May 2021, the Group had a total cash balance of £101m which, combined with the Group's ability to conserve cash through a reduction in lending, means that the Group expects to be able to fund operating expenses and interest payments for at least the next three years, provided that forbearance is received from its lenders in the event of a covenant breach, existing loans are rolled over, and subject to the above assumptions not being materially different from the downside case.

Solvency

The Group would remain in a net liability position from a balance sheet perspective if some or all of the downside stresses were to take place without a significant injection of further equity.

The Directors acknowledge the considerable challenges presented by the outbreak of COVID-19, the financial performance of the Group, customer redress, and the regulatory environment which has created a material uncertainty around the going concern and viability status of the Group. However, following a number of steps already taken by the Board and despite the material uncertainties associated with forecast assumptions, the support of Alchemy for the proposed capital raise subject to the outcome of the Group's engagement with its lenders, Alchemy's analysis of the FCA and Group's regulatory reviews and greater levels of certainty around redress and claims, means that it is their reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due over the viability period from both from a liquidity and solvency perspective.

On the basis of the above analysis, the Directors note that a material uncertainty exists regarding the successful execution of a capital raise, the potential action of lenders, current and future impacts of COVID-19 and the impact of potential levels of redress across the Group. The impact of these factors on liquidity and solvency under both the base case and downside scenarios therefore may cast significant doubt on the Group's and the Company's ability to continue as a going concern and remain viable.

In making their assessment, the Directors took account of the Group's current financial and operational positions, the status of conversations with the regulator and advisors as well as its recent trading activity and in particular, recent collections activity. They noted the indications of support for a capital raise received from investors to support the Group subject to the outcome of the proposed GLD redress programme and independent reviews across the Branch-based lending and Home Credit divisions, and in addition the proposed extension to the term of the Group's existing facilities by its lenders, which would be conditional upon the completion of a successful capital raise. The Directors also note the existence of the securitisation facility, however they note that this is currently suspended and the ability to use this facility remains outside of the Group's control as it is subject to the consent of the lenders and the satisfaction of standard covenants for a facility of this type. The Directors recognise there exists a risk around covenant compliance due to unforeseen circumstances as at 30 June 2021 and that should a breach eventuate, it would result in a requirement to either accelerate the capital raise or request a temporary waiver from the lenders.

The Directors additionally 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 23% 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. With regards 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 viability period, however this remains dependent on the injection of additional capital into the Group, although the Directors recognise access to such cash may be restricted if covenants are breached.

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 Group's financial position 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 issuance of further equity in order to mitigate the uncertainties noted above and to support the future growth prospects of the Group.

The Directors acknowledge the considerable challenges presented over the last year and the material uncertainty which may cast significant doubt on the ability of both the Group and the Company to continue to remain viable. However, despite these challenges, it is the Directors' reasonable expectation that the Group and Company will raise sufficient equity in the timeframe required, obtain extensions to the borrowing term on a reasonable basis from its lenders, and continue to operate and meet its liabilities as they fall due for the next 12 months and beyond and therefore it has concluded the business is viable.

The assumption of shareholder support for additional equity, lender support for the extension of existing financing facilities 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 and viability.

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
30 June 2021

Risk Committee report
for the year ended 31 December 2020

The Committee met on four occasions during the year ended 31 December 2020.

Membership and attendance

Director	Attendance and total number of meetings that the Director was entitled to attend
Heather McGregor (Chairman)	4/4
Niall Booker	4/4
Charles Gregson	4/4
Toby Westcott	1/1

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.

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

The Directors' attendance at the meetings during 2020 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.

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.

The main focus of the Committee during the first half of 2020 was managing the challenges arising from the pandemic. These issues remained key areas for the Committee throughout the second half of 2020 and were joined by, among other things, the request by the FCA that the Group develop a proposed redress programme for certain of its guarantor loans customers and a sector-wide increase in the number of complaints, many of which were lodged by CMCs. 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 2020, the Committee reviewed and reassessed the Group's risk appetite statements and target residual ratings for each of the principal risks which, along with the confirmed risk scoring matrices for 2020, were then included within the Group's risk management system. The COVID-19 outbreak was added as a new principal risk during the first half of 2020 as set out in the 2019 Annual Report. A summary of the Group's risk management approach and principal risks is set out on pages 22 to 26.

The Committee has oversight of horizon scanning activity and has contributed to the development of Group level horizon scanning reporting. This has helped to facilitate a wider external facing discussion regarding the consideration of those risks identified as being current.

During the year to 31 December 2020 the Committee focused on the following matters:
- the ongoing review of and identification of Group risks with action plans put in place to mitigate such risks;
- a review of the risk appetite status across the Group;
- oversight of the embedding of the risk management system and key reporting requirements;
- oversight of horizon scanning activity focusing on regulatory, social, economic and technological areas;
- quarterly complaints reviews;
- quarterly review of conduct risk dashboards;
- oversight of half-yearly credit risk reporting; and
- a review of business continuity planning across the Group.

The key risks facing the Group in 2021 continue to be the impact of the pandemic and the need for additional capital as redress due to eligible customers is paid out. The impact of COVID-19 remains significant and the Committee is committed to supporting each of our business divisions to safeguard the health, safety and well-being of our customers, staff and self-employed agents. Whilst the past 18-months have presented the Company with numerous challenges, the resilience and perseverance of key staff around the Group means that, assuming a 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.

Heather McGregor

30 June 2021

Directors' remuneration report

for the year ended 31 December 2020

The Committee met on seven occasions during the year ended 31 December 2020.

Membership and attendance

Director	Attendance and total number of meetings that the Director was entitled to attend
Heather McGregor (Chairman)	7/7
Niall Booker	7/7
Charles Gregson	7/7
Toby Westcott	2/2

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 2013, The Companies (Miscellaneous Reporting) Regulations 2018, The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 (the 'Regulations') as well as the Companies Act 2006. This report is set out in the following key sections:

1. Single figure remuneration table: Executive Directors – audited
2. Implementation of Remuneration Policy for the Executive Directors for 2021
3. Consideration by the Committee of matters relating to the Directors' remuneration for 2020
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

1. Executive Director Remuneration Policy

Dear Shareholder

I am pleased to present the Directors' remuneration report for NSF for 2020. This was my last year as Chair of the Remuneration Committee (the 'Committee'). I would like to thank the support of my Board colleagues, shareholders and staff for their support over my term. I hand over to Toby Westcott who takes on the position as Chair after nine months serving as a Committee member. Whilst this is not fully compliant with the 2018 Corporate Governance Code, given Toby has not yet served a full year on the Committee, as a Nominee Director, Toby brings a wealth of shareholder experience to remuneration discussion, which will ensure robust scrutiny and challenge, as well as support.

Business context

As noted in the Chairman's statement on pages 6 and 7 and in the Group Chief Executive's report on pages 15 to 19, 2020 has been a challenging year for the Group.

The financial results for 2020 are of course disappointing and the large pre-tax loss reflected a weaker operating performance as well as a number of non-operating items. While the pandemic impacted revenues and increased impairment we provided forbearance to a large number of customers experiencing difficulty. We also had to impair certain intangible assets and goodwill on the Group's balance sheet.

The impact of the pandemic on the Group was significant, with a rapid move to home working for many staff and the furlough of some members of staff during the period, predominantly in the Everyday Loans business where branches closed for a period during the first lockdown. As outlined in the Strategic Report, the pandemic has had a significant impact on the size of the loan book and as a result, decisions were taken to reduce headcount in both the branch-based lending business and the guarantor loans business. The Company also reached a 'Time to Pay' arrangement with HMRC with respect to the payment of payroll related taxes. At the time of publication of this report, all payments to HMRC are up to date and all furloughed staff have returned to work.

As outlined in the Chairman's statement on pages (6 and 7) the results were also impacted by the requirement to pay redress to a number of customers of the Group's Guarantor Loans Division ('GLD'). Lending in GLD was restricted for most of 2020 as a result of both the pandemic and an in-depth review following the FCA multi-firm review into the guarantor loans sector. Having completed a detailed review of the Group's Guarantor Loans Division and its prospects, the Board has decided to place the division into a managed run-off which is expected to conclude by the end of 2025.

Having had to write-off goodwill and other intangibles, together with the trading losses in 2020 and prior years, as at 31 December 2020 the Company no longer had any distributable reserves and so was unable to pay cash dividends. Following the planned capital raise, the Company expects to put in place a process 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.

Directorate changes

As highlighted in the 2019 Remuneration Report, Jono Gillespie was promoted to Group CFO from 1 April 2020. On appointment, Jono Gillespie's annualised starting base salary was set at £240,000 and he received a pension contribution of 8% of salary in line with that of our wider workforce. Jono Gillespie was also eligible to receive benefits and participated in the 2020 annual bonus with a maximum annual bonus opportunity of 30% of salary prorated for his time served as Group CFO during the year (although as explained later in this report, no bonus was paid to the Executive Directors in 2020). No award was granted to Jono Gillespie under the Non-Standard Finance LTI scheme, the Everyday Loans Group LTI and he did not receive or subscribe for any Founder Shares.

Nick Teunon stepped down as the Group CFO on 1 April 2020 and left the Board on 30 April 2020. He received his salary and benefits up to the date of his departure but received no further payments.

Remuneration decisions in the year
During the year, the Committee increased the salary of Jono Gillespie, Group CFO. This was partly as a direct result of the onset of the pandemic and partly due to the fact that following his appointment in April 2020, Jono took on significant additional responsibility, over and above that set out in his defined role and responsibilities. In particular, he provided extensive support to the finance function at Everyday Loans during the 2019 audit, including a detailed review and reassessment of, among other things, the process for determining the appropriate level of provision in the Group's balance sheet . He also took a leading role in overseeing the design and development of a proposed redress programme at GLD following concerns raised by the FCA regarding certain processes and procedures at the division.

As a result, the Committee concluded that the role of the Group CFO had in their view, expanded significantly from that undertaken by the previous CFO. The Committee also concluded that whilst on appointment Jono Gillespie had been awarded a remuneration level lower than his predecessor, he had outperformed the Committee's expectations and it was therefore agreed that an increase in salary to £270,000 per annum from 1 December 2020 (£240,000 at appointment on 1 April 2020) was warranted.
Given the significant uncertainty regarding the ongoing COVID-19 pandemic and the desire to conserve cash within the Group, the Board withdrew 70% of the overall bonus potential for Executive Directors, which related to financial performance in 2020. 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, for 2020, the annual bonus had a maximum potential of 30% of salary, subject to the achievement of non-financial performance measures and the bonus remained subject to the Committee's satisfaction regarding the financial performance of the business.

As detailed later in this report, when evaluating the achievement of non-financial measures in 2020, the Committee exercised discretion and determined that, given the unprecendented circumstances of 2020, it was not appropriate to award a bonus to Executive Directors, especially as the Group had applied for, and accepted, government support during the pandemic in the form of furlough payments and the 'time to pay scheme' for PAYE tax payments and also as the Group did not declare any dividend in the year.

31 December 2020 also marked the end of the 2017 Non-Standard Finance Long Term Incentive ('LTI'). Performance was assessed at the end of the financial year and no award vested under the LTI.

Looking forward to 2021
Our current Remuneration Policy was approved at the Annual General Meeting on 14 May 2018 with a vote in favour of 95.4%. As a result, the Committee would ordinarily be seeking approval for a new Remuneration Policy at this year's AGM . However, given the circumstances currently facing the Company and in light of the planned Capital Raise, the Committee took account of feedback received from shareholders suggesting that the Capital Raise should be prioritised over consulting on a new Remuneration Policy at the current time.

It is therefore the Committee's intention to consult with shareholders regarding a suitable Remuneration Policy following the successful completion of the Capital Raise.

In line with our historic approach, it is expected 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 under performance.

To assist shareholders, we have therefore included a summary of the current Remuneration Policy (to comply with Section 421(2A) of the Companies Act 2006) and to help provide context for the decisions made in respect of remuneration for 2020 and the expected remuneration in 2021.

Implementation of the Remuneration Policy for 2021
Base salary
The Committee decided that the base salary for Mr John van Kuffeler will remain unchanged at £341,500 for 2021. As highlighted above, the Committee considered the salary for Jono Gillespie in November 2020, and increased his annual salary to £270,000 effective from 1 December 2020 to reflect the expanded scope of the role. No further base salary increases are proposed for Mr. Gillespie for 2021 at this time.

Annual bonus
In the absence of a new Remuneration Policy, the Committee has determined that an annual bonus opportunity for 2021 is appropriate, with objectives clearly focused on delivery of the strategic requirement to deliver the capital injection required within the Group and then to utilise it fully to take advantage of the market opportunities in addition to financial performance and conduct related objectives. The Remuneration Committee has determined, however, that as outlined in Part B of the report, whilst the current Policy allows for 100% annual bonus payments for Executive Directors, that for the current year a maximum potential of 50% should be applied.

Long-term incentive plan
No long-term incentive will be in place ahead of adoption of a new remuneration policy. However, 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.

This Annual Report on Remuneration will be put to shareholders for approval at the General Meeting to be held at 2pm on 16 August 2021 when the Group's 2020 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.

Heather McGregor
Chairman of the Remuneration Committee
30 June 2021

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 2020. 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 2013, The Companies (Miscellaneous Reporting) Regulations 2018, The Companies (Directors' Remuneration Policy and Directors' remuneration report) Regulations 2019 and other related regulations. 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 16 August 2021.

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.

	Board	Base salary £000	Benefits £000	Bonus £000	Long-term incentives £000	Pension £000	Other £000	Total £000	Total fixed remuneration £000	Total variable remuneration £000
John van Kuffeler (Group Chief Executive Officer)	**2020**	**342**	**45**	**–**	**–**	**34**	**–**	**421**	**421**	**–**
	2019	333	37	85	–	33	–	488	403	85
Jono Gillespie (Group Chief Financial Officer)	**2020**	**183**	**9**	**–**	**–**	**15**	**–**	**207**	**207**	**–**
	2019	–	–	–	–	–	–	–	–	–
Nick Teunon (Former Group Chief Financial Officer)	**2020**	**98**	**5**	**–**	**–**	**10**	**–**	**113**	**113**	**–**
	2019	287	16	73	–	29	–	411	332	79

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, Jono Gillespie and Nick Teunon – 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. Nick Teunon stepped down as the Group Chief Financial Officer on 1 April 2020 and left the Board on 30 April 2020.
4. Jono Gillespie was promoted to the role of Group Chief Financial Officer and joined the Board on 1 April 2020. 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 2020 – audited
For 2020 the Executive Directors had a maximum annual bonus opportunity of 30% 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 70% of the 2020 bonus opportunity which was subject to financial performance in light of COVID-19. Therefore, the 2020 bonus provided a maximum opportunity of 30% of salary on achievement of non-financial measures.

The Committee unanimously agreed that it was not appropriate to award bonuses with respect to 2020 to Executive Directors, especially as the Group had applied for, and accepted government support during the pandemic in the form of furlough payments and the 'time to pay scheme' for PAYE tax payments and also as no dividend had been declared or paid.

The Committee also noted that in the 2019 Annual Report it was clearly stated that whilst the non-financial objectives for 2020 were still available to the Executive Directors (following the decision to remove the financial element), this element of the bonus would also be subject to the Remuneration Committee's satisfaction regarding the Company's financial performance against the changing external environment. Given the financial performance of the Group in 2020, it was agreed by the Committee that this hurdle had not been met and so no bonus relating to non-financial objectives should be paid.

The Committee also determined that Nick Teunon would not receive any payments under the 2020 bonus award following his departure in April 2020.

Directors' remuneration report continued
for the year ended 31 December 2020

Long-term incentive awards vesting in 2020 – audited
2017 NSF LTI
The one-off NSF LTI awards were made to John van Kuffeler and Nick Teunon in the form of nil-cost options in 2017. Under the NSF LTI, both were awarded a right to share in a pool of 15% of the growth in value (based on market capitalisation) of the Company above a share price hurdle of £1.10. Performance was measured against this hurdle after four years starting from 1 January 2017 to 31 December 2020, though delivery of shares is deferred until the end of the fifth year (i.e. 31 December 2021). Nick Teunon left the Board on 30 April 2020 and therefore forfeited awards under the NSF LTI.

2017 NSF LTI	John van Kuffeler
% of growth pool allocated to participants	37.5%
% of growth in value above £1.10	5.625%
Actual share price achieved	3.17p
% of growth pool achieved	0%
Number of shares vesting	0
Value of total shares vesting	£0

The performance hurdle was not achieved and therefore no award vested under the 2017 NSF LTI.

Long-term incentive awards made in 2020 – audited
No long-term incentive awards were made in the financial year ending 31 December 2020.

Payments for loss of office – audited
There were no payments for loss of office during the year.

On 30 April 2020, Nick Teunon stepped down from the Board (having stepped down as Group CFO on 1 April 2020). He received his contractual entitlements up to the date of his departure as shown in the single figure table of remuneration. No additional payments have been made in respect of 2020. Nick's incentive awards in place at the time of his departure, which included the 2017 NSF LTI lapsed in full upon his departure from the Group.

Payments to past Directors – audited
No payments to past Directors were made in the financial year ending 31 December 2020.

2. Implementation of Remuneration Policy for the Executive Directors for 2021
Base salary
In setting salary levels for the Executive Directors for the 2021 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. In deciding the salary increase for Jono Gillespie, the Committee considered the substantial expansion of his role and responsibilities during the year and the value and commitment he brought to the Company, as detailed in the annual statement.

The salaries for 2021 and the relative increases are set out below.

	Base salary £000		
	2021	2020	% change
John van Kuffeler	**£341.5**	£341.5	0%
Jono Gillespie[1]	**£270.0**	£240.0	12.5%

1 Jono Gillespie's base salary for 2021 was effective from 1 December 2020 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 10% of base salary for John van Kuffeler and 8% of salary for Jono Gillespie. None of the Executive Directors had prospective rights under a defined benefit pension scheme.

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

Annual bonus
Pending the outcome of a consultation with shareholders and subsequent approval of a new Remuneration Policy, the Committee has determined that, consistent with the current Remuneration Policy, an Annual Bonus scheme is appropriate for Executive Directors and in light of the current situation faced by the Company, has proposed that the maximum and target bonus potential for 2021 is as follows:

	Maximum bonus % of salary	On-target bonus % of maximum	Threshold bonus % of maximum
John van Kuffeler	50%	37.5%	12.5%
Jono Gillespie	50%	37.5%	12.5%

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 under performance. Objectives will be clearly focused on delivery of the strategic requirement to deliver the capital injection required within the Group and then to utilise it fully to take advantage of the market opportunities 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
It is proposed that any long-term incentive awards will reflect an incentive structure that seeks to closely align management's interests with those of the Group's shareholders. The precise nature of any long-term scheme will be determined following consultation with key shareholders.

[illegible]
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 2020	Independent	Meetings attended	Attendance
Heather McGregor	Yes	7/7	100%
Niall Booker	Yes	7/7	100%
Charles Gregson	No	7/7	100%
Toby Westcott	No	2/2	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.

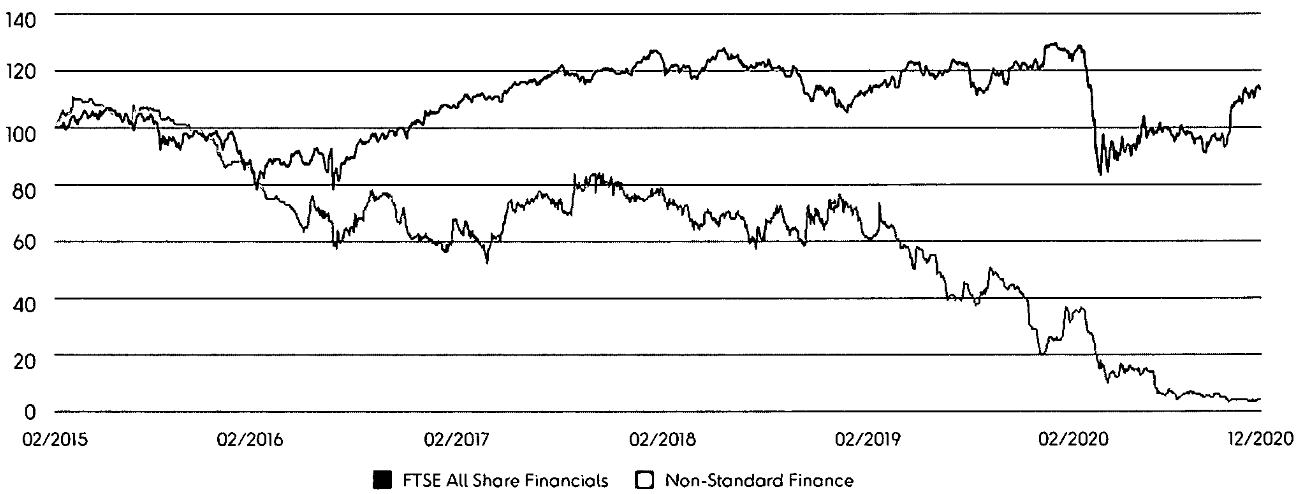
The Committee received external advice in 2020 from PricewaterhouseCoopers ('PwC') during the year. PwC were appointed by the Committee in May 2015 as advisers on remuneration matters after a formal tender process. PwC are considered by the Committee to be objective and independent. PwC are members of 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 paid to PwC in respect of services to the Committee during the year were £31,350. 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 four scheduled and three additional Committee meetings. Matters covered at these meetings are detailed below:
- Consideration of Executive Directors' annual bonus performance measures for 2021
- Review and approval of 2020 Executive Directors' and Senior Management annual bonus outcomes
- Review and approval of the vesting outcome for the 2017 NSF LTI
- 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 2021 with benchmarking to cross-Group activity and deliberations
- Departure arrangements for Nick Teunon
- Appointment arrangements for Jono Gillespie
- Remuneration review mid-year for Jono Gillespie
- Deliberation and cancellation of 2020 financial element of Executive Director bonus scheme

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 2020.

Total Shareholder Return



Despite having fulfilled most of the strategic objectives set out at the time of the Group's Initial Public Offering, the Group's shares have underperformed the FTSE All Share Financial Services Index during the period. COVID-19 had a significant impact on Company performance and share price in 2020. Other possible reasons for this underperformance include: the in-depth review in GLD following the industry-wide FCA review, limited liquidity in the Group's shares; the Group's scale relative to other potential investment opportunities; limited research coverage by sell-side analysts; severe underperformance by two of the Group's major quoted competitors; and concerns over future market and regulatory conditions in the UK consumer finance segment.

Group Chief Executive – John van Kuffeler	**2020**	2019	2018	2017	2016	2015
Single figure of total remuneration (£000)	**421**	488	614	498	351	473
Bonus payout (% maximum)	**0%**	25.5%	68.1%	50.5%	0%	100%
Long-term incentive vesting rates (% maximum)	**0%**	n/a	n/a	n/a	n/a	n/a

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 five years of history starting from 2019.

	Base Salary		Benefits		Annual Bonus	
	2020 % Difference	2019 % Difference	**2020 % Difference**	2019 % Difference	**2020 % Difference**	2019 % Difference
Group Chief Executive Officer (JvK)	**2.5%**	2.5%	**22%**	-2.7%	**-100%**	-61.5%
Group Chief Financial Officer (JG)	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Group Chief Financial Officer and Executive Director (until 30 April 2020) (NT)	**2.5%**	2.5%	**2.7%**	-5.9%	**-100%**	-61.8%
Non-Executive Chairman (CG)	**0%**	0%	**-**	-	**-**	-
Non-Executive Director (HM)	**0%**	0%	**-**	-	**-**	-
Non-Executive Director (NB)	**0%**	0%	**-**	-	**-**	-
Non-Executive Director (TW)	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Average employee pay	**8.1%**	3.4%	**5.5%**	0%	**-33.1%**	0%

No figures are included for both Jono Gillespie and Toby Westcott as they joined the Board in 2020 and therefore have no 2019 comparator figure.

This year, in line with the Directors' remuneration reporting regulations, we present 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 2020.

The current 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 2019, but we note 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. We will continue to monitor the trends in the ratio over future years.

CEO:Employee Pay	Method	25th percentile employee pay	50th percentile employee pay	75th percentile employee pay
2019	Option A	22:1	14:1	11:1
2020		17:1	14:1	8:1

	CEO pay	Employee pay		
		25th percentile	50th percentile	75th percentile
2020 base salary	£342,000	£24,000	£27,000	£50,000
2020 total pay and benefits	£421,000	£25,000	£30,000	£52,000

Relative importance of spend on pay

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

Significant distributions	2020	2019	% change
Employee spend	**£42.0m**	£43.2m	-3%
Distributions to shareholders (including share buy-backs)	–	£8.4m	-100%

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 2020, 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 cancellation of the financial element of the 2020 Executive Director annual bonus, review of Director salary with regard to Jono Gillespie and whether or not it would be appropriate to award any proportion of the non-financial element of the 2020 Executive Director annual bonus.

Over the course of the next year, the Committee intends to continue the high levels of communications with key investors in order to facilitate more active shareholder engagement around remuneration-related issues. The outcome of these discussions will be reported in the 2021 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 2018, the Board appointed Heather McGregor as the Non-Executive Director with responsibility for engagement with the Group's workforce. During 2020, despite the difficult working conditions resulting from the pandemic, Heather 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 and communications and also taking part in Q&A sessions. Heather has provided updates to the plc Board following her attendance at each forum. Heather 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. In 2021, Heather continued to attend employee forums until stepping down from the Board on 30 June. Going forward, these quarterly forums will be attended by Sarah Day (Group Company Secretary) and cover all aspects of employee interests including culture, performance, business improvements and communications. In addition, Sarah will continue to perform site visits where it is safe and compliant to do so and attend additional meetings and functions across all areas of the Company on an ad hoc basis so as to obtain valuable insight into the day-to-day running of the Company.

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:
- salary increases for Executive Directors of 0% for 2021 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;
- a bonus scheme being available to the majority of the Company's employees; and
- pension contribution level for new Executive Directors brought in line with that of the wider workforce which is currently 8% of salary.

[illegible]

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.

Significant distributions		Fees £000	Benefits/ other £000	Total £000
Charles Gregson	**2020**	**125**	**—**	**125**
	2019	125	—	125
Heather McGregor	**2020**	**75**	**1**	**76**
	2019	75	—	75
Niall Booker	**2020**	**75**	**—**	**75**
	2019	75	—	75
Toby Westcott	**2020**	**23**	**—**	**23**
	2019	—	—	—

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 2021 to the Non-Executive Directors
The following table sets out the annual fee rates for the Non-Executive Directors for the period:

Significant distributions		2021 £000	**2020 £000**	% change
Chairman's fee	Charles Gregson[1]	125	**125**	0%
Independent Non-Executive Director fee	Heather McGregor[2]	75	**75**	0%
	Niall Booker	75	**75**	0%
Nominee Non-Executive Director fee	Toby Westcott[3]	90	**90**	0%

Note
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 Heather McGregor will be standing down from the Board at the AGM on 30 June 2021; the actual level of fees paid to her in 2021 will therefore amount to half of this annualised value.
3 Toby Westcott as a Nominee Director and receives no direct remuneration from the Company. However, Alchemy Special Opportunities LLP were remunerated for the services provided by Toby Westcott through a services agreement. This figure equates to a £75,000 fee plus VAT.

If the Capital Raise is successful, it is intended that Non-Executive Director fees will reduce to £50,000 per annum and the Chairman's fee to £75,000 per annum.

9. Directors' shareholding and share interests – audited

Shareholding and other interests at 31 December 2020 – 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 2020					Interest in Founder Shares		
	Number of beneficially held 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 2020
John van Kuffeler	2,114,474	19.6%	No	–	2,114,474	–	30	30
Jono Gillespie	140,000	1.6%	No	–	140,000	–	–	–
Nick Teunon (at 30 April 2020)	127,980	1.4%	No	–	127,980	–	25	25
Charles Gregson	1,041,629	–	–	–	1,041,629	–	10	10
Heather McGregor	145,441	–	–	–	145,441	–	–	–
Niall Booker	576,700	–	–	–	576,700	–	–	–
Toby Westcott[1]	0	–	–	–	0	–	–	–
Total	4,146,224			–	4,146,224	–	65	65

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

Charles Gregson continues to receive 50% of his quarterly Chairmanship fees in the form of shares and received 144,420 additional shares under this arrangement between 1 January 2021 and 29 June 2021.

None of the Directors exercised options in 2020 and as at 31 December 2020, 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 2021 and 29 June 2021.

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 £50,000 during the year from his non-executive position at Paratus AMC Limited.

10. Shareholder voting

The table below shows the binding vote approving the previous Directors' Remuneration Policy and the advisory vote to approve the 2020 Annual Report on Remuneration at the AGM on 28 July 2020.

	Votes for	%	Votes against	%	Votes withheld
2020 AGM vote on Annual Report on Remuneration	137,582,233	99.76	334,336	0.24	23,194
2018 AGM vote on Directors' Remuneration Policy	244,276,844	95.41	11,742,238	4.59	500

Directors' remuneration report
for the year ended 31 December 2020

This existing Policy has been included in this report to comply with Section 421(2A) of the Companies Act 2006 and will be replaced by any new remuneration policy approved by shareholders at a subsequent General Meeting.

The Remuneration Policy ('Policy') was approved by shareholders at the AGM on 14 May 2018 with a vote in favour of 95.4% from shareholders. As outlined earlier, given the circumstances the Company faces at the current time and in light of an expected future capital raise, the Committee does not propose a new Remuneration Policy at the current time. This will allow the Committee the opportunity to consult with shareholders (including Alchemy Special Opportunities Fund IV L.P.) regarding a suitable Remuneration Policy following the completion of any capital raise when it is expected that much of the uncertainty currently facing the Group will have been removed or significantly reduced.

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**.

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.
Benefits To provide competitive benefits and to attract and retain high-calibre employees.	Benefits are reviewed periodically to ensure they remain market competitive. Benefits currently include: • (for John van Kuffeler only) company car or for Company to provide car benefit in lieu of salary; • life, private medical and income protection insurance; • other minor benefits as provided from time to time.	Benefit values vary year-on-year depending on premiums and the maximum potential value is the cost of the provision of these benefits.	No recovery provisions apply.

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Pension To provide a competitive Company contribution that enables effective retirement planning.	Pension is provided by way of a contribution to a personal pension scheme or cash allowance in lieu of pension benefits.	The maximum contribution to a personal pension scheme or cash in lieu is equal to 10% of base salary for current Executive Directors. For new joiners who are either externally recruited or promoted from within the Company, pension contributions will be set in line with the wider workforce (currently c.8%).	No performance or recovery provisions apply.
Annual bonus Incentivises achievement of annual objectives which support the Group's short-term performance goals and protects longer-term interests of the Group.	Bonus awards are granted annually following the signing of the Annual Report and Accounts, usually in March of the year following the reporting period in question. Performance period is one financial year, with payout determined by the Committee following the year end, based on achievement against a range of financial and non-financial targets. Malus and clawback provisions apply at the discretion of the Committee where the Committee considers such action is reasonable and appropriate, such as a participant's material underperformance, material brand or reputational damage, material misstatement of the accounts, gross misconduct and fraud, regulatory and similar failures or other reason as determined by the Committee.	Maximum awards under the annual bonus are equal to 100% of salary. On-target bonus: 75% of salary. Threshold bonus: 25% of salary. Attainment of performance between Threshold and Max levels will vest on a straight-line basis between these two points.	Performance targets will be set annually by the Committee based on a range of interdependent financial and non-financial measures. Financial targets govern the majority of bonus payments (70%), which may include those related to normalised profit before tax. Non-financial measures (30%) will include both conduct-based measures and governance-based measures. Conduct-based measures include ensuring delivery of good customer outcomes through appropriate affordability assessments and appropriate treatment of vulnerable customers together with appropriate collections, arrears and forbearance practices. Governance-based measures aim to install robust processes with respect to control and compliance such as compliance with certification regimes and embedding monitoring of control processes. The Committee has the discretion to adjust targets or performance measures for any exceptional events that may occur during the year as well as formulaic outcome of awards to reflect actual performance of the individual and the Company. As well as determining the measures and targets, the Committee will also determine the weighting of the various measures to ensure that they support the business strategy and objectives for the relevant year.

Remuneration Policy table for Executive Directors continued

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Long-term incentives Non-Standard Finance long-term incentive ('LTI') for Executive Directors and senior management. The LTI supports the long-term strategic objectives of the Group.	Participants will receive awards which may be structured as awards or options over Ordinary Shares in the Company which may then be exchanged for Ordinary Shares in the Company shortly after the end of the performance period on 31 December 2020. In each case, participants will then be required to hold such shares in the Company for a period of one year.	The number of Ordinary Shares required to settle all such awards, together with any Ordinary Shares issued in connection with the Founder Shares (see below) will be subject to a cap on the maximum dilution possible of 5% in ten years. There will also be a further cap so that, together with all other share incentive plans offered by the Company, the maximum dilution possible will not be greater than 10% in ten years. Any awards earned in excess of either cap will be satisfied through market purchase of shares by the Company. The Non-Standard Finance LTI was a one-off award and no further awards will be made under this scheme.	The total value of awards at 31 December 2020 will be determined by the growth in the value of the Company to 31 December 2020 above £1.10 per share. If the average share price of the Company is greater than £1.10, the value of the awards in total will equate to 15% of the excess growth in value, based on an initial market capitalisation of the Company of £1.10 per share.
Founder Shares awarded to Executive Directors on IPO	Prior to the IPO the Executive Directors, Charles Gregson and Robin Ashton, subscribed £255,000 for Founder Shares in Non-Standard Finance Subsidiary Limited. Under the terms of these shares the holders of the Founder Shares have the option to require the Company to purchase some or all of their Founder Shares. The purchase price for the exercise of this option may be paid by the Company in Ordinary Shares or as a cash equivalent at the Company's option.	The number of Ordinary Shares required to settle all such options is the number of shares that would have represented 5% of the Ordinary Shares of the Company on (or immediately after) Admission on IPO if such Ordinary Shares had been issued at the time of Admission. The Founder Shares award was a one-off award and no further awards will be made under this scheme.	Under the terms of the Founder Shares: A. the Group must make acquisitions with a combined value of at least £50m; and B. within five years of the Group's first acquisition, shareholders must receive a 25% increase in total shareholder value or 8.5% CAGR (measured on the basis of exceeding such price for 20 trading days out of 30 successive trading days). Under the terms of Founder Shares deed of grant, the departure of Miles Cresswell-Turner meant that the performance condition of the award was satisfied and triggered a vesting of the Founder Shares awards. After consultations with the Group's major shareholders and discussions with the remaining Founder Share participants, it was agreed that whilst the award had vested it could not be exercised until either the Company's share price reaches £1.10 within a new five-year performance period, or on a change of control. Please see page 113 of the 2019 Annual Report for more details.

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Everyday Loans Group LTI for Miles Cresswell-Turner and senior management of Everyday Loans. The long-term incentives support the long-term strategic objectives of the Group.	In recognition of Mr Cresswell-Turner becoming Chief Executive of ELG, he will receive an award under the ELG LTI which was implemented in 2017. The structure of the award is a nil-cost option over NSF shares.	The maximum value of the award under the ELG LTI for Mr Cresswell-Turner is £900,000. The Everyday Loans group LTI was a one-off award and no further awards will be made under this scheme.	Under the ELG LTI, participants share in a pool of 5% of the equity value above a hurdle equity value of ELG of £267m. The pool is subject to a cap of £6m. Mr Cresswell-Turner will receive an allocation of 15% of the pool, which will result in a 0.75% share of the growth in ELG's equity value above £267m at 31 December 2019, subject to a cap of £900,000. For any vested options, the ability to exercise the option will be deferred for one year. Shares acquired on the exercise of the option will have to be held for a further year. Awards under the NSF LTI will vest at the end of December 2020. As Mr Cresswell-Turner holds an award under the NSF LTI, which was made during 2017, the total value of shares received by Mr Cresswell-Turner under the ELG LTI and the NSF LTI at the end of December 2020 will be restricted to the greater of the value of the shares receivable under the NSF LTI and the value of the shares receivable under the ELG LTI. Performance for the ELG LTI was tested against the hurdle at 31 December 2019 and reported in the 2019 Annual Report. Performance for the NSF LTI was tested against the hurdle at 31 December 2020 with details reported on page 84 of the 2020 Annual Report.
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 schemes.	Maximum participation levels for all staff, including Executive Directors, are set by relevant UK legislation or other relevant legislation.	Not applicable.

Remuneration Policy table for Executive Directors continued

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Shareholding guidelines To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon.	The Executive Directors are required to build or maintain (as relevant) a minimum shareholding in the Company over a five-year period. Shares included in this calculation are those held beneficially by the Executive Director and their spouse/life partner.	The shareholding requirement is equal to 100% of salary for Executive Directors.	Not applicable.
Post Cessation Shareholding To ensure Executives retain a level of alignment with shareholder for the period immediately following their cessation of employment.	For share awards granted from 2020 onwards for Executive Directors, a minimum level of shares must be retained following their cessation of employment.	Executives will be required to hold: • 100% of the shareholding requirement for the first year post-cessation; and • 50% of the shareholding requirement for the second year post-cessation	Not applicable.

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 may differ across grades or roles.
Benefits	✓	✓	✓	Available to all. Level of benefits offered may differ across grades within the Group.
Pension	✓	✓	✓	Pension contribution levels for new Executive Directors and the wider workforce are available currently up to 8% of salary. This is up to a maximum of 10% of salary for existing Executive Directors.
Annual bonus	✓	✓	✓	Available to the majority of employees in the Group. Performance measures may however differ across grades or teams.
LTI	✓	✓		The specific approach to LTIs is still being determined, however it is expected that any future arrangements are only applicable for Executive Directors and selected members of senior management due to the lack of line-of-sight of performance measures by more junior employees.
All employee share plans	✓	✓	✓	Any future SAYE would be available to all.

Directors' report

for the year ended 31 December 2020

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 2020. Both the Strategic Report on pages 8 to 49 and this Directors' report have been prepared and presented in accordance with the Companies Act 2006, together with the UK Listing Authority's Disclosure and Transparency Rules ('DTRs') and the Listing Rules ('LRs'). The liabilities of the Directors in connection with both the Strategic Report and the Directors' report shall be subject to the limitations provided by such law. Other information required to be disclosed in the Directors' report is expressly outlined in this section.

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

The Strategic Report, which can be found on pages 8 to 49 of the Annual Report, provides a more detailed review of business strategy and business model together with commentary on the business performance during the year and outlook for the future. Information relating to the principal financial and operating risks facing the business are set out on pages 22 to 46 of the Strategic Report.

The Group's consolidated loss after taxation for the financial year was £135,557,000 (2019: £76,308,000).

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 2020. Following 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.

Information on the Company and its subsidiaries' future developments can be found in the Chairman's Statement on pages 6 and 7, the Group Chief Executive's report on pages 15 to 19 and the 2020 financial review and divisional overview on pages 27 to 39.

As at 31 December 2020 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.

The Company has been notified in accordance with the Disclosure and Transparency Rules DTR-5 that as at 31 May 2021 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 May to 29 June 2021 (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 Mgmt	10.49%
Marathon Asset Management LLP	8.88%
Utley N	7.84%
Interactive Investor Services Limited	4.19%
AJ Bell Securities	3.95%
IG Markets Limited	3.21%

In accordance with the Disclosure and Transparency Rules DTR-5 as at 31 December 2020 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	12.20%
Marathon Asset Management LLP	10.23%
Utley N	7.96%
IG Markets Limited	4.90%
Interactive Investor Services Limited	3.93%

The Directors' beneficial interests in the allotted shares of the Company as at 31 December 2020 are outlined below:

	Number of Ordinary Shares held
John van Kuffeler	2,114,474
Jono Gillespie	140,000
Niall Booker	576,700
Charles Gregson	1,041,629
Heather McGregor	145,441
Toby Westcott	–

Directors' report

As granted by shareholders at the 2020 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 2021 AGM.

In accordance with the Group's Remuneration Policy approved by shareholders on 14 May 2018, over the course of the year, the Company allocated funds for the immediate purchase of Ordinary Shares by Mr Gregson to satisfy 50% of the post-tax fees due with respect to his role as Chairman. This amounted to the purchase of 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.

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 is also available for inspection at Companies House.

Directors in office during 2020:

Charles Gregson	Non-Executive Chairman
John van Kuffeler	Group Chief Executive
Nick Teunon (until 30 April 2020)	Chief Financial Officer (Executive Director from 1-30 April 2020)
Jono Gillespie (from 1 April 2020)	Chief Financial Officer
Niall Booker	Senior Independent Director
Heather McGregor	Non-Executive Director
Toby Westcott (from 1 October 2020)	Nominee Non-Executive Director

The Directors and their profiles are detailed on pages 54 and 55. All of the Directors above, with the exception of Nick Teunon, Jono Gillespie and Toby Westcott, 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, with the exception of Heather McGregor, who has indicated that she will not seek re-election.

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.

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.

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.

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

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

During 2020, the Group invested 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, working remotely or on furlough.

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 SAYE share scheme which was put in place to provide employees with an opportunity to share in the Company's future success. It is expected that additional programmes aimed at enhancing employee engagement further will be developed over the coming years.

The Group's home credit division utilises a network of self-employed agents, each of which receive regular, ongoing training to ensure that they are in a position to respond to each customer's individual needs. The training programme includes: new starter training, agent monitoring, call monitoring, written training, online training, informal feedback from branch managers and colleague assessment programmes.

Refer to note 31 in the notes to the financial statements.

In April 2021 the Group commissioned a detailed and independent review of its lending, collecting and complaints handling activities within the branch-based lending and home credit divisions. This review remains ongoing and includes an assessment of whether the issues identified in guarantor loans have any implications for these divisions. The review also includes an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending. These reviews have been considered as part of the Group's year end provisioning; refer to note 24 for further detail.

During the first quarter of 2021 the Group received a high level of complaints within its home credit division, primarily from CMCs. The Group has therefore estimated the cost of those complaints which relate to loans issued up to 31 December 2020 and included this within its provision (refer to note 24) as an adjusting subsequent event.

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the unrecognised deferred tax asset would have increased by £3.5m.

Having completed a detailed review of the Group's Guarantor Loans Division and its prospects, the Board has decided to place the division into a managed run-off which is expected to conclude by the end of 2025. Whilst a full detailed assessment of the cost implications is yet to be carried out and this is a non-adjusting subsequent event, it is estimated that the recognition of a provision for redundancies would be c.£0.52m. The Group recognises there is a risk around changes to customer behaviour following this decision, refer to note 2 for sensitivities on loan loss provisions based on past-experience of how the parameters can potentially move.

The Board regularly reviews the Company's impact on the environment and has concluded that at present, due to the small size of the Company and the nature of its business, it has a minimal impact. However, as noted on page 48, the Group has now captured certain environmental data and during the course of 2019 undertook the necessary assessment to comply with the ESOS, and the confirmation of our compliance has been notified to the Environment Agency. In addition, the Group is developing a strategy to meet the requirements of the Taskforce on Climate-Related Disclosures ('TCFD') that are expected to come into force in April 2022. As part of this exercise, the Group is also considering the recommendations of the Sustainable Accounting Standards Board ('SASB').

The Group made charitable donations totalling £0.13m including to Loan Smart (registered charity number 1176832).

The Group made no political donations in the year ended 31 December 2020.

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.

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 94
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

Directors' report

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**.

The AGM of the Company is scheduled to be held at 7 Turnberry Park Road, Gildersome, Leeds LS27 7LE at 11.00 am on 30 June 2021. A separate notice of meeting has already been despatched to shareholders and a copy is available from the Group's website: **www.nsfgroupplc.com**.

Further details can be found in the corporate governance report on page 68.

As the 2020 audit has taken longer to complete than expected and in accordance with DTR 4.1.3R, the Company has used the additional time granted before publishing audited accounts, to consider 'all aspects of their business and operations' and to ensure that the forward-looking elements of our Annual Report adequately considered and took into account the impact of the pandemic insofar as possible upon the business.

Given the timescales, it has been necessary to apply to Companies House for an extension to the filing date of the Group's audited accounts. As the anticipated date for completion of the audited accounts did not allow a clear 21 days' notice prior to the required AGM date, the Company is required to hold a separate general meeting to approve our audited accounts. This will now take place at 2:00pm on 16 August 2021 and the notice of meeting will be dispatched to shareholders with the 2020 Annual Report.

Deloitte LLP, the external auditor for the Company, was appointed in 2014. Deloitte notified the Company of their intent to stand down as external auditor following the conclusion of the 2020 full year audit. A full tender process was undertaken by the Audit Committee in 2021 and the Board will be proposing a resolution to appoint PKF Littlejohn LLP as external auditors at the forthcoming Accounts approval meeting to be held on 16 August 2021.

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.

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.

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 20 to the financial statements.

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 2020 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 2020 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 30 June 2021 and signed by the order of the Board.

Sarah Day
Company Secretary
30 June 2021

Independent auditor's report

to the members of Non-Standard Finance plc

In our opinion:

- the financial statements of Non-Standard Finance plc (the 'Parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ('IFRS's') as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and Parent company statement of financial position;
- the consolidated and Parent company statements of changes in equity;
- the consolidated and Parent company statement of cash flows; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent company financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

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

We are independent of the Group and the Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent company for the year are disclosed in note 6 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company.

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

Independent auditor's report

to the members of Non-Standard Finance plc

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 requirement for additional capital to be raised within the going concern period to secure the Group's future covenant compliance, solvency and liquidity position of the Group;
- the impact of the GLD regulatory redress programme and customer complaints across the Group; and
- disruption within the Group caused by COVID-19, specifically taking into account the impact on collections and lending volumes.

The range of 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.

Details of the Group's borrowings as at year end are disclosed in note 24. We note that the Group has not reported a breach in covenants up to the date of approval of the financial statements, with formal covenant tests being performed at each quarter-end. Whilst the Group does not project a breach of financial covenants as at the end of Q2 2021, the forecast headroom is limited and if further capital is not raised, the forecasts indicate that the Group may be in breach of covenants by the end of Q3 2021. For the going concern assessment, management has considered a base case scenario, which reflects a 12-month cashflow and loan book forecast from the date of approval of the financial statements. It is important to note that the base case scenario includes plans to run off the GLD division and assumes an equity capital raise. Included in these forecasts are assumptions in respect of lending volumes across all three divisions.

The Group has also prepared a downside scenario which considers sensitivites for what are believed to be reasonably possible adverse variation in assumptions to assess the impact on liquidity and covenant compliance. These variations include; the ongoing uncertainty created by regulatory issues such as redress and complaints, the plausibility of the equity raise and COVID-19 volatility. Under these scenarios there is a risk that the Group may fall under the control of its lenders and there is a possibility of the Group going into insolvency.

Management has considered the mitigating actions against breaching covenants that are available to the Group, including:

- seeking resolution of the regulatory issues identified;
- progressing on steps required to raise equity capital as soon as possible;
- seeking waivers from, or amendments to, the financial covenants contained in the Group's existing financing arrangements with lenders; and
- other management actions include a reduced level of staff related costs and reduction in lending volumes.

Having assessed the most recent projections and the sensitivity analysis and having carefully considered the material uncertainty and the mitigating actions available, management have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis.

As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Parent 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 Group's and Parent company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- given that the base case is predicated on a key assumption of a substantial equity raise in the second half of 2021, we assessed the feasibility of the proposed equity raise by using internal equity and capital market specialists to assist in our challenge of management's plans. In addition we held discussions with the Group's majority shareholder and reporting accountant;
- 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 up to the date of signing our audit opinion;
- considered the impact of the open regulatory matters on the base case;
- 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;
- evaluated and challenged whether events or conditions give rise to a risk of management bias in the preparation of the financial statements, specifically considering the plausibility of the equity raise, potential breach of covenants on the Term Loan facility and the outcome of the skilled persons review into GLD;
- perform a stand-back assessment to consider all relevant audit evidence obtained, whether corroborative or contradictory, and any indicators of possible management bias; and
- considered and challenged whether the disclosures are not just adequate in the context of the applicable accounting framework, but whether they are appropriate.

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

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty related to going concern section); • Provision for impairment losses against loans and receivables to customers; • Revenue recognition; and • Guarantor Loans Division ('GLD') redress provision. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £522,000 which was determined based on 0.2% of Net Loan book. Net Loan book is the total loan book across the Group after IFRS 9 impairment.
Scoping	Our Group audit scope focused on the Parent company and each of the trading subsidiaries within the Group which together account for 100% of the Group's losses before tax and the outstanding loan book balance.
Significant changes in our approach	We have introduced a new key audit matter this year in relation to a customer redress provision at the Guarantor Loans Division ('GLD'), arising due to historic lending practices' non-compliance with regulations. The key driver behind this introduction is the level of judgement required to assess appropriateness of the inputs and assumptions used in the provision methodology to estimate the customer redress provision. We no longer identify the valuation of goodwill as a key audit matter. This is on the basis that goodwill was completely written off by the Group as at 30 June 2020, as discussed in Note 14 to the financial statements. We have revised our benchmark upon which materiality is determined in the current year due to the volatility of the Group's and Parent company's results since the onset of the COVID-19 pandemic. Previously we used profit before tax as the materiality benchmark, however we considered the Net loan book represents a more relevant measure used by investors, regulators and other stakeholders when assessing the performance and longer-term prospects of the Group as well as the importance of equity to the Group's regulatory capital position.

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section above, we have determined the matters described below to be the key audit matters to be communicated in our report.

5.1. Provision for impairment losses against loans and receivables to customers

Key audit matter description

The Group holds an IFRS 9 impairment provision of £63m against gross customer receivables of £321m (2019: impairment provision of £49m against gross customer receivables of £411m).

The Group's expected credit loss ('ECL') model is used to assess the carrying value of the asset for impairment using forward-looking information. The measurement of expected credit losses is complex and involves a number of judgements and estimates on assumptions relating to customer default rates, historical collection rates, assessing significant increases in credit risk and future economic scenario modelling. These assumptions are informed using historical behaviour and experience.

COVID-19 continues to be a key risk affecting the impairment of customer receivables. To recognise the increased risk of default associated with customers affected by Covid-19, management applied post model adjustments ('PMAs') to their IFRS 9 ECL. Specifically, we identified a significant risk over management's assumptions in the macroeconomic scenarios, weightings and model overlays in light of COVID-19.

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

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

Branch-based lending and GLD
During 2020, management incorporated refinements to the methodologies employed to reduce the need for Post Model Adjustments. The refined approach continues to utilise the staging output and criteria for the identification of a Significant Increase in Credit Risk ("SICR") based on the existing model methodology. Enhancements were made across the remaining elements of the ECL calculation to mitigate the exacerbated effect of shortcomings in the existing model in the current economic climate.

Based on our risk assessment, we focused on:
- the appropriateness of modelling methodologies adopted, both internally and at management's service provider who hosts the existing model;
- the selection and weighting of multiple economic scenarios;
- the impact of those scenarios on loss expectations;
- the use and quantification of management overlays; and
- the timely identification of SICR triggers to transition from 12 month to lifetime losses.

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

As noted in section 7.2 below, we have identified control deficiencies both in the IT control environment and manual calculations used in the estimation of the ECL and therefore have not sought to rely on controls in this area.

Further detail in respect of management judgements and assumptions is set out within the Audit Committee report on pages 71 to 79, accounting policies and notes 2 and 19 to the financial statements.

How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls relating to the identification, valuation and recording of impairment provisions. For each of the Group's reportable segments we obtained an understanding of the IFRS 9 methodology and models; and evaluated whether the methodology applied by management is compliant with the requirements of IFRS 9. We challenged the appropriateness of management's assumptions underlying the impairment provision calculations and collection curves. This involved evaluating management's conclusions regarding the selection and weighting of multiple economic scenarios and benchmarking against peers in the industry. We engaged our economic specialists in the audit work performed in this area. To test the completeness and accuracy of inputs into the models, on a sample basis, we traced input data to and from source documentation. We also used our analytic tools to identify and challenge outliers in both input and output data. We worked with data analytics and modelling specialists to test scripts and coding used internally by management for both data extraction and impairment modelling and where relevant, coding used in the existing model hosted by management's service provider. These procedures were performed to validate the practical application of management's IFRS 9 methodology. Together with our IT specialists, we further tested the IT control environment of management's service provider. We performed sensitivity analysis over the key assumptions of the models, especially those relating to macroeconomic scenarios to assess the potential for management bias and we considered the strategy of the businesses to assess changes to risk appetite and product mix and how these may influence impairment. We reviewed the completeness and accuracy of management's PMAs, particularly those relating to COVID-19 and macro-economic factors with reference to supporting calculations and cash collections and challenged the completeness through benchmarking the level and type of PMAs to others in the industry. We assessed management's methodology applied for the identification of a Significant Increase In Credit Risk against the requirements of IFRS 9 and tested the practical application in the model by engaging our modelling specialists to review the code applied in the existing model. We further evaluated the effectiveness of the criteria applied for the identification of a SICR by assessing whether the transfer between Stages was predominantly based on forward-looking criteria, rather than backstops applied.
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.

5.2. Revenue recognition

Key audit matter description	The Group's main revenue stream is interest income of £163m (2019: £181m) which should be recognised based on the effective interest rate ('EIR') method in accordance with IFRS 9. The EIR method spreads directly attributable revenues and costs over the behavioural life of the loan. The Group's EIR models are heavily reliant on the quality of the underlying data flowing into the models. The key judgements in determining 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. Based on our risk assessment, we focused our work for each of the business divisions as follows: • *Home credit* – the early redemption assumptions in the EIR calculation are supported by the behavioural life of the underlying products; and • *Branch-based lending and GLD* – manual adjustments recorded in interest income. Given the significant level of management judgement involved, we have determined that there is a potential risk of fraud through possible manipulation of the revenue balance. As noted in section 7.2 below, we have identified control deficiencies both in the IT control environment and manual calculations used in the estimation of the ECL and therefore have not sought to rely on controls in this area. Further detail in respect of management judgements and assumptions is set out within the Audit Committee report on pages 71 to 79, accounting policies and note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls relating to the recording of interest, including manual adjustments. We considered the appropriateness of the interest recognition methodology for compliance with IFRS 9. We also challenged management's assumptions in respect of cash flow estimates by comparing to underlying data sources and benchmarks. In particular, we focused on the timing and level of early settlements that directly impact estimated behavioural lives. Considering the contractual terms of the loans, we challenged the period over which the EIR is modelled and whether all directly attributable costs and fees were identified and appropriately included in the EIR calculation. For a sample of loans, we independently recalculated the effective interest rates and compared these to the EIRs applied in the revenue models. This included the consideration of modifications on the interest income recorded. We also tested management's manual adjustments relating to interest recognition by recalculating the interest adjustments made based on the modified terms of the loans, specifically in relation to loans that have been modified in the period. We assessed whether management's approach to recognising interest against the net balance for accounts in stage 3 in the next reporting period is materially appropriate.
Key observations	We concluded that the revenue recognition models are compliant with the requirements of IFRS 9, the assumptions underpinning the models were determined and applied appropriately, and the revenue recognised is reasonably stated.

5.3. GLD Redress Provision

Key audit matter description

The Group holds a provision of £15.4m (2019: £nil) provided for customer redress in relation to GLD. During the year, the FCA had raised some concerns regarding certain processes and procedures relating to creditworthiness assessment at 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.

As the FCA have not yet approved the methodology at the time of approval of the financial statements, the amount provided is considered to be a key audit matter. Significant judgement is required to assess the level of provision in relation to the methodology proposed, application of the methodology and the redress expected to be paid out. The extent of disclosures around the key sources of estimation uncertainty and corresponding sensitivities has been a key focus area, given the FCA has not yet approved the methodology proposed by the skilled person. We note that discussions with the FCA and the skilled person are progressing. There is currently no definitive date by when they are expected to conclude, although the directors expect this to happen in the third quarter of 2021.

Further detail in respect of management judgements and assumptions is set out within the Audit Committee report on pages 71 to 79 accounting policies and note 2 to the financial statements.

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

We performed the following procedures for GLD:

- obtained an understanding of controls related to management's redress methodology and calculation;
- assessed the completeness of management's methodology against the findings raised by the FCA and review performed by the skilled person;
- we held tripartite meetings with both the FCA and the skilled person to discuss the findings in the skilled person report;
- involved our market conduct specialists in our challenge of management's valuation of the redress provision and sensitivities disclosed;
- evaluated management's disclosures for the redress provision, and how the risks and assumptions underpinning the methodology are described in the key sources of estimation uncertainty; and
- tested the methodology used to determine the provision, including involving our data specialists in reperforming redress decisions in line with the communicated methodology and recalculated the provision.

Key observations

While we note the potential sensitivity of the GLD redress provision given that the FCA has not yet approved the proposed methodology, we concluded that the provision of £15.3m is reasonably stated in line with the latest available information.

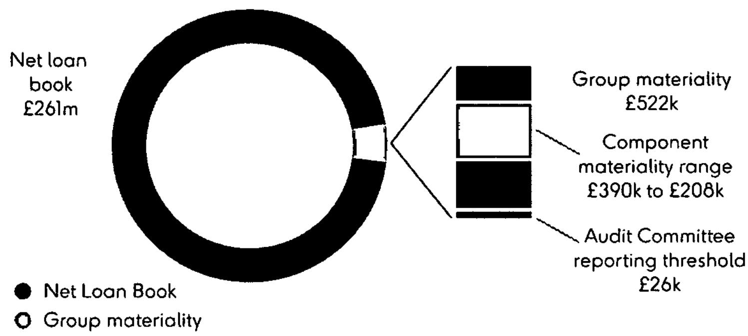
Independent auditor's report

to the members of Non-Standard Finance plc

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

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

	Group financial statements	Parent company financial statements
Materiality	£522,000 (2019: £791,000)	£208,000 (2019: £317,500)
Basis for determining materiality	We used 0.2% of the net loan book. The net loan book is the gross loan book of the Group net of IFRS 9 impairment provision. For the year ended 31 December 2019, we used 5.4% of adjusted pre-tax profit. Adjusted pre-tax profit is before fair value adjustments of £2.9m, amortisation of acquired intangible assets of £7.2m and exceptional items of £80.6m as described in the Consolidated Statement of Comprehensive Income.	We used 4% of the administrative expenses of the company as a materiality benchmark for the current year. For the year ended 31 December 2019, we used 6% of administrative expenses, which equates to 4% of adjusted pre-tax profit.
Rationale for the benchmark applied	We have revised our benchmark upon which materiality is determined in the current year due to the volatility of the Group's results since COVID-19 pandemic. We considered that net loan book represents a more stable and relevant measure used by investors, regulators and other stakeholders when assessing the performance and long-term prospects of the Group as well as the importance of net loan book to the Group's revenue.	We deemed that administrative expenses was the appropriate benchmark for the Parent company as this is not a trading subsidiary and operations involve acting as the cost centre for the Group management team, including payroll and head office expenses. On this basis we deem administrative expenses the most appropriate benchmark and have assessed the Parent company administrative expenses as a percentage of the Group administrative expenses to determine its relative size and arrive at an appropriate percentage of Group materiality.



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	65% (2019: 70%) of Group materiality	65% (2019: 70%) of Parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the quality of the control environment and that we were not able to take a controls reliance approach. Due to the history of errors identified in prior periods and control deficiencies reported we reduced our performance materiality percentage to 65% of materiality.	

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We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £26,000 (2019: £40,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatements at the Group level. Based on that assessment, our Group audit scope focused on the Parent company and each of the principal trading divisions (Branch Based Lending, Guarantor Loans Division and Home Credit) within the Group which together account for 100% (2019: 100%) of the Group's losses before tax and customer receivables balances. We have performed audit procedures over the Group consolidation and consolidation adjustments. We have audited all the subsidiaries using a materiality range of £208,000 to £390,000 (2019: £318,000 to £445,000).

Based on our assessment of the Group's control environment, and considering the control deficiencies highlighted in the Audit Committee report on pages 71 to 79, we did not plan to take a controls reliance approach and therefore we did not test the operating effectiveness of controls.

All entities within the Group have the same engagement partner and the scope is consistent with prior year.

The Group relies on the effectiveness of a number of IT systems and applications to ensure that financial transactions are recorded completely and accurately. The main lending systems, ECL applications and associated manual calculations, and the general ledger systems are key to the audit.

We engaged our IT specialists in the evaluation of the IT control environment across the Group and in particular in the lending businesses of the Group, which included Management's third-party provider for IFRS 9 ECL calculations. A number of IT deficiencies have been identified across the relevant lending systems in scope of our testing as well as at Management's third party provider.

In the course of auditing the 'Provision for impairment losses against loans and receivables to customers' and 'revenue recognition' per the key audit matter above, we have identified errors in the calculations which constituted control deficiencies.

As a consequence of the above mentioned IT and manual control deficiencies identified, we have continued not to rely on controls for our audit of the Group in line with prior year. Accordingly, the audit team extended the scope of audit procedures in response to the identified control deficiencies.

The Audit Committee has performed their own assessment of the internal control environment, weaknesses and failings identified, as well as actions taken or planned to be taken in this regard as outlined on page 59.

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 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.

Independent auditor's report
to the members of Non-Standard Finance plc

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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.

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

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.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- the Group's own ongoing annual assessment of the risks that irregularities may occur either as a result of fraud or error that was most recently approved by the Board on 22 April;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, impairment, valuations, IT, analytics and modelling, fraud, data, regulatory risk and credit risk specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, GLD redress provision and provision for impairment losses against amounts receivable to customers. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulation set by the Financial Conduct Authority and the Consumer Credit Act.

As a result of performing the above, we identified revenue recognition, provision for impairment losses against amounts receivable to customers, GLD redress provision as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

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

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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

We have nothing to report in respect of these matters.

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 22 October 2014 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 31 December 2015 to 31 December 2020.

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

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

Simon Stephens FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP

London, United Kingdom
30 June 2021

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 loss	4	(6,316)	(18,136)	(24,452)
Other exceptional items	7	–	(82,433)	(82,433)
Loss on ordinary activities before interest and tax		(6,316)	(100,569)	(106,885)
Finance costs	10	(28,836)	–	(28,836)
Loss on ordinary activities before tax		(35,152)	(100,569)	(135,721)
Tax on loss on ordinary activities	12		164	164
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 used ('APMs'). Refer to notes 7 and 15 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)

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

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	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 2019 £000
Revenue[1]	3	183,657	(2,873)	180,784
Other operating income		954	–	954
Modification loss	19	(1,181)	–	(1,181)
Derecognition loss	19	(413)	–	(413)
Impairment of financial assets[2]		(45,066)	–	(45,066)
Administrative expenses		(95,786)	(7,226)	(103,012)
Operating profit/(loss)	4	42,165	(10,099)	32,066
Exceptional items	7	–	(80,584)	(80,584)
Profit/(loss) on ordinary activities before interest and tax		42,165	(90,683)	(48,518)
Finance costs	10	(27,458)	–	(27,458)
Profit/(loss) on ordinary activities before tax		14,707	(90,683)	(75,976)
Tax on profit/(loss) on ordinary activities	12	(3,261)	2,929	(332)
Profit/(loss) for the year		11,446	(87,754)	(76,308)
Total comprehensive loss for the year				(76,308)

1 Revenue comprises interest income calculated using the EIR method, refer to note 1 in the notes to the financial statements for further detail.
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 notes 7 and 15 in the notes to the financial statements for further detail.

Loss attributable to:

• Owners of the Parent	(76,308)
• Non-controlling interests	–

Loss per share

	Note	Year ended 31 Dec 2019 Pence
Basic and diluted	11	(24.45)

Consolidated statement of financial position
as at 31 December 2020

	Note	31 Dec 2020 £000	31 Dec 2019 £000
ASSETS			
Non-current assets			
Goodwill	14	–	74,832
Intangible assets	15	**8,237**	8,572
Derivative asset	23	–	1
Deferred tax asset	25	–	1,677
Right-of-use asset	17	**10,079**	10,560
Property, plant and equipment	16	**6,277**	6,556
Amounts receivable from customers	19	**124,128**	185,269
		148,721	287,467
Current assets			
Amounts receivable from customers	19	**134,073**	176,379
Trade and other receivables	21	**2,080**	2,183
Corporation tax asset		**1,550**	460
Cash and cash equivalents	22	**77,956**	14,192
		215,659	193,214
Total assets		**364,380**	480,681
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	24	**15,895**	26,909
Provisions	24	**21,813**	1,466
Lease liability	24	**1,928**	1,830
Total current liabilities		**39,636**	30,205
Non-current liabilities			
Lease liability	24	**8,961**	9,275
Bank loans	24	**326,587**	317,590
Total non-current liabilities		**335,548**	326,865
Equity			
Share capital	26	**15,621**	15,621
Share premium	27	**180,019**	180,019
Other reserves	28	**551**	2,152
Retained loss		**(206,995)**	(74,181)
Total equity		**(10,804)**	123,611
Total equity and liabilities		**364,380**	480,681

These financial statements were approved by the Board of Directors on 30 June 2021.

Signed on behalf of the Board of Directors.

John van Kuffeler
[illegible]

Jono Gillespie
[illegible]

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained loss £000	Non-controlling interest £000	Total £000
At 31 December 2018		15,852	254,995	(2,011)	(61,635)	255	207,456
Total comprehensive loss for the year		–	–	–	(76,308)	–	(76,308)
IFRS 16 transition opening balance adjustment		–	–	–	(295)	–	(295)
Transactions with owners, recorded directly in equity:							
Dividends paid	13	–	–	–	(8,425)	–	(8,425)
Capital reduction	27	–	(75,000)	–	75,000	–	–
Credit to equity for equity-settled share-based payments	28	–	–	1,183	–	–	1,183
Transfer of share-based payments on vesting of share awards	28	–	–	(734)	734	–	–
Issue of shares	26	23	24	–	(47)	–	–
Equity for Founder Shares[1]	28	–	–	255	–	(255)	–
Cancellation of shares	26	(254)	–	3,459	(3,205)	–	–
At 31 December 2019		15,621	180,019	2,152	(74,181)	–	123,611
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		**15,621**	**180,019**	**551**	**(206,995)**	**–**	**(10,804)**

1 In the 2019 financial year, £255,000 relating to Founder Shares was re-presented as equity rather than non-controlling interest because it reflects other reserves for the Group.

Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Net cash from/(used in) operating activities	29	**82,193**	(16,986)*
Cash flows from investing activities			
Purchase of property, plant and equipment	16	**(1,726)**	(1,744)**
Purchase of software intangibles	15	**(3,221)**	(3,185)**
Proceeds from sale of property, plant and equipment		**16**	62
Net cash used in investing activities		**(4,931)**	(4,867)
Cash flows from financing activities			
Finance cost		**(18,333)**	(18,218)
Repayment of principal portion of lease liabilities		**(1,806)**	(1,606)*
Debt raising		**21,641**	50,400
Repayment of borrowings		**(15,000)**	–
Dividends paid	13	**–**	(8,425)
Net cash (used in)/from financing activities		**(13,498)**	22,151
Net increase in cash and cash equivalents		**63,764**	298
Cash and cash equivalents at beginning of year		**14,192**	13,894
Cash and cash equivalents at end of year	22	**77,956**	14,192

* The repayment of the principal portion of lease liabilities has been re-presented to recognise this as a cash outflow from financing activities. This was previously shown as a cash outflow from investing activities in the prior year. The interest portion of the repayment of the lease liability has been re-presented to recognise this as a cash outflow from operating activities. This was previously shown as a cash outflow from financing activities in the prior year.

** There has also been enhanced disclosure in the purchase of property, plant and equipment and software intangibles. This has been separated into separate line items.

Company statement of financial position

as at 31 December 2020

	Note	31 Dec 2020 £000	31 Dec 2019 £000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**13**	51
Intangible assets	15	**52**	75
Deferred tax	25	**–**	–
Right-of-use assets	17	**32**	162
Investments	18	**–**	95,686
		97	95,974
Current assets			
Trade and other receivables	21	**32,157**	60,357
Cash and cash equivalents	22	**553**	194
		32,710	60,551
Total assets		**32,807**	156,525
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	24	**4,988**	13,047
Lease liability	24	**43**	161
Non-current liabilities			
Lease liability	24	**–**	43
Total liabilities		**5,031**	13,251
Equity			
Share capital	26	**15,621**	15,621
Share premium	27	**180,019**	180,019
Other reserves	28	**551**	2,139
Retained profit		**(168,415)**	(54,505)
Total equity		**27,776**	143,274
Total equity and liabilities		**32,807**	156,525

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 £115.9m (2019: loss of £119.4m).

These financial statements were approved by the Board of Directors on 30 June 2021.

Signed on behalf of the Board of Directors.

John van Kuffeler
Group Chief Executive

Jono Gillespie
Chief Financial Officer

Company number – 09122252

Company statement of changes in equity

for the year ended 31 December 2020

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained profit £000	Total £000
At 31 December 2018		15,852	254,995	(1,771)	1,695	270,771
Total comprehensive loss for the year		–	–	–	(119,483)	(119,483)
Transactions with owners, recorded directly in equity:						
Dividends paid	13	–	–	–	(8,425)	(8,425)
Capital reduction	27	–	(75,000)	–	75,000	–
Credit to equity for equity-settled share-based payments	28	–	–	1,185	–	1,185
Transfer of share-based payments on vesting of share awards	28	–	–	(734)	–	(734)
Issue of shares	26	23	24		(47)	–
Cancellation of shares	26	(254)	–	3,459	(3,206)	–
IFRS 16 transition adjustment		–	–	–	(39)	(39)
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**

Company statement of cash flows

for the year ended 31 December 2020

	Note	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Net cash used in operating activities	29	**(11,420)**	(5,135)*
Cash flows from investing activities			
Purchase of software intangibles	15	–	(12)
Dividend income		**11,950**	13,500
Net cash from investing activities		**11,950**	13,488
Cash flows from financing activities			
Finance cost		**(10)**	(1)
Cash flows from lease liabilities		**(161)**	(126)*
Dividends paid	13	–	(8,425)
Net cash used in financing activities		**(171)**	(8,552)
Net increase/(decrease) in cash and cash equivalents		**359**	(199)
Cash and cash equivalents at beginning of year		**194**	393
Cash and cash equivalents at end of year	22	**553**	194

* The repayment of the principal portion of lease liabilities has been re-presented to recognise this as a cash outflow from financing activities. This was previously shown as a cash outflow from investing activities in the prior year. The interest portion of the repayment of the lease liability has been re-presented to recognise this as a cash outflow from operating activities. This was previously shown as a cash outflow from financing activities in the prior year.

Notes to the financial statements

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

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.

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.

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 31 December 2020. Control is achieved where the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration the existence and effect of potential voting rights that currently are exercisable or convertible.

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

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

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

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

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.

During the year, the Directors assessed the forecast levels of net debt, headroom on existing borrowing facilities and compliance with debt covenants. As part of its going concern assessment, the Directors reviewed both the Group's access to liquidity and its future balance sheet solvency for the next 12 months from the date of approval of the financial statements. For liquidity, the Group produced two scenarios: (i) the more likely (or 'base case') scenario which includes a substantial equity injection in the second half of 2021 in order to mitigate the risk of and/or cure covenant breaches; and (ii) a downside scenario which applies stresses in relation to the key risks identified in the base case and does not include an equity raise. The Group concluded that a material uncertainty continues to exist around the performance of the Group and its ability to stay within its financial covenants, with both very much influenced by a number of factors not entirely within the Group's control including the successful execution of a capital raise, current and future impacts of COVID-19 and the impact of potential levels of redress across the Group as well as the outcome of the independent reviews being performed at the branch-based lending and home credit divisions.

Under the base case, additional equity funds in the second half of 2021 mean that the Group does not breach its covenants in the next 12 months and therefore would not require covenant waivers from its lenders in order to remain viable. The base case assumes no breach in covenant as at 30 June 2021 as on the basis of current forecasts the Group does not expect to do so. However, the covenant headroom remains tight and there remains a risk due to unforeseen and as yet unaccounted for matters that the Group will breach its financial covenants as at 30 June 2021. If this were to happen, then the Group would maintain its strategy as described under the base case as management would have time to cure this breach. However, this would result in a requirement to either accelerate the capital raise or request a temporary waiver from lenders, neither of which have been considered in the base case. Therefore, if the Group finds itself in such a scenario, whilst the Directors remain confident of the ability to raise capital, they note the risks associated with executing on the base case would be increased and consequently the likelihood of the Group ending up in the downside scenario would also be increased.

Under the downside scenario, which assumes no additional equity in 2021, the Group would be expected to breach certain covenants during the next 12 months and would therefore not be able to access further funding over the period of breach. It is also therefore assumed that the Group would require waivers from its lenders in order to remain viable. The waivers required under this scenario are beyond the range discussed in previous negotiations with lenders and therefore if the expected breach under this scenario occurs and if waivers are not forthcoming, the Group may fall under the control of its lenders and there is a possibility of the Group going into insolvency.

The Directors additionally ran a liquidity reverse stress test on the base case to identify the level that expected collections would have to fall by so as to cause the Group to deplete all cash reserves. This showed that, assuming no changes to lending levels and operating expenses, collections would be required to fall by over 23% 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 evidence to date, such a reduction in collections, with no mitigating actions, was thought by the Directors to be an unlikely event, though the Directors also recognised access to such cash generated by the collections is ring fenced by the lenders and therefore in the event of a breach of covenants, the ring fence is triggered and the cash would not to be available to the Group or Company.

With regards to the balance sheet solvency of the Group, the Directors noted that under the base case, whilst in a net liability position as at 31 December 2020, the Group will move forwards in a net asset position, however this is dependent on additional equity proceeds being received. Under the downside scenario, the Group would remain in a net liability position.

On the basis of the above analysis, 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. The range of assumptions and the likelihood of them all proving correct creates material uncertainty on liquidity and solvency under both the base case and downside scenarios.

In making their assessment, the Directors took account of the Group's current financial and operational positions, the status of conversations with the regulator and advisors, as well as recent trading activity and in particular, recent collections activity. They noted the proposed equity raise to support the Group and in particular the continued interest of the Group's major shareholder Alchemy in supporting a capital raise subject to the outcome of the Group's engagement with its lenders, Alchemy's analysis of the FCA and Group's regulatory reviews, and greater levels of certainty around redress and claims. In addition, they noted, contingent on a successful capital raise having been completed, the informal support of a proposed extension to the term of the Group's existing facilities by its lenders. The Directors also note the existence of the securitisation facility, however they noted that this is currently suspended and the ability to use this facility remains outside of the Group's control as it is subject to the consent of the lenders and the satisfaction of standard covenants for a facility of this type. The Directors recognise there exists a risk around covenant compliance as at 30 June 2021 due to matters unforeseen in its current forecasts and that should a breach occur, it would result in a requirement to either accelerate the capital raise or request a temporary waiver from the lenders.

The Directors acknowledge the considerable challenges presented over the last year and now facing the Group and the Company and therefore the material uncertainty which may cast significant doubt on the ability of both the Group and the Company to continue to adopt the going concern basis of accounting. However, despite these challenges, it is the Directors' reasonable expectation that the Group and Company can and will raise sufficient equity and have sufficient liquidity to continue to operate and meet its liabilities as they fall due for the next 12 months and therefore it has adopted the going concern basis of accounting.

The assumption of shareholder support for additional equity, 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 base case, forms a significant judgement of the Directors in the context of approving the Group's going concern status.

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

The same conclusion has been made in relation to the statement on longer-term viability as discussed on pages 76 to 79 of this report.

New and amended standards and interpretations issued but not effective for the financial year ending 31 December 2020
In the current year and in accordance with IFRS requirements, the following accounting standards have been issued by the IASB and/or are not yet effective: IFRS 17 Insurance Contracts, amendments to IAS 1 Classification of Liabilities as Current or Non-current, amendments to IFRS 3 Reference to the Conceptual Framework, annual Improvements to IFRS Standards 2018-2020 Cycle – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture. There are no new standards not yet effective and not adopted by the Group from 1 January 2020 which are expected to have a material impact on the Group. The Directors do not expect the adoption of these standards to have a significant effect on the financial statements of the Company in future periods.

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

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 2020, APMs remain unchanged from the prior year. Refer to the Appendix for a glossary of APMs and reconciliation to IFRS reported numbers.

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).

Other operating income relates to amounts received as a result of debt sales made and government grants received in relation to the Coronavirus Job Retention Scheme ('CJRS'). 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 (further detail under Financial Assets). The accounting policy in relation to CJRS income is detailed below.

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 £0.67m (2019: £nil) has been included within other operating income for the year ended 31 December 2020 (refer note 30 for further detail).

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.

The fair value of the acquired loan portfolio of Loans at Home, Everyday Loans and George Banco on acquisition has been estimated by discounting expected future cash flows. The difference between the fair value and the carrying value of the loan portfolio on acquisition is unwound to revenue in the consolidated statement of comprehensive income on an EIR basis over the expected life of the acquired loans. At the end of each period, the fair value of the acquired loan book is assessed under IFRS 9 as part of the Group's assessment of ECL. During the year ended 31 December 2020, the fair value of acquired loan book on acquisition has been fully amortised and impaired and the balance at year end is £nil (2019: £1.4m).

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 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 £97.9m of exceptional costs for the year ended 31 December 2020 (2019: £80.6m). Refer to note 7 for further detail.

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.

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 weighted average cost of capital at the balance sheet date. All remaining goodwill has been fully written off in the current year (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.

[illegible]

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 include acquired intangibles in respect of the customer list and credit decisioning technology at Everyday Loans, together with the Everyday Loans and TrustTwo brands. Acquired intangibles in respect of the Everyday Loans customer list, credit decisioning technology, and brand have been fully amortised and impaired in the current year as a result of the impairment assessment carried out at the Everyday Loans Division (refer to note 14). In addition, intangible assets include IT software development and computer software. The Board of Directors will assess each of the Group's remaining intangible assets for impairment at each future accounting date.

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

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

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

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

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 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 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 ECL on an annual basis. This assessment involves an analysis of the ability of the entity to repay amounts owed as at the end of the reporting period and includes the consideration of the probability of default, loss given default and exposure at default. IFRS 9 requires ECL to always reflect both the possibility that a loss occurs and the possibility that no loss occurs, even if the most likely outcome is no credit loss.

The Group does not use hedge accounting.

Trade and other receivables 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 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.

IFRS 9 introduces an impairment model which requires entities to recognise ECL based on unbiased forward-looking information.

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

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

Home credit
All customer accounts in home credit are categorised into the three broad stages as defined in IFRS 9. Categorisation into these stages has been made in accordance with their arrears stage which is based on missed payments in the last 13 weeks. As IFRS 9 requires that lenders provide for the 12-month ECL which represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date (stage 1), although the underlying cash flows from those loans which are currently performing in line with expectations are unchanged, this effectively results in the recognition of loan loss provisions at the point of issue and captures all loans which do not fall under stages 2 and 3.

Under IFRS 9, ECL assessment is based upon forward-looking modelled probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') parameters which are run at account level, and applied across all receivables from initial recognition. ECL in home credit is estimated by reference to future cash flows based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. Loan loss provisions are thereby calculated by reference to their stage (criteria for categorisation into stages is as described above) and are measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original EIR. A receivable can move from having a provision calculated on a lifetime expected loss basis back to a 12-month expected 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.

Coronavirus (COVID-19) pandemic impact on expected credit losses in the home credit division
During 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 year, management have deemed the overlay as no longer being required at year end and therefore there is no impact on amounts receivable from customer balances as at 31 December 2020.

Branch-based lending and guarantor loans

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

- Loans in stage 1 which comprise all amounts receivable from customers which do not fall into stages 2 and 3.
- Loans in stage 2 which comprise those amounts receivable from customers which show a significant increase in credit risk since origination, as determined by management to be the earlier of:
  - the point at which the credit status of a loan has deteriorated to such an extent that had the future performance been expected at origination, it would not have been written in the first place (or had the declined state been presented initially, it would not have been written). This is derived by evaluating the impact of increased credit losses on risk adjusted margin by score band across the loan portfolio; or
  - the point at which a loan is 30 days past due (but less than 90 days past due); or
  - loans which have been subject to forbearance.
- Loans in stage 3 which comprise amounts receivable from customers in default (in line with IFRS 9, the definition of default is over 90 days in arrears) as well as those accounts identified as insolvent.

The branch-based lending and the guarantor loans divisions use historical data and risk models to determine ECL. Risk models are used in order to determine the PD of customer receivables and the corresponding IFRS 9 stage categorisations. As with the home credit division, the ECL assessment at the branch-based lending and guarantor loan divisions are run at account level and 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 and measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted using the EIR of the loan.

PD is modelled at a portfolio level which considers vintage, maturity, exogenous and other credit factors and is applied across all receivables at initial recognition. In addition, the model includes consideration of future economic conditions and scenarios. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, multiple scenarios are modelled to ensure an unbiased representative sample of the complete distribution across the receivable base. The model used to determine PD therefore reflects a blended outcome based on four macroeconomic scenarios of base, downside stress, severe downside stress and positive, with which specified weightings are applied. Stress testing methodologies are also leveraged within forecasting economic scenarios for IFRS 9 purposes. The macroeconomic variables which are modelled include Bank of England ('BoE') base rate, Gross Domestic Product ('GDP'), Consumer Price Index ('CPI'), House Price Index ('HPI') and unemployment rate. Management adjustments and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk. The weightings applied to the macroeconomic variables address the risk of non-linearity in the relationship between credit losses and economic conditions, with PDs increasing more in unfavourable conditions (particularly severe conditions) than they reduce in favourable conditions. As loan loss provisions are derived by reference to their IFRS 9 stage, the ECL recognised is directly impacted by the PD calculated under the range of economic scenarios. As the weightings used for the year ended 31 December 2019 Annual Report and Accounts did not consider the impact of recent economic changes arising from the effects of COVID-19, for the year ended 31 December 2020, the Group has worsened the macro-economic variables to account for this as well as increased the downside weighting as reflected in the table below.

The Group's customers are typically less sensitive to changes in economic conditions and are often better placed to manage a recession than prime customers. The Group therefore recognises that whilst the severity of the impact of the COVID-19 pandemic on the economy remains uncertain and risks to rising unemployment and falling GDP have heightened since 31 December 2019, based on historical evidence the effect of traditional macroeconomic downside indicators is minimal and therefore, there would need to be a significant shift in the weightings to have a material impact on the PDs of amounts receivable from customers. As such, in addition to a change in macroeconomic weightings, in order to account for the specific forward looking macro-economic impact of COVID-19 on provisions, the Group has additionally included a COVID-19 overlay to reflect the increased risks associated with customers who have taken and/or come off payment holidays.

Macroeconomic variables and scenarios

	31 Dec 2020	31 Dec 2019
Base	**50%**	50%
Downside stress	**40%**	30%
Severe downside stress	**0%**	15%
Positive	**10%**	5%

As noted above, in addition to the change in weightings of the relevant scenarios, the macroeconomic forecasts for each of the variables have also changed since 31 December 2019 in order to reflect the latest economic outlook which includes the effects of COVID-19. In 2019, the Group used economic forecast data from the BoE Annual Cyclical Scenario. As the BoE did not produce any new forecasts for 2020, in the current year, the Group has instead used the Fiscal Sustainability Report published by the Office for Budget Responsibility ('OBR') from November 2020 as the basis for its macroeconomic scenarios. For variables where the OBR report did not provide sufficient information, the BoE 2019 scenarios, updated for actuals, have remained in use.

The macroeconomic variables which are modelled include the BoE base rate, GDP, CPI, HPI and the unemployment rate. A summary of the peak and average for each of the variables under the scenarios are detailed below.

For the year ended 31 Dec 2020	Positive	Base	Downside Stress
2021			
Maximum (Peak) unemployment rate	5.1%	7.5%	9.3%
Maximum (Peak) GDP rate[1]	102	97	95
Maximum (Peak) Base rate	0.1%	0.1%	2.0%
Maximum (Peak) HPI rate[1]	104	101	100
Maximum (Peak) CPI rate	110	110	113
2022			
Maximum (Peak) unemployment rate	4.6%	7.3%	11.0%
Maximum (Peak) GDP rate[1]	105	101	95
Maximum (Peak) Base rate	0.10%	0.10%	2.00%
Maximum (Peak) HPI rate[1]	108	102	87
Maximum (Peak) CPI rate	112	111	118
2023			
Maximum (Peak) unemployment rate	4.0%	6.2%	9.9%
Maximum (Peak) GDP rate[1]	106	102	98
Maximum (Peak) Base rate	0.10%	0.10%	2.00%
Maximum (Peak) HPI rate[1]	113	107	72
Maximum (Peak) CPI rate	113	113	122

For the year ended 31 Dec 2020	Positive	Base	Downside Stress
2021			
Average unemployment rate	4.9%	6.0%	6.8%
Average GDP rate[1]	98.4	93.6	89.5
Average Base rate	0.10%	0.10%	1.25%
Average HPI rate[1]	102	97	94
Average CPI rate	110	109	111
2022			
Average unemployment rate	4.0%	6.9%	10.4%
Average GDP rate[1]	104	99	93
Average Base rate	0.10%	0.10%	2.00%
Average HPI rate[1]	106	97	80
Average CPI rate	111	111	116
2023			
Average unemployment rate	4.0%	5.7%	8.8%
Average GDP rate[1]	105	102	97
Average Base rate	0.10%	0.10%	2.00%
Average HPI rate[1]	111	105	68
Average CPI rate	112	112	120

1 Referenced against first month equalling 100bps.

Macroeconomic variables and scenarios continued

For the year ended 31 Dec 2019	Positive	Base	Downside Stress	Severe Stress
2020				
Maximum (Peak) unemployment rate	3.9%	4.0%	5.7%	8.0%
Maximum (Peak) GDP rate[1]	103	101	100	100
Maximum (Peak) Base rate	0.8%	0.9%	0.9%	4.0%
Maximum (Peak) HPI rate[1]	104	102	100	100
Maximum (Peak) CPI rate	110	111	112	112
2021				
Maximum (Peak) unemployment rate	3.9%	4.0%	5.9%	8.6%
Maximum (Peak) GDP rate[1]	106	103	98	96
Maximum (Peak) Base rate	0.75%	1.03%	1.03%	4.00%
Maximum (Peak) HPI rate[1]	108	105	96	87
Maximum (Peak) CPI rate	111	113	116	118
2022				
Maximum (Peak) unemployment rate	3.9%	4.0%	5.9%	8.5%
Maximum (Peak) GDP rate[1]	109	105	100	97
Maximum (Peak) Base rate	0.75%	1.13%	1.13%	4.00%
Maximum (Peak) HPI rate[1]	113	110	91	72
Maximum (Peak) CPI rate	112	115	120	121

For the year ended 31 Dec 2019	Positive	Base	Downside Stress	Severe Stress
2020				
Average unemployment rate	3.9%	4.0%	4.9%	6.0%
Average GDP rate[1]	102	101	98	97
Average Base rate	0.75%	0.79%	0.79%	2.25%
Average HPI rate[1]	102	101	98	94
Average CPI rate	109	110	110	110
2021				
Average unemployment rate	3.9%	4.0%	5.9%	8.5%
Average GDP rate[1]	105	102	98	96
Average Base rate	0.75%	0.97%	0.97%	4.00%
Average HPI rate[1]	106	104	93	80
Average CPI rate	111	112	114	115
2022				
Average unemployment rate	3.9%	3.9%	5.7%	8.3%
Average GDP rate[1]	108	104	99	97
Average Base rate	0.75%	1.09%	1.09%	4.00%
Average HPI rate[1]	111	107	90	68
Average CPI rate	112	114	118	120

1 Referenced against first month equalling 100bps.

The Group's positive, base and stress scenarios are based on the OBR Economic and Fiscal Outlook (November 2020). The upside scenario assumes the success in bringing the pandemic under control, enabling output to return to pre-pandemic levels late in 2021. The base case assumes a slower return to pre-pandemic levels at the end of 2022. The downside scenario assumes that vaccines are ineffective and a more substantial and lasting economic adjustment is required with economic activity only recovering to pre-pandemic levels at the end of 2024. In the upside scenario output eventually returns to pre-virus levels but is left permanently affected by the pandemic in the base and downside scenarios. For variables where the OBR report did not provide sufficient information (in the case of HPI CPI and Base rate for the positive and stress scenarios, the BoE 2019 scenarios, updated for actuals, have remained in use.

Coronavirus (COVID-19) pandemic impact on expected credit losses in branch-based lending and guarantor loans division

The requirement to provide support in the form of an emergency payment freeze ('EPF') for customers affected by the pandemic has impacted the ECL recognised in branch-based lending and the guarantor loans divisions for the year ended 31 December 2020. In order to quantify this, the Group has reviewed the behaviour of customers who opted for an EPF and/or notified us as being affected by COVID-19 and have used this data to inform updates to the PD, LGD and staging profile of those receivables that were affected. The Group recognises that, in line with IASB guidance, the activation of an EPF by a customer is not automatically deemed a significant increase in credit risk. Further detail of the adjustments made to recognise the impact of COVID-19 on ECL is provided in note 2 – Critical accounting judgements and key sources of estimation uncertainties.

[illegible]

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.

Branch-based lending and guarantor loans

Within branch-based lending and the Guarantor Loans Division there are three ways a customer account can demonstrate SICR:

1. 30 days past due performance bucket (a rebuttable presumption under IFRS 9)
2. Current PD > residual origination lifetime PD × stage 2 threshold
3. All accounts subject to a curing treatment, including both reschedules and deferments

Along with the presumption that loans past 30 days due or loans subject to curing treatment represents a SICR, a quantitative assessment is carried out. This quantitative assessment involves evaluating the impact of increased credit losses on risk adjusted margin ('RAM' being revenue less impairment) by score band across the loan portfolio. A PD above the minimum level (deemed as the 'stage 2 threshold') provides a very close approximation to the point at which the Group would not have written the loan and therefore represents a SICR. This staging test is run on a monthly basis by comparing probability of default at the reporting date to the probability of default at origination based on updated bureau status of the customer and the delinquency status of each receivable. Actual historical defaults modelled, along with the EMV factors (see below) are used to model an EMV PD. Decomposing performance data in this way is a standard tool in credit management. EMV stands for exogenous, maturity, vintage:

- Exogenous – effects that influence performance at a calendar date. These are typically external factors (such as macroeconomic conditions) but may also be internally driven (e.g. changes to forbearance strategy).
- Maturity – effects that influence performance at a time on book. Credit accounts typically 'mature' according to a predictable schedule from the time that they are originated. For instance, PD typically peaks one to two years from origination for unsecured loan products.
- Vintage – effects that relate to the period in which the accounts were originated. The most obvious driver of a change in performance from this perspective is a change to credit strategy.

When applying the model, the three factors are combined to generate the overall prediction.

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

Curing policy

Loans in stage 3 which have not been cured represent those which have gone 90 days in arrears at one point in time. If a loan has ever been 90 days in arrears, regardless of performance, the loan will remain in stage 3. In 2019, the business introduced a policy to categorise these loans as performing or not performing based on their delinquency at the reporting date. For those loans that have performed for a full 12 months are deemed to have moved back to stage 1. Loans that have performed for more than six months but less than 12 months are deemed to have moved back to stage 2. Those loans which were deemed not performing at year end will remain in stage 3.

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.

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 loan.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:
- qualitative factors, such as contractual cash flows after modification are no longer SPPI, change of counterparty, the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;
- a quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the contractual cash flows on a financial asset have been renegotiated or otherwise modified, the Group will assess whether there has been a significant increase in credit risk since initial recognition on the basis of all reasonable and supportable information that is available without undue cost or effort. This includes historical and forward-looking information and an assessment of the credit risk over the expected life of the financial asset, which includes information about the circumstances that led to the modification. For these loans, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:
- the remaining lifetime PD, estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

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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.

Impact of Coronavirus (COVID-19) pandemic impact on branch-based lending and Guarantor Loans Division write-off policy
During 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 are greater than 180 days in arrears and have not been written-off, they have been fully provided for. There was no change to the branch-based lending division in the current year.

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.

Impact of Coronavirus (COVID-19) pandemic impact on home credit write-off policy
During 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 have not been written-off, they have been fully provided for.

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank.

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

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

Other financial liabilities 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.

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.

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

Share-based payments
The Group has applied the requirements of IFRS 2 Share-based Payments. The Group grants options under employee savings-related share option schemes (typically referred to as SAYE schemes) and makes awards under the long-term incentive schemes. All of these schemes are equity-settled.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the consolidated statement of comprehensive income on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The corresponding credit is made to a share-based payment reserve within equity. The grant by the Company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the Company's financial statements. At the end of the vesting period, or upon exercise, lapse or forfeit (if earlier), this credit is transferred to retained earnings. Further information on the Group's schemes is provided in note [28] and in the Directors' remuneration report.

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.

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.

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 2020.

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.

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.

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. As per note 1, for branch-based lending and guarantor loans, a PD above the minimum level (deemed as the 'stage 2 threshold') provides a very close approximation to the point at which the Group would not have written the loan and therefore represents a significant increase in credit risk. Management therefore consider the stage 2 threshold to be a critical accounting judgement in the determination of ECL.

Given the short-term nature of lending in the home credit division, the difference between the 12-month ECL and lifetime losses is minimal; therefore this judgement applies only to the branch-based and guarantor loans divisions.

Key sources of estimation uncertainty

Amounts receivable from customers
The Group assesses its portfolio of amounts receivable from customers for ECL at each balance sheet date. The following are key estimations that the Directors have used in the process of applying the Group's recognition of ECL policy:

Branch-based lending and Guarantor Loans Division
Incorporation of macroeconomic/forward-looking overlays:
- Incorporation of macroeconomic data: establishing the number and relative weightings of macroeconomic scenarios for each type of product/market and determining the macroeconomic information relevant to each scenario. The Group incorporates macroeconomic information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of PD. This is achieved by developing a number of potential economic scenarios and modelling the PD for each scenario. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted PD which is then used to calculate ECL. Therefore, when measuring PD and ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. As per note 1, this is only applicable to branch-based lending and the Guarantor Loans Division as due to the nature of the home credit industry and based on historical evidence, management has determined that the effect of traditional macroeconomic downside indicators on home credit is minimal.
- COVID-19 overlay: During the year, 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.

Home credit
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss given default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive over the life of the loan.

Branch-based lending and Guarantor Loans Division – COVID-19 overlay
The sensitivity of the COVID-19 overlay adjustment applied by branch-based lending and the Guarantor Loans Division are noted below. The below sensitivities assume all other variables used in the calculation of expected credit losses ('ECL') remains constant.

Branch-based lending
If no overlay is applied to 50% of COVID-19 impacted customer accounts who have missed payments and are deemed to be permanently impacted, ECL would reduce by £0.9m.

If 50% of COVID-19 impacted customer accounts deemed as temporarily impacted and have missed payments, are permanently impacted, ECL would increase by £1.2m.

Guarantor Loans Division
If no overlay is applied to 50% of COVID-19 impacted customer accounts, ECL would reduce by £1.6m.

If 50% of COVID-19 impacted accounts were assumed to be written off and therefore fully provided for, ECL would increase by £3.7m.

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 an £8.0m 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 £5m increase/decrease in provisions. 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 -/+ £1.3m effectively changing the receivable valuation by 5%. The suitability of the 5% sensitivity run has been reviewed and considered appropriate based on historical performance.

Provision for customer complaints
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 £0.45m increase/decrease in provisions for the Group, a 50% increase/decrease in average claim redress would result in a £0.45m increase/decrease in provisions for the Group, and a 50% increase/decrease in upheld rate would result in a £0.45m increase/decrease in provisions for the Group.

Home credit
A 25% increase/decrease in customer complaints volumes would result in a £0.7m increase/decrease in provisions for the Group, a 25% increase/decrease in average claim redress would result in a £0.7m increase/decrease in provisions for the Group, and a 25% increase/decrease in upheld rate would result in a £0.7m increase decrease in provisions for the Group.

Guarantor Loans Division
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 £15.4m (2019: £nil). 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. It is possible that the eventual outcome may differ, perhaps materially, from the current estimate and this could impact the financial statements. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, based upon a detailed methodology and analyses developed in conjunction with its advisers, the uncertainty surrounding the final cost of redress is heightened by the fact that the FCA has not yet approved the methodology proposed. 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.

As at the date of signing these financial statements, the Group is working closely with the FCA to reach a conclusion regarding the redress methodology. The FCA has raised questions around the Group's assessment of whether or not the customer has suffered harm (in instances where we have concluded that the affordability assessment at the time of underwriting was not appropriate). Under the Group's proposed methodology there are a range of factors which need to be met in order to conclude that a customer has suffered harm, including external indicators that harm may have been incurred. The current methodology requires multiple indicators to be present to trigger redress, however, should only one of these factors in isolation be taken as a definition of harm, then the redress provision could be c.£10m higher than that currently provided for in the financial statements. Furthermore, until such time the redress approach has been agreed with the FCA, there remains uncertainty around this estimate and therefore the ultimate cost could be higher than this £10m sensitivity indicates. The ultimate redress 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 payout being higher than estimated under the proposed methodology.

Other Key Matters
Whilst not considered a quantitively material key source of estimation uncertainty, the Group deems the following disclosures are material to the users of the accounts:

Macroeconomic data
For branch-based lending and guarantor loans the Group has performed sensitivity analysis on the key macroeconomic variables. The model used reflects a blended outcome based on four macroeconomic scenarios of base, downside severe stress, downside stress and positive (refer to note 1 for further detail), with which specified weightings are applied. The macroeconomic scenarios are reviewed no less than twice annually.

As summarised below, the outputs demonstrate the impact of changing the probability weightings of the scenarios adopted on the loan loss provisioning figures. These sensitivities take into account the impact of COVID-19 on underlying macroeconomic variables and weightings.

Branch-based lending

Macroeconomic weightings	Weighting	Impact on ECL £000
Current:		
Base	50%	
Downside stress	40%	
Severe downside stress	0%	
Positive	10%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Optimistic:		
Base	75%	
Downside stress	10%	
Severe downside stress	0%	
Positive	15%	
Impact on ECL		134
Pessimistic:		
Base	50%	
Downside stress	50%	
Severe downside stress	0%	
Positive	0%	
Impact on ECL		(68)

2. Critical accounting judgements and key sources of estimation uncertainty – [illegible]
[illegible]

Guarantor loans

Macroeconomic weightings	Weighting	Impact on ECL £000
Current:		
Base	50%	
Downside stress	40%	
Severe downside stress	0%	
Positive	10%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Optimistic:		
Base	75%	
Downside stress	10%	
Severe downside stress	0%	
Positive	15%	
Impact on ECL		119
Pessimistic:		
Base	50%	
Downside stress	50%	
Severe downside stress	0%	
Positive	0%	
Impact on ECL		(203)

As per note 1 to the financial statements, due to the nature of the home credit industry and based on historical evidence, management has determined that the effect of traditional macroeconomic downside indicators is minimal and therefore a macroeconomic adjustment is currently not necessary.

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 2020 £000	Year ended 31 Dec 2019 £000
Interest income	**164,102**	183,657
Fair value unwind on acquired loan portfolio[1]	**(1,437)**	(2,873)
Total revenue	**162,665**	180,784

1 In the year ended 31 December 2020, the fair value adjustment made to the acquired loan portfolio of the Guarantor Loans Division has been fully unwound.

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

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Depreciation of property, plant and equipment (note 16)	**1,941**	1,827
Depreciation of right-of-use asset (note 17)	**2,065**	2,042
Amortisation and impairment of intangible assets (note 15)	**3,556**	9,090
Staff costs excluding agent commission[1] (note 9)	**43,855**	50,975
Rentals under operating leases	**596**	742
Profit/(loss) on sale of property, plant and equipment	**54**	(43)

1 Agent commission for the year ended 31 December 2020 was £11.3m (2019: £13.1m). Refer to note 1 for accounting policy.

[illegible]

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Audit services		
Fees payable to the Company's auditor for the audit of the Parent's annual financial statements	**296**	228
Fees payable to the Company's auditor and their associates for the audit of the subsidiaries of the Group	**694**	553
	990	781
Other services		
Audit related fees	**220**	75
Services relating to corporate finance transactions	**–**	1,602
Other	**–**	123
	220	1,800

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 71.

5. 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	**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[2]	–	–	(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[2]	(6,017)	–	–	(76,416)	**(82,433)**
Finance cost	(18,594)	(1,228)	(7,467)	(1,547)	**(28,836)**
Loss before taxation	(11,192)	(3,737)	(36,032)	(84,760)	**(135,721)**
Taxation	–	–	–	164	**164**
Loss for the year	(11,192)	(3,737)	(36,032)	(84,596)	**(135,557)**

	Branch-based lending £000	Home credit £000	Guarantor loans[1] £000	Central £000	Consolidation adjustments[3] £000	**2020 Total £000**
Total assets	220,702	38,745	59,794	391,597	(346,458)	**364,380**
Total liabilities	(271,981)	(19,021)	–	(332,946)	248,764	**(375,184)**
Net assets/(liabilities)	(51,279)	19,724	59,794	58,651	(97,694)	**(10,804)**
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**

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 £97.9m other exceptional items in 2020 (2019: £80.6m). Refer to note 7 for further details.
3 Consolidation adjustments include the acquisition intangibles of £nil (2019: £1.3m), goodwill of £nil (2019: £75.8m), fair value of loan book of £nil (2019: £1.4m) and the elimination of intra-Group balances.

6. Segment information continued

	Branch-based lending £000	Home credit £000	Guarantor loans £000	Central £000	2019 Total £000
Year ended 31 December 2019					
Interest income	93,002	60,835	29,820	–	183,657
Fair value unwind on acquired loan portfolio	–	–	(2,873)	–	(2,873)
Total revenue	93,002	60,835	26,947	–	180,784
Operating profit/(loss) before amortisation	29,653	9,102	5,895	(5,358)	39,292
Amortisation of intangible assets	–	–	–	(7,226)	(7,226)
Operating profit/(loss) before exceptional items	29,653	9,102	5,895	(12,584)	32,066
Exceptional items	(332)	(221)	(737)	(79,293)	(80,584)
Finance cost	(17,355)	(2,116)	(7,338)	(649)	(27,458)
Profit/(loss) before taxation	11,966	6,765	(2,180)	(92,527)	(75,976)
Taxation	(2,752)	(1,432)	574	3,280	(332)
Profit/(loss) for the year	9,214	5,333	(1,607)	(89,247)	(76,308)

	Branch-based lending £000	Home credit £000	Guarantor loans £000	Central £000	Consolidation adjustments £000	2019 Total £000
Total assets	244,740	51,931	106,960	633,760	(556,709)	480,681
Total liabilities	(302,987)	(29,202)	–	(332,406)	307,525	(357,070)
Net assets	(58,247)	22,729	106,960	301,355	(249,184)	123,611
Capital expenditure	2,754	2,164	–	12	–	4,929
Depreciation of plant, property and equipment	1,428	356	–	43	–	1,827
Depreciation of right-of-use asset	1,240	673	–	129	–	2,042
Amortisation and impairment of intangible assets	400	1,442	–	38	7,211	9,090

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 2020, the Group incurred exceptional costs totalling £97.8m (including VAT) (2019: £80.6m).

The emergence of the pandemic alongside the significant decline in market multiples across the sector resulted in a further impairment to the value of the goodwill assets of two of the three divisions in the Group's balance sheet in the current year. Whilst non-cash in nature, the impact is summarised as follows: £47.1m reflects the write-down of the value of goodwill associated with Everyday Loans and £27.7m reflects the write-down of the value of goodwill associated with Loans at Home. Further details pertaining to the write-down of the value of goodwill are set out in note 14.

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 the Group's Guarantor Loans Division and a programme of redress would be required. Whilst discussions with the FCA have not yet concluded in regard to the Group's proposed redress methodology, a charge of £15.4m has been recognised as the Directors' best estimate of the full and final costs of the redress programme.

During the first half of 2020, the Group put in place a new six-year securitisation facility, and drew down £15m in April 2020. The onset of the COVID-19 pandemic resulted in the Group breaching certain performance triggers on the facility during the first half of 2020. As a result, the amount previously drawn down was repaid on 26 August 2020, removing the outstanding breach. Whilst the facility remains available for potential future use, given the uncertainty as at 31 December 2020 in regard to the Group's ability to access the securitisation facility in the future, the capitalised fees associated with the securitisation facility of £5.8m were fully written-off in 2020. The remaining £1.8m of exceptional costs relate to advisory fees of £1.4m and restructuring costs at branch-based lending of £0.4m

The impairment of goodwill and equity-related fees have been treated as non-deductible for tax purposes.

In the prior year, the Group incurred £80.6m of exceptional costs that comprised: £12.8m of costs related to fees and other costs associated with the lapsed offer to acquire Provident Financial, as well as the related proposal to demerge Loans at Home; the write-down of the value of goodwill associated with Everyday Loans of £44.8m; the write-down of the value of goodwill associated with the Group's Guarantor Loans Division of £8.6m; and the write-down of the value of goodwill associated with Loans at Home of £12.5m. A remaining £1.9m of exceptional costs related to management restructuring which took place across the divisions in 2019 (Loans at Home: £0.2m, branch-based lending and Guarantor Loans Division: £1.1m, and the removal of a Director at central: £0.6m).

8. Directors' remuneration

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Short-term employee benefits	**937**	1,633
Post-employment benefits	**59**	85
Termination benefits	**–**	287

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

Nick Teunon resigned as Director in April 2020. Refer to the Directors' remuneration report for more detail on remuneration.

9. Employee information

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

Average number of employees (including Directors)	Year ended 31 Dec 2020 Number	Year ended 31 Dec 2019 Number
Branch-based lending staff	**499**	428
Guarantor loans staff	**122**	131
Home credit staff	**305**	313
Central staff	**9**	7
	935	879

b) Employment costs

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Wages and salaries	**36,501**	42,891
Share-based payment charge	**1,142**	1,183
Social security costs	**3,862**	4,863
Pension costs	**2,349**	2,038
	43,854	50,975

10. Finance costs

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Bank charges and interest payable	**(27,798)**	(26,399)
Lease finance costs under IFRS 16	**(1,038)**	(1,059)
Finance cost	**(28,836)**	(27,458)

11. Loss per share

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Retained loss attributable to Ordinary Shareholders (£000)	**(135,557)**	(76,308)
Weighted average number of Ordinary Shares at year ended 31 December	**312,437,422**	312,126,220
Basic and diluted loss per share (pence)	**(43.39)p**	(24.45)p

The loss per share was calculated on the basis of net loss attributable to Ordinary Shareholders divided by the weighted average number of Ordinary Shares in issue. The basic and diluted loss per share is the same, as the exercise of share options would reduce the loss per share and is anti-dilutive. At 31 December 2020, nil shares were held in treasury (2019: nil).

	Year ended 31 Dec 2020 000s	Year ended 31 Dec 2019 000s
Weighted average number of potential Ordinary Shares that are not currently dilutive	**6,272**	8,938

The weighted average number of potential Ordinary Shares that are not currently dilutive includes the Ordinary Shares that the Company may potentially issue relating to its share option schemes and share awards under the Group's long-term incentive plans and SAYE schemes. The amount is based upon the number of shares that would be issued if 31 December 2020 was the end of the contingency period.

Notes to the financial statements

As at the year end the Group has not recognised an increase in the deferred tax asset on its current year losses and has also reversed the deferred tax asset recognised in the prior year, which combined results in a total £11.3m unrecognised deferred tax asset (2019: £1.7m deferred tax asset recognised).

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Current tax charge		
Current tax	–	2,321
Prior period adjustment to current tax[1]	(1,841)	(916)
Total current tax charge	(1,841)	1,405
Deferred tax charge[2]	1,677	(1,178)
Prior period adjustment to deferred tax[1]	–	104
Total tax (credit)/charge	(164)	332

1 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 prior year (refer to note 24 for further detail).
2 Unrecognised deferred tax assets arising from tax losses in the year were £8.4m (2019: £nil).

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 2020 £000	Year ended 31 Dec 2019 £000
Loss before taxation	(135,721)	(75,976)
Tax on loss on ordinary activities at standard rate of UK corporation tax of 19% (2019: 19%):	(25,787)	(14,435)
Effects of:		
Fixed asset differences	100	93
Expenses not allowable for taxation	17,222	15,506
Share-based payments	44	157
IFRS 16 adjustments	(23)	(51)
Prior year adjustments	–	–
Adjustment to tax charge in respect of previous periods	(2,168)	(916)
Adjustment to tax charge in respect of previous periods – deferred tax	–	104
Corporation tax rate change	–	(43)
Deferred tax rate change	79	(82)
Reversal of prior year deferred tax asset	2,021	–
Deferred tax assets not recognised on current year losses	8,348	–
Total tax (credit)/charge	(164)	332

The total unrecognised deferred tax asset as at 31 December 2020 is £10.4m (2019: £1.7m deferred tax assets recognised).

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 £75.5m (2019: £65.9m) 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 £0.7m (2019: £0.8m).

The Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. On the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Group's future tax charge. Refer note 25 for a sensitivity on the impact on unrecognised deferred tax balances.

As a result of the significant reported losses in 2019 and 2020, 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 2020 Half Year Results to 30 June 2020, the Group did not declare a half-year dividend during the first half of 2020 (2019: 0.7p per share).

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Gross carrying amount	**140,668**	140,668
Accumulated impairment	**(65,836)**	–
Impairment charge	**(74,832)**	(65,836)
Net carrying amount	**–**	74,832

The goodwill recognised represents the difference between the purchase consideration paid and the value of net assets acquired (including intangible assets recognised upon acquisition), less any accumulated impairment. Total goodwill as at 31 December 2020 was £nil (2019: £74.8m, comprising £27.7m related to the acquisition of Loans at Home, £47.1m related to the acquisition of Everyday Loans, and £nil related to the acquisition of George Banco).

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 year an assessment the of impairment of goodwill was performed and recognised in the half-year ended 30 June 2020 financial statements of the Group. This utilised actual price earnings ('PE') multiples of comparable companies as at 30 June 2020 and applied these to forecast earnings for the 12-month period ended 31 December 2020. The approach which was taken for each is detailed below.

The calculation to determine the fair value less cost to sell for each CGU used forecasted earnings for the year ended 31 December 2020, multiplied by the 30 June 2020 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 forecasted 2020 profit after tax in order to determine management's best estimate of the fair value to be attributed to each of the CGUs.

The calculation to determine recoverable amount based on VIU 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.

In the 2019 Annual Report and Accounts, the Group concluded that no further impairments to the Loans at Home goodwill asset were necessary beyond the £12.5m that was recognised and disclosed in the Group's results for the six months ended 30 June 2019. In the six months ended 30 June 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 results 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 current year along with the significant decline in peer group PE multiples since 31 December 2019 (driven by uncertainties in the economic, market and regulatory environment) has 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 31 December 2020.

As at 30 June 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 as at 31 December 2020.

During the second half of 2019, the value of goodwill for the Guarantor Loans CGU was written down to £nil. This was due to a 44% decline in the PE multiple applied to the Guarantor Loans Division earnings following the significant decline in the PE multiples of the Group's largest competitor in the guarantor loans space and across the non-standard finance sector generally during the year ended 31 December 2019, as well as uncertainties in the economic, market and regulatory environment.

Notes to the financial statements continued

[illegible]

	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 have been assessed as part of the goodwill assessment carried out during the year, refer to note 14 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 2019	21,924	540	2,005	9,151	6,227	6,279	3,316	49,442
Additions	–	–	–	–	–	2,129	1,056	3,185
At 31 December 2019	21,924	540	2,005	9,151	6,227	8,408	4,372	52,627
Amortisation								
At 1 January 2019	19,559	540	1,235	5,837	4,152	1,372	2,270	34,965
Charge for the year	1,339	–	370	1,949	1,557	1,426	437	7,078
Impairment[1]	647	–	–	1,365	–	–	–	2,012
At 31 December 2019	21,545	540	1,605	9,151	5,709	2,798	2,707	44,055
Net book value								
At 31 December 2019	379	–	400	–	518	5,610	1,665	8,572
At 31 December 2018	2,365	–	770	3,314	2,075	4,907	1,046	14,477

1 Impairment of acquisition intangibles were assessed as part of the goodwill assessment in 2019, 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 2020:

Intangible asset	**Carrying value as at 31 Dec 2020 £000**	Carrying value as at 31 Dec 2019 £000	Amortisation period remaining years and months
Everyday Loans' acquired customer list	**–**	379	–
Everyday Loans' credit-decisioning technology	**–**	518	–
Everyday Loans and TrustTwo brands	**–**	400	–
George Banco's acquired customer list	**–**	–	–
George Banco brand	**–**	–	–
George Banco's broker relationships	**–**	–	–
Loans at Home IT software development	**5,956**	5,610	3 years
Software	**2,281**	1,665	3 to 5 years

[illegible]

	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

	Software £000	Total £000
Cost		
At 1 January 2019	103	103
Additions	12	12
At 31 December 2019	115	115
Depreciation		
At 1 January 2019	18	18
Charge for the year	22	22
At 31 December 2019	40	40
Net book value		
At 31 December 2019	75	75
At 31 December 2018	85	85

15. Property, plant and equipment – Group

	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

[illegible] – Group [illegible]

	Leasehold improvements £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost					
At 1 January 2019	5,205	2,058	231	3,235	10,729
Additions	1,200	204	–	340	1,744
Disposals	(207)	(120)	(150)	(640)	(1,117)
At 31 December 2019	6,198	2,142	81	2,935	11,356
Depreciation					
At 1 January 2019	1,597	593	–	1,863	4,053
Charge for the year	820	196	54	757	1,827
Disposals	(207)	(119)	(112)	(640)	(1,078)
At 31 December 2019	2,210	669	(58)	1,980	4,802
Net book value					
At 31 December 2019	3,988	1,473	139	956	6,556
At 31 December 2018	3,608	1,465	231	1,372	6,677

Property, plant and equipment – Company

	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

	Leasehold improvements £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2019	110	82	55	247
Additions	–	–	–	–
Disposals	–	(2)	–	(2)
At 31 December 2019	110	80	55	245
Depreciation				
At 1 January 2019	59	43	50	152
Charge for the year	22	16	5	43
Disposals	–	(1)	–	(1)
At 31 December 2019	81	58	55	194
Net book value				
At 31 December 2019	29	22	–	51
At 31 December 2018	51	39	5	95

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[illegible]

	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

	ROU Buildings £000	ROU Vehicles £000	Total £000
Cost			
At 1 January 2019	14,253	814	15,067
Additions	1,606	–	1,606
Disposals	–	–	–
At 31 December 2019	15,860	814	16,673
Depreciation			
At 1 January 2019	3,876	187	4,063
Charge for the year	1,843	199	2,042
Disposals	8	–	8
At 31 December 2019	5,727	386	6,113
Net book value			
At 31 December 2019	10,133	428	10,560
At 31 December 2018	–	–	–

Right-of-use (ROU) assets – Company

	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

17 Right of use (ROU) asset – Company

	ROU Buildings £000	Total £000
Cost		
At 1 January 2019	647	647
Additions	–	–
Disposals	–	–
At 31 December 2019	647	647
Depreciation		
At 1 January 2019	356	356
Charge for the year	129	129
Disposals	–	–
At 31 December 2019	485	485
Net book value		
At 31 December 2019	162	162
At 31 December 2018	–	–

Total cash outflows for leases for the year ended 31 December 2020 was £2.8m (2019: £3.7m).

The Group leases property and motor vehicles and the average lease term for property is ten years whilst for vehicles is three years. The lease term for the Company ROU asset is five years. There are no future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities.

The Group and Company's ROU assets have been assessed for impairment under IAS 36. The carrying amount of the ROU assets remains above the recoverable amount of ROU assets and no impairment has occurred in the year ended 31 December 2020.

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)	7 Turnberry Park Road, Gildersome, Morley, Leeds, England, LS27 7LE, United Kingdom	Provision of consumer credit	100% of Ordinary Shares
Loans at Home Limited	As above	Dormant	100% of Ordinary Shares
Everyday Loans Holdings Limited	Secure Trust House, Boston Drive, Bourne End, Buckinghamshire, SL8 5YS, United Kingdom	Holding company	100% of Ordinary Shares
Everyday Loans Limited	As above	Provision and servicing of secured and unsecured personal instalment loans	100% of Ordinary Shares
Everyday Lending Limited	As above	Provision of secured and unsecured personal instalment loans	100% of Ordinary Shares
Non-Standard Finance Subsidiary Limited[1]	7 Turnberry Park Road, Gildersome, Morley, Leeds, England, LS27 7LE, United Kingdom	Holding company	100% of Ordinary Shares
Non-Standard Finance Subsidiary II Limited	As above	Holding company	100% of Ordinary Shares
Non-Standard Finance Subsidiary III Limited	As above	Holding company	100% of Ordinary Shares
NSF Finco Limited	As above	Financing company	100% of Ordinary Shares
NSF Group Limited[1]	As above	Dormant	100% of Ordinary Shares
George Banco Limited	Epsom Court 1st Floor, Epsom Road, White Horse Business Park, Trowbridge, England, BA14 0XF, United Kingdom	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.

[illegible]

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Gross investment in subsidiaries	**212,591**	212,591
Accumulated share-based payment	**620**	664
Accumulated impairment	**(117,525)**	–
Current year impairment charge	**(95,972)**	(117,525)
Current year share-based payment charge	**1,070**	690
Current year share-based payment vesting	**(784)**	(734)
Net investment carrying amount[1]	**–**	95,686

1 Whilst the investment balance has been written down to nil in the current 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.

As at 31 December 2020, the Company recognised an impairment loss in its investment in subsidiaries totalling £96m (2019: £118m). This impairment is 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 six months ended 30 June 2020 (refer to note 14).

The impairment losses recognised continue to be as a result of the significant declines in the PE multiples of comparator companies in the non-standard finance market, increased uncertainty in the macroeconomic and regulatory environment and the significant impact of COVID-19 on future profitability and cash flow forecasts since 31 December 2019.

The £96m impairment of the Company's investment has been 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 has been 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 uses actual and forecast earnings and carrying values as at 31 December 2020, 2021 and 2022 multiplied by the 31 December 2019 actual and 2021-2022 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 value in use calculation uses 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 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.

19. Amounts receivable from customers – Group

	2020 £000	2019 £00
Gross carrying amount	**320,942**	410,849
Loan loss provision	**(62,741)**	(49,201)
Amounts receivable from customers	**258,201**	361,648

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:

	2020 £000	2019 £00
Unamortised broker commissions	**9,231**	14,311
Total unamortised broker commissions	**9,231**	14,311

The fair value of amounts receivable from customers are:

	2020 £000	2019 £00
Branch-based lending	**284,911**	322,852
Home credit	**44,006**	60,668
Guarantor loans[1]	**105,100**	127,095
Fair value of amounts receivable from customers	**434,017**	510,615

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.

[illegible]

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:	2020 £000	2019 £00
Due within one year	**134,073**	176,379
Due in more than one year	**124,128**	185,269
Amounts receivable from customers	**258,201**	361,648

Analysis of amounts receivable from customers

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	134,408	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**

31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Branch-based lending	196,140	26,839	8,651	231,631
Home credit	35,472	16,442	14,375	66,288
Guarantor loans	99,449	9,993	3,488	112,930
Gross carrying amount	331,061	53,274	26,514	410,849
Branch-based lending	(8,050)	(5,205)	(3,592)	(16,848)
Home credit	(1,844)	(11,115)	(13,425)	(26,384)
Guarantor loans	(2,110)	(2,391)	(1,468)	(5,969)
Loan loss provision	(12,004)	(18,712)	(18,485)	(49,201)
Branch-based lending	188,091	21,633	5,059	214,783
Home credit	33,628	5,327	949	39,904
Guarantor loans	97,339	7,601	2,021	106,961
Net amounts receivable	319,057	34,562	8,029	361,648

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 economic assumptions included in the Group's IFRS 9 model scenarios for branch-based lending and the Guarantor Loans Division have been discussed in note 2.

The following tables explain the changes in the loan loss provision between the beginning and the end of the period:

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 change in credit risk	(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**	**185,663**

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**

[illegible]

Branch-based lending

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2019:	7,432	3,560	3,091	14,083
Changes in the loss provision attributable to:				
New receivables originated or purchased	10,745	–	–	10,745
– Transfers from stage 1 to 2	(4,257)	4,257	–	–
– Transfers from stage 1 to 3	(2,887)	–	2,887	–
– Transfers from stage 2 to 1	44	(44)	–	–
– Transfers from stage 2 to 3	–	(1,567)	1,567	–
– Transfers from stage 3 to 2	–	9	(9)	–
– Transfers from stage 3 to 1	1	–	(1)	–
– Write-offs	–	–	(3,841)	(3,841)
Net remeasurement of ECL arising from transfer of stage	(77)	405	329	657
Change in ECL resulting from repayment of loans	(2,899)	(1,896)	(456)	(5,250)
Other movements	69	8	5	82
Derecognition of modified loans	(121)	473	20	373
Loan loss provision as at 31 December 2019	8,050	5,205	3,592	16,848

Home credit

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2019	3,523	11,355	11,942	26,820
Changes in the loss provision attributable to:				
New receivables originated or purchased	15,242	143	6	15,391
– Transfers from stage 1 to 2	(8,289)	8,289	–	–
– Transfers from stage 1 to 3	(14,110)	–	14,110	–
– Transfers from stage 2 to 1	32	(32)	–	–
– Transfers from stage 2 to 3	–	(5,473)	5,473	–
– Transfers from stage 3 to 2	–	5	(5)	–
– Transfers from stage 3 to 1	2	–	(2)	–
– Write-offs	–	–	(16,871)	(16,871)
Net remeasurement of ECL arising from change in credit risk	5,444	(3,172)	(1,228)	1,044
Loan loss provision as at 31 December 2019	1,844	11,115	13,425	26,384

Guarantor loans

Loan loss provision	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Loan loss provision as at 1 January 2019	921	1,643	668	3,232
Changes in the loss provision attributable to:				
New receivables originated or purchased	3,131	–	–	3,131
– Transfers from stage 1 to 2	(1,402)	1,402	–	–
– Transfers from stage 1 to 3	(609)	–	609	–
– Transfers from stage 2 to 1	223	(223)	–	–
– Transfers from stage 2 to 3	–	(670)	670	–
– Transfers from stage 3 to 2	–	6	(6)	–
– Transfers from stage 3 to 1	1	–	(1)	–
– Write-offs	–	–	(921)	(921)
Net remeasurement of ECL arising from transfer of stage	(51)	615	606	1,169
Change in ECL resulting from repayment of loans	(133)	(367)	(93)	(593)
Other movements	–	–	–	–
Derecognition of modified loans	29	(14)	(64)	(49)
Loan loss provision as at 31 December 2019	2,110	2,391	1,468	5,969

The following table further explains changes in the gross carrying amount of amounts receivable from customers to help explain their significance to the changes in the loss allowance for the same portfolios as discussed previously.

Branch-based lending

Gross carrying amount – amounts receivable from customers	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2019	173,396	17,076	6,271	196,744
Changes in the gross carrying amount attributable to:	–	–	–	–
New receivables originated or purchased	172,524	–	–	172,524
– Transfers from stage 1 to 2	(29,982)	29,982	–	–
– Transfers from stage 1 to 3	(14,743)	–	14,743	–
– Transfers from stage 2 to 1	325	(325)	–	–
– Transfers from stage 2 to 3	–	(8,712)	8,712	–
– Transfers from stage 3 to 2	–	76	(76)	–
– Transfers from stage 3 to 1	32	–	(32)	–
– Write-offs	–	–	(19,159)	(19,159)
Changes due to modification that did not result in derecognition	–	(787)	(163)	(950)
Net repayments of loans	(106,854)	(9,405)	(150)	(116,409)
Other movements	–	–	(35)	(35)
Derecognition of modified loans	1,443	(1,067)	(1,460)	(1,085)
Gross carrying amount as at 31 December 2019	196,140	26,839	8,651	231,631

Home credit

Gross carrying amount – amounts receivable from customer	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2019:	38,692	16,524	12,631	67,846
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	77,408	387	17	77,812
– Transfers from stage 1 to 2	(12,344)	12,344	–	–
– Transfers from stage 1 to 3	(16,571)	–	16,571	–
– Transfers from stage 2 to 1	263	(263)	–	–
– Transfers from stage 2 to 3	–	(6,599)	6,599	–
– Transfers from stage 3 to 2	–	10	(10)	–
– Transfers from stage 3 to 1	14	–	(14)	–
– Write-offs	–	–	(20,416)	(20,416)
Net repayments of loans	(51,991)	(5,960)	(1,003)	(58,954)
Gross carrying amount as at 31 December 2019	35,472	16,442	14,375	66,288

Guarantor loans

Gross carrying amount – amounts receivable from customers	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2019	78,136	10,010	2,058	90,204
Changes in the gross carrying amount attributable to:	–	–	–	–
New receivables originated or purchased	75,014	–	–	75,014
– Transfers from stage 1 to 2	(9,331)	9,331	–	–
– Transfers from stage 1 to 3	(4,580)	–	4,580	–
– Transfers from stage 2 to 1	2,375	(2,375)	–	–
– Transfers from stage 2 to 3	–	(3,127)	3,127	–
– Transfers from stage 3 to 2[1]	–	25	(25)	–
– Transfers from stage 3 to 1	35	–	(35)	–
– Write-offs	–	–	(5,213)	(5,213)
Changes due to modification that did not result in derecognition	–	(204)	(27)	(231)
Net repayments of loans	(39,846)	(3,670)	(318)	(43,834)
Other movements	(2,331)	(461)	(91)	(2,883)
Derecognition of modified loans	(23)	464	(568)	(127)
Gross carrying amount as at 31 December 2019	99,449	9,993	3,488	112,930

[illegible]

Financial assets of branch-based lending and guarantor loans with a loss allowance measured at an amount equal to lifetime ECL of £10.1m (2019: £2.2m) were subject to non-substantial modification during the year, with a resulting loss of £3.7m (2019: £1.2m). The gross carrying amount of financial assets for which the loss allowance has changed to a 12-month ECL during the year amounts to £0.98m (2019: £0.08m).

[illegible]

	2020 £000	2019 £000
Branch-based lending	**(2,208)**	(951)
Guarantor loans	**(4,074)**	(230)
Total modification losses for the year	**(6,282)**	(1,181)

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	2020 £000	2019 £000
Gross carrying amount before modification	**44,936**	40,622
Loan loss provision before modification	**(5,228)**	(5,630)
Net amounts receivable before modification	**39,708**	34,992
Net derecognition gain/(loss)	**(4,093)**	(230)
Net amounts receivable after modification	**35,615**	34,762

Movement in derecognition loss in the year ended 31 December 2020 was £3.86m (2019: £0.48m).

Guarantor loans

Financial assets (with loss allowance based on lifetime ECL) modified as at the balance sheet date	2020 £000	2019 £000
Gross carrying amount before modification	**3,285**	3,739
Loan loss provision before modification	**(873)**	(940)
Net amounts receivable before modification	**2,412**	2,799
Net derecognition gain	**270**	402
Net amounts receivable after modification	**2,682**	3,201

Movement in derecognition gain in the year ended 31 December 2020 was £0.23m (2019: £0.07m).

[illegible] losses [illegible]

	2020 £000	2019 £000
Branch-based lending	**(2,602)**	(482)
Guarantor loans	**(41)**	69
Total derecognition losses for the year	**(2,643)**	(413)

[illegible]

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 2020. 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	**2020 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**
Lease liability	–	10,889	–	**10,889**
Provisions	–	–	21,813	**21,813**
Other liabilities	–	6,060	9,835	**15,895**
Total liabilities	**–**	**343,536**	**31,648**	**375,184**

At 31 December	FVTP&L assets/ liabilities £000	Amortised cost £000	Non-financial assets/ liabilities £000	2019 Total £000
Assets				
Cash and cash equivalents	–	14,192	–	14,192
Loans and advances to customers	–	361,648	–	361,648
Current tax asset[1]	–	–	460	460
Trade and other receivables[1]	–	1,431	755	2,183
Derivative assets	1	–	–	1
Deferred tax asset	–	–	1,677	1,677
Goodwill	–	–	74,832	74,832
Intangible assets	–	–	8,572	8,572
Right-of-use asset	–	–	10,560	10,560
Property, plant and equipment	–	–	6,556	6,556
Total assets	1	377,271	103,412	480,681
Liabilities				
Bank borrowing	–	(317,590)	–	(317,590)
Current tax liability	–	–	–	–
Lease liability	–	(11,105)	–	(11,105)
Provisions[1]	–	–	(1,466)	(1,466)
Other liabilities[1]	–	(12,020)	(14,889)	(26,909)
Total liabilities	–	(340,715)	(16,355)	(357,070)

1 In the prior financial years, current tax asset, trade and other receivables and other liabilities (including provisions) were incorrectly classified within the above note as instruments held at amortised cost. These items have now been reclassified within the note as non-financial assets/liabilities in order to reflect the nature of these balances more accurately as being outside the scope of IFRS 9. The amounts reclassified for the current tax asset, trade and other receivables and other liabilities in 2019 equate to £0.5m, £0.8m and £16.4m, respectively.

Company

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	–	–	**–**
Investments	–	–	**–**
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)**

At 31 December	Amortised cost £000	Non-financial assets/ liabilities £000	2019 Total £000
Assets			
Cash and cash equivalents	194	–	194
Trade and other receivables[1]	243	60,114	60,357
Property, plant and equipment and intangibles	–	126	126
Right-of-use asset	–	162	162
Investments	–	95,686	95,686
Total assets	437	156,088	156,525
Liabilities			
Lease liability	(204)	–	(204)
Other liabilities	(7,573)	(5,474)	(13,047)
Total liabilities	(7,777)	(5,474)	(13,251)

1 In the previous financial years, trade and other receivables were incorrectly classified within the above note as instruments held at amortised cost. This item has now been reclassified within the note as non-financial assets/liabilities in order to reflect the nature of the balance more accurately as being outside the scope of IFRS 9. The amount reclassified in 2019 equates to £60.1m.

21. Trade and other receivables – Group

	2020 £000	2019 £000
Other debtors	**240**	437
Prepayments	**1,840**	1,746
	2,080	2,183

Trade and other receivables – Company

	2020 £000	2019 £000
Other debtors	**158**	243
Corporation tax	**–**	857
Amounts due from subsidiaries	**31,852**	59,135
Prepayments	**147**	121
	32,157	60,357

Amounts due from subsidiaries are non-interest bearing and repayable on demand. In the current year, the Group recognised an impairment of £27.3m to its amounts due from subsidiaries (2019: £nil). 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

	2020 £000	2019 £000
Cash at bank and in hand	**77,956**	14,192

Cash and cash equivalents – Company

	2020 £000	2019 £000
Cash at bank and in hand	**553**	194

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 holds a derivative asset in the form of an interest rate cap totalling £nil (2019: £1,000). The fair value of the interest rate cap as at 31 December 2020 has been calculated through discounting future cash flows, using appropriate market rates and yield curves.

Under IFRS 13 Fair Value Measurement, the interest rate cap is classed as Level 2 as it is not traded in an active market.

24. Trade and other payables and provisions – Group

	2020 £000	2019 £000
Trade creditors	**614**	8,394
Other creditors	**5,446**	3,626
Current tax liability	**–**	–
Accruals and deferred income	**9,835**	14,889
	15,895	26,909

Trade and other payables – Company

	2020 £000	2019 £000
Trade creditors	**386**	7,573
Other creditors	**468**	129
Corporation tax	**59**	–
Amounts due to subsidiaries	**3,821**	4,685
Lease liability	**43**	204
Accruals	**254**	660
	5,031	13,251

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	Complaints £000	Dilapidations £000	Redress £000	Restructuring £000	**Total £000**
Opening at 31 December 2018	231	–	357	–	–	**589**
Charge during the year	285	–	845	–	170	**1,299**
Utilised	(423)	–	–	–	–	**(423)**
Balance at 31 December 2019	93	–	1,203	–	170	**1,466**
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**

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 £0.88m as at 31 December 2020 (2019: £nil) 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 an independent review commissioned by the Group in April 2021 of the lending and complaints handling activities of the division. This review remains ongoing and includes an assessment of whether the issues identified in guarantor loans have any implications for the branch-based lending division. The review also includes an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending As at the date of these financial statements, the Directors recognise that whilst the review work done so far has not identified any systemic issues requiring an increase in provision, there remains a risk that the final outcome of these reviews may result in the identification of customers who may require redress, and the cost of redress for the Group could be materially higher than is currently provided for in the financial statements.

Home credit

The Group has recognised a provision for complaints of £3.4m as at 31 December 2020 (2019: £nil) 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 with branch based lending, as part of their assessment, the Directors also considered an independent review commissioned by the Group in April 2021 of the lending and complaints handling activities of the home credit division. The scope of this review is in line with that detailed above for branch-based lending. As at the date of these financial statements, the Directors recognise that whilst the review work done so far has not identified any systemic issues requiring an increase in provision, there remains a risk that the final outcome of these reviews may result in the identification of customers who may require redress, and the cost of redress for the Group could be materially higher than is currently provided for in the financial statements.

Redress programme for certain customers of the Guarantor Loans Division

The Group has recognised a provision for complaints of £0.82m as at 31 December 2020 (2019: £nil) 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 £15.3m (2019: £nil). 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. It is possible that the eventual outcome may differ materially from the current estimate and this could impact the financial statements. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation.

The Group has included the exceptional provision of £15.3m as at 31 December 2020 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 £16.7m, together with the cost of implementation of £1.0m, offset by existing impairment provisions of £2.4m, resulting in a net provision amount of £15.3m. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, based upon a detailed methodology and analyses developed in conjunction with its advisers, the FCA has not yet approved the methodology proposed. 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 2021.

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.

	At 31 Dec 2020 £000	At 31 Dec 2019 £000
Current lease liabilities	**1,928**	1,830
Non-current lease liabilities	**8,961**	9,275
Total lease liability	**10,889**	11,105

Maturity analysis	At 31 Dec 2020 £000	At 31 Dec 2019 £000
Not later than one year	**2,852**	2,722
Later than one year and not later than five years	**9,952**	9,427
Later than five years	**2,079**	3,035
Total	**14,883**	15,184
Unearned finance cost	**(3,994)**	(4,079)
Total lease liability	**10,889**	11,105

	At 31 Dec 2020 £000	At 31 Dec 2019 £000
Current lease liabilities	**43**	161
Non-current lease liabilities	**–**	43
Total lease liability	**43**	204

Maturity analysis	At 31 Dec 2020 £000	At 31 Dec 2019 £000
Not later than one year	**44**	175
Later than one year and not later than five years	**–**	44
Later than five years	**–**	–
Total	**44**	219
Unearned finance cost	**(1)**	(15)
Total lease liability	**43**	204

	2020 £000	2019 £000
Due within one year	**4,933**	5,131
Due in more than one year	**326,587**	317,590

1 Amounts disclosed are net of capitalised transaction fees.

The Group's total debt facilities as at 31 December 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 (2019: £285m term loan and £45m revolving loan facility). As at 31 December 2020, £285.0m (2019: £285.0m) was drawn under the term loan facilities and £45.0m (2019: £38.2m) was drawn under the revolving loan facility and £nil (2019: £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 2020 £000	At 31 Dec 2019 £000
Not later than one year	**23,063**	25,208
Later than one year and not later than five years	**388,907**	419,527
Later than five years	**–**	–
	411,970	444,734

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.

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.

[illegible]

	£000
At 31 December 2018	230
Current year credit	1,124
Prior period adjustment to deferred tax	(106)
Reallocation from corporation tax liability	429
At 31 December 2019	1,677
Prior period adjustment to deferred tax	**–**
Reversal of prior year deferred tax assets	**(1,677)**
At 31 December 2020	**–**

A deferred tax liability was recognised on acquisition of Loans at Home, Everyday Loans (including TrustTwo) and George Banco in relation to intangible assets on which no tax deduction will be claimed in future periods for amortisation.

The deferred tax asset is attributable to temporary timing differences and carried forward losses arising in respect of:

	2020 £000	2019 £000
Accelerated tax depreciation	**(132)**	(271)
Recognition of intangible assets	**–**	(919)
Recognition of FV adjustments on amounts receivable at acquisition	**–**	–
Carried forward losses	**7,295**	–
Restatement of loan loss spreading	**(28)**	(30)
Other short-term timing differences	**251**	98
Recognition of deferred tax relating to share-based payments	**–**	–
Unpaid employer pension contributions	**32**	–
Other losses and deductions	**–**	62
FRS 102 adoption	**39**	72
IFRS 16 transitional adjustment	**12**	41
IFRS 9 transitional adjustment	**2,615**	2,624
Unrecognised tax losses	**(10,084)**	–
Net deferred tax asset	**–**	1,677

The Group has not recognised a deferred tax asset during the financial year on its losses due to the uncertainty in the regulatory environment and the potential future impact of COVID-19 on the macroeconomic environment. The Directors have taken a decision to reverse the deferred tax asset recognised in previous years, which amounted to £1.7m after accounting for prior period adjustments. 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.

In the 3 March 2021 Budget, it was announced that the UK corporation tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the unrecognised deferred tax asset would have increased by £3.5m.

[illegible] – Company

	£000
At 31 December 2018	–
Current year debit	–
At 31 December 2019	–
Current year credit[1]	–
At 31 December 2020	**–**

1 Unrecognised deferred tax assets arising from the tax losses in the current year were £0.8m (2019: £nil).

Notes to the financial statements continued

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 (2019: 5,070,234 shares) and issued nil shares (2019: 457,974 shares).

Share capital

	Number
Balance at 31 December 2019	312,437,422
Cancellation of shares	–
Issue of shares	–
Balance at 31 December 2020	**312,437,422**

	Number
Balance at 31 December 2018	317,049,682
Cancellation of shares	(5,070,234)
Issue of shares	457,974
Balance at 31 December 2019	312,437,422

Non-Standard Finance plc sponsors the Non-Standard Finance plc 2019 Employee Benefit Trust ('EBT') which is a discretionary trust established on 21 October 2019 for the benefit of the employees of the Group. The Company has appointed Estera Trust (Jersey) Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2020, the EBT held nil (2019: nil) shares in the Company with a cost of £nil (2019: £nil) and a market value of £nil (2019: £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	180,019
Capital reduction	–
Issue of shares	–
Balance at 31 December 2020	**180,019**

	Total £000
Balance at 31 December 2018	254,995
Capital reduction	(75,000)
Issue of shares	24
Balance at 31 December 2019	180,019

28. Other reserves
Treasury shares

The treasury shares reserve represents the cost of shares in the Group purchased in the market and held by the Group to satisfy options under the Group's share options schemes. The number of treasury shares held at 31 December 2020 was nil (2019: nil). This equates to 0% (2019: 0%) of the weighted average number of Ordinary Shares in issue.

	£000
Balance at 1 January 2019	3,459
Acquired in the year	–
Disposed of on exercised options	(3,459)
Balance at 31 December 2019	–
Acquired in the year	–
Disposed of on exercised options	–
Balance at 31 December 2020	**–**

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 2020 (2019: nil).

Equity-settled share option schemes

During the year ended 31 December 2020, the Group operated three share-based award schemes which are all equity-settled: Founder Shares scheme, two long-term incentive schemes (the Non-Standard Finance plc Long-Term Incentive Plan, the Guarantor Loans Long-Term Incentive Plan (31 December 2019 plans lapsed: the Loans at Home Long-Term Incentive Plan and the Everyday Loans Group Long-Term Incentive Plan) and the Sharesave Plan (SAYE scheme). As at 31 December 2020, the Non-Standard Finance plc Long-Term Incentive Plan and Guarantor Loans Long-Term Incentive Plan had both reached the end of their vesting period, no options were exercised. In addition two of the Sharesave Plans (grant dates June 2017 and October 2017) had reached the end of their vesting periods and lapsed with no options exercised.

a) Movements in the period

In 2017, awards were made under the Non-Standard Finance plc Long-Term Incentive Plan. The awards were in the form of nil-cost options and the issue of Ordinary 'C' Shares in Non-Standard Finance Subsidiary Limited.

The vesting date for awards is 31 December 2020. On vesting, participants will share in a 'pool' equal to 15% of the growth in value, based on market capitalisation, of the Company at 31 December 2020, above a share price of £1.10 per share.

In respect of awards made in the form of nil-cost options, on exercise a participant will receive shares in the Company equal in value to their proportion of the pool at vesting. In respect of awards made in the form of shares in Non-Standard Finance Subsidiary Limited, on vesting a participant can exchange these shares for shares in the Company equal in value to their proportion of the pool.

Awards in the form of nil-cost options:

	Percentage of pool allocated	Percentage of growth above £1.10 share price	Exercise price
Outstanding at 31 December 2018 and 31 December 2019	62.5%	9.4%	–
Options granted	–	–	–
Lapsed	(62.5%)	(9.4%)	–
Exercised	–	–	–
Outstanding at 31 December 2020	–	–	–
Exercisable at 31 December 2020	–	–	–

Awards in the form of Ordinary 'C' Shares:

	Number	Percentage of growth above £1.10 share price	Exercise price
Outstanding at 31 December 2018 and 31 December 2019	375	5.6%	–
Shares issued	–	–	–
Lapsed	(375)	(5.6%)	–
Vested	–	–	–
Outstanding at 31 December 2020	–	–	–
Exercisable at 31 December 2020	–	–	–

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.

In 2017, awards were made under the Loans at Home Long-Term Incentive Plan. The awards were in the form of nil-cost options over shares in the Company. On vesting, participants were entitled to a share in a 'pool' equal to 5% of the growth in the equity value of Loans at Home measured at 31 December 2019 above £130m. The pool was subject to an overall cap of £3m. On exercise of the nil-cost options, a participant would have received shares in the Company equal in value to their proportion of the pool.

	Percentage of pool allocated	Percentage of growth above £130m	Exercise price
Outstanding at 31 December 2018	100%	5%	–
Options granted	–	–	–
Lapsed	(100%)	(5%)	–
Exercised	–	–	–
Outstanding at 31 December 2019	–	–	–
Options granted	–	–	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2020	–	–	–
Exercisable at 31 December 2020	–	–	–

As at 31 December 2019, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore the options have lapsed as at the vesting date with no options exercised at the end of the period.

In 2017, awards were made under the Everyday Loans Group Long-Term Incentive Plan. The awards were in the form of nil-cost options over shares in the Company. The vesting date was 31 December 2019. On vesting, participants would have shared in a 'pool' equal to 5% of the growth in equity value of the Everyday Loans Group measured at 31 December 2019 above £267m. The pool was subject to an overall cap of £6m. On exercise of the nil-cost options, a participant would have received shares in the Company equal in value to their proportion of the pool.

	Percentage of pool allocated	Percentage of growth above £267m	Exercise price
Outstanding at 31 December 2018	100%	5%	–
Options granted	–	–	–
Lapsed	(100%)	(5%)	–
Exercised	–	–	–
Outstanding at 31 December 2019	–	–	–
Options granted	–	–	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2020	–	–	–
Exercisable at 31 December 2020	–	–	–

As at 31 December 2019, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore the options have lapsed as at the vesting date with no options exercised at the end of the period.

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. The vesting date is 31 December 2020. On vesting, participants will share in a 'pool' equal to 7.35% of the growth in equity value of the Guarantor Loans Division measured at 31 December 2020 above £80m. The pool is subject to an overall cap of £2.5m. On exercise of the nil-cost options, a participant will receive shares in the Company equal in value to their proportion of the pool.

	Percentage of pool allocated	Percentage of growth above £80m	Exercise price
Outstanding at 1 January 2019	100%	7.35%	–
Options granted	–	–	–
Lapsed	–	–	–
Exercised	–	–	–
Outstanding at 31 December 2019	100%	7.35%	–
Options granted	–	–	–
Lapsed	(100%)	(7.35%)	–
Exercised	–	–	–
Outstanding at 31 December 2020	–	–	–
Exercisable at 31 December 2020	–	–	–

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.

Awards have been 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.

	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**
Exercisable at 31 December 2020	–	–	–	–	–	–

There were no new sharesave plans in the year ended 31 December 2020. During the year, the sharesave schemes granted on 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.

b) Fair value of options granted

For the share-based awards lapsed during the year, the main assumptions in the valuations were as follows:

In 2017, the Non-Standard Finance plc Long-Term Incentive Plan was adopted. Under the Plan, awards can be made in the form of shares in a subsidiary company or nil-cost options. Awards vest on 31 December 2020 based on the growth of the Company above a share price of £1.10. The FV of the plan is £1.61m spread over the vesting period and will be equity-settled. A charge of £0.483m (2019: £0.483m) was recognised in the 2020 financial year. The following information is relevant in the determination of the FV:

	15 Sep 2017	19 Sep 2017
Valuation method	Black–Scholes	Black–Scholes
Share price at grant date	£0.75	£0.78
Exercise price	£1.10	£1.10
Expected volatility	25%	25%
Expected life	3.3 years	3.3 years
Expected dividend yield	3.5%	3.5%
Risk-free interest rate	0.32%	0.32%

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.

In 2017, the Loans at Home Long-Term Incentive Plan was adopted. Under the Plan, awards can be made in the form of nil-cost options. Awards will vest on 31 December 2019 based on the growth in value of the Loans at Home Group at the vesting date above £130m. The awards are subject to an overall cap of £3m. Awards will be delivered in the form of shares in Non-Standard Finance plc and will be equity-settled. The FV of the awards made in December 2017 is £0.279m spread over the vesting period.

A charge of £nil (2019: £0.134m) was recognised in the 2020 financial year. The following information is relevant in the determination of the FV:

	20 Dec 2017
Valuation method	Monte Carlo
Equity value at grant date	£82.5m
Exercise price	£0.00
Expected volatility	30.9%
Expected life	2.16 years
Expected dividend yield	0%
Risk-free interest rate	0.51%

As at 31 December 2019, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore the options have lapsed as at the vesting date with no options exercised at the end of the period.

In 2017, the Everyday Loans Group Long-Term Incentive Plan was adopted. Under the Plan, awards can be made in the form of nil-cost options. Awards will vest on 31 December 2019 based on the growth in value of the Everyday Loans Group at the vesting date above £267m. The awards are subject to an overall cap of £6m. Awards will be delivered in the form of shares in Non-Standard Finance plc and will be equity-settled. The total FV of the awards made in March/April 2017, December 2017 and May 2018 is £0.455m spread over the vesting period. A charge of £nil (2019: £0.153m) was recognised in the 2020 financial year. The following information is relevant in the determination of the FV:

	6 Mar and 4 Apr 2017	4 Dec 2017 and 14 May 2018
Valuation method	Monte Carlo	Monte Carlo
Equity value at grant date	£182.1m	£182.1m
Exercise price	£0	£0
Expected volatility	25%	34%
Expected life	2.82 years	2.1 years
Expected dividend yield	0%	0%
Risk-free interest rate	0.14%	0.48%

As at 31 December 2019, the performance conditions attached to the Long-Term Incentive Plan were not met. Therefore the options have lapsed as at the vesting date with no options exercised at the end of the period.

In 2018, the Guarantor Loans Division Long-Term Incentive Plan was adopted. Under the Plan, awards can be made in the form of nil-cost options. Awards will vest on 31 December 2020 based on the growth in value of the Guarantor Loans Division at the vesting date above £80m. The awards are subject to an overall cap of £2.5m. Awards will be delivered in the form of shares in Non-Standard Finance plc and will be equity-settled. The FV of the awards made in April 2018 is £0.248m spread over the vesting period. A charge of £0.092m (2019: £0.092m) was recognised in the 2020 financial year. The following information is relevant in the determination of the FV:

	18 Apr 2018
Valuation method	Monte Carlo
Equity value at grant date	£37.5m
Exercise price	£0
Expected volatility	35%
Expected life	2.7 years
Expected dividend yield	0%
Risk-free interest rate	0.76%

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.

In 2017, the Non-Standard Finance plc Sharesave Plan was adopted. Under the Plan, options can be made with a three-year vesting period and at an exercise price not more than a 20% discount to the share price at the date of grant and will be equity-settled. The FV of the awards made in June 2017 is £0.213m spread over the vesting period. The FV of the awards made in October 2017 is £0.378m spread over the vesting period. The Company has applied modification accounting treatment in respect to the May 2018 awards which have been obtained by some participants at the same time as closing their 2017 awards. The FV of the awards made in May 2018 which do not qualify for modification treatment is £0.276m spread over the vesting period. The FV of those awards qualifying for modification treatment is £0.061m spread over the vesting period. A charge of £0.24m (2019: £0.309m) was recognised in the year ended 31 December 2020.
The following information is relevant in the determination of the FV:

	7 Jun 2017	6 Oct 2017	14 May 2018
Valuation method	Black-Scholes	Black-Scholes	Black-Scholes
Share price at grant date	£0.7038	£0.7700	£0.6200
Exercise price	£0.5606	£0.6060	£0.4952
Expected volatility	28.3%	29.9%	31.1%
Expected life	3 years	3 years	3 years
Expected dividend yield	1.71%	1.30%	3.55%
Risk-free interest rate	0.13%	0.51%	0.88%

There have been no new sharesave plans during the year ended 31 December 2020. Awards made on 7 June 2017 and 6 October 2017 have lapsed during the current year with no options exercised at the end of the period.

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Operating loss	**(106,885)**	(48,518)
Taxation (refund)/paid	**(1,093)**	3,067
Interest portion of the repayment of lease liabilities	**(1,038)**	(1,059)*
Depreciation	**4,006**	3,869
Share-based payment charge	**1,142**	1,183
Amortisation of intangible assets	**3,556**	7,078
Intangible assets impairment loss	**1,298**	2,517
Goodwill impairment loss	**74,832**	65,837
Fair value unwind on acquired loan book	**1,437**	2,873
Profit/(loss) on disposal of property, plant and equipment	**54**	(16)
Decrease/(increase) in amounts receivable from customers	**100,713**	(54,367)
Decrease in derivative asset	**1**	240
Decrease/(increase) in receivables	**852**	(399)
(Decrease)/increase in payables and provisions	**3,318**	709
Cash generated/(used) in operating activities	**82,193**	(16,986)

* The interest portion of the repayment of the lease liability has been re-presented to recognise this as a cash outflow from operating activities. This was previously shown as a cash outflow from financing activities in the prior year.

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 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)	–	1,038	1,589	10,889
Total	**328,695**	**6,800**	**(2,844)**	**2,197**	**1,038**	**1,589**	**337,476**

		Cash changes		Non-cash changes			
Group	1 Jan 2019 £'000	Financing cash flows £'000	Lease payments £'000	Amortised fees £'000	Interest charge £'000	Lease additions and disposals £'000	31 Dec 2019 £'000
Total borrowings (note 24)	266,322	50,400	–	868	–	–	317,590
Lease liabilities (note 24)	11,099	–	(2,659)	–	1,059	1,606	11,105
Total	**277,421**	**50,400**	**(2,659)**	**868**	**1,059**	**1,606**	**328,695**

Notes to the financial statements

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Operating loss	**(127,736)**	(134,199)
Interest portion of the repayment of lease liabilities	**(14)**	(27)*
Depreciation	**190**	195
Share-based payment charge	**371**	494
Impairment of investment and intercompany receivables	**122,848**	117,526
Decrease in receivables	**979**	2,614
(Decrease)/increase in payables	**(8,058)**	8,262
Cash used in operating activities	**(11,420)**	(5,135)

* The interest portion of the repayment of the lease liability has been re-presented to recognise this as a cash outflow from operating activities. This was previously shown as a cash outflow from financing activities in the prior year.

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 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**

		Cash changes		Non-cash changes			
Company	1 Jan 2019 £'000	Financing cash flows £'000	Lease payments £'000	Amortised fees £'000	Interest charge £'000	Lease additions and disposals £'000	31 Dec 2019 £'000
Lease liabilities (note 24)	330	–	(153)	–	27	–	204
Total	**330**	**–**	**(153)**	**–**	**27**	**–**	**204**

During the year ended 31 December 2020, the Company received grants totalling £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).

During March 2020, 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. A breakdown of these grants is provided below:

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Salaries	**632**	–
National Insurance contributions	**11**	–
Pension contributions	**26**	–
Total CJRS grants received	**669**	–

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 equate 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.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The Company received dividend income of £11.9m from its subsidiary undertakings during the year (2019: £13.5m). 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 2020, the Company owed £nil to its subsidiary undertaking S.D. Taylor Limited in relation to employee costs for the year ended 31 December 2020 (2019: £0.16m) and £0.07m to its subsidiary undertaking Everyday Loans Limited in relation to Group relief tax charges (2019: £0.07m). The Company also received £nil paid in advance from its subsidiary undertaking Everyday Loans Limited in relation to the recharges described above (2019: £0.7m). 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.

One member of key management personnel (Executive Director of Non-Standard Finance plc) is a Trustee of the charity Loan Smart as at 31 December 2020 (2019: two members). During the year, the Company donated £111,000 to Loan Smart (2019: £5,000). The Company has a debtor balance of £nil as at 31 December 2020 (2019: £85,500). Any amounts owed to Non-Standard Finance plc are non-interest bearing and repayable on demand.

One Director was a member of the Non-Standard Finance plc Long-Term Incentive Plan which has lapsed 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 94.

In March 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 year, the SPV transacted multiple times with Everyday Lending Limited (a subsidiary within the Group) to facilitate the securitisation of loans. 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 2020 (2019: £nil).

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 £18,750 (plus VAT) for the year ended 31 December 2020 (2019: £nil).

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 2020 was estimated to be 87.8% (2019: 74%).

The average EIR on financial liabilities of the Group at 31 December 2020 was estimated to be 9% (2019: 9%).

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 2020 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 will be withdrawn at the end of 2021. The Group currently only has LIBOR linked liabilities relating to the Group's term loan and revolving credit facility which were fully drawn as at 31 December 2020, 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. Discussions are underway with lenders to ensure appropriate fall-back provisions are in place and to ensure a smooth transition by the end of 2021. LIBOR reform is therefore not considered to have a material impact on the Group.

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:

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[1]

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**

1 Home credit make weekly collections.

Guarantor loans

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**

Branch-based lending

Year ended 31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
A1-A3	142,939	15,912	3,953	162,805
A4-A6	42,919	8,512	3,302	54,733
A7-A8+	10,282	2,414	1,396	14,092
Total gross receivables	196,140	26,839	8,651	231,631
Loan loss provision	(8,050)	(5,205)	(3,592)	(16,848)
At 31 December 2019	188,091	21,633	5,059	214,783

Home credit

Year ended 31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
Up to 1 in the last 13 weeks missed	28,256	–	–	28,256
1 to 4 in the last 13 weeks missed	7,216	–	–	7,216
4 to 8 in the last 13 weeks missed	–	5,288	27	5,315
8 to 13 in the last 13 weeks missed	–	11,153	913	12,066
13 in the last 13 weeks missed	–	–	13,434	13,434
Total gross receivables	35,472	16,442	14,375	66,288
Loan loss provision	(1,844)	(11,115)	(13,425)	(26,384)
At 31 December 2019	33,628	5,327	949	39,904

Guarantor loans[1]

Year ended 31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross balance £000
Homeowner	31,957	2,487	615	35,060
Non-homeowner	66,263	7,352	2,819	76,434
Total gross receivables	98,220	9,839	3,435	111,493
Loan loss provision	(2,110)	(2,392)	(1,468)	(5,969)
At 31 December 2019	96,110	7,447	1,967	105,523

1 Guarantor loans excludes FV adjustments of £1.4m.

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.

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.

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 pages 76 to 79.

The Group monitors its levels of working capital to ensure that it can meet its debt repayments as they fall due.

This is the risk that the Group's balance sheet becomes insolvent. The assessment of this has been reflected in the Group's going concern and Viability Statement on pages 76 to 79.

In the prior year it was identified that on account of certain technical infringements regarding historic distributions, in particular a transaction between the Group and certain subsidiary entities which had resulted in a circularity issue between the entities and following an intercompany dividend of £11 million in June 2016, none of the entity's distributions to shareholders since incorporation to 2018 were made out of distributable profits. In order to rectify this issue, on 30 July 2019 the Company effected a capital reduction which consisted of: (i) a cancellation of 5,070,234 ordinary shares in the Company that were purportedly purchased through the Company's share buy-backs made between 2017 and 2019 but which, as a result of certain infringements of the Companies Act 2006, were not validly purchased; and (ii) the reduction of the amount of £75m standing to the credit of the Company's share premium account.

At 31 December 2020, the Company had no distributable reserves (2019: nil distributable reserves).

Notes to the financial statements

In April 2021 the Group commissioned a detailed and independent review of its lending and complaints handling activities within the branch-based lending and home credit divisions. This review remains ongoing and includes an assessment of whether the issues identified in guarantor loans have any implications for these divisions. The review also includes an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending. These reviews have been considered as part of the Group's year end provisioning; refer to note 24 for further detail.

During the first quarter of 2021 the Group received a high level of complaints within its home credit division, primarily from CMCs. The Group has therefore estimated the cost of those complaints which relate to loans issued up to 31 December 2020 and included this within its provision (refer to note 24) as an adjusting subsequent event.

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This is a non-adjusting event and will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the unrecognised deferred tax asset would have increased by £3.5m.

Having completed a detailed review of the Group's Guarantor Loans Division and its prospects, the Board has decided to place the division into a managed run-off which is expected to conclude by the end of 2025. Whilst a full detailed assessment of the cost implications is yet to be carried out and this is a non-adjusting subsequent event, it is estimated that the recognition of a provision for redundancies would be c.£0.52m. No material asset write-downs are expected to be required as a result of the decision taken. The Group recognises there is a risk around changes to customer behaviour following this decision, refer to note 2 for sensitivities on loan loss provisions based on past-experience of how the parameters can potentially move.

Appendix

[illegible]

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 profit before tax** **Normalised earnings per share**	Normalised figures are before fair value adjustments, amortisation of acquired intangibles and exceptional items (refer to note 7).

Key performance indicator	
Impairments/revenue	Impairments as a percentage of normalised revenues
Impairments/average loan book	Impairments as a percentage of 12-month average net loan book, excluding fair value adjustments
Net loan book	Net loan book before fair value adjustments but after deducting any impairment due
Net loan book growth	Annual growth in the net loan book
Operating profit margin	Normalised operating profit as a percentage of normalised revenues
Cost:income ratio	Normalised administrative expenses as a percentage of normalised revenue
Return on asset	Normalised operating profit as a percentage of average loan book excluding fair value adjustments
Revenue yield	Normalised revenue as a percentage of average loan book excluding fair value adjustments
Risk adjusted margin	Normalised revenue less impairments as a percentage of average loan book excluding fair value adjustments

Alternative performance measures reconciliation

1. Net debt

	31 Dec 2020 £000	31 Dec 2019 £000
Borrowings	**330,000**	323,200
Cash at bank and in hand[1]	**(77,402)**	(13,997)
	252,552	309,203

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 2020 £000	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000
Reported revenue	**89,788**	93,002	**43,834**	60,835	**29,043**	26,947	**162,665**	180,784
Add back fair value adjustments	**–**	–	**–**	–	**1,437**	2,873	**1,437**	2,873
Normalised revenue	**88,788**	93,002	**43,834**	60,835	**30,480**	29,820	**164,102**	183,657

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.

Appendix continued

[illegible]

	Branch-based lending		Home credit		Guarantor loans		Group	
	31 Dec 2020 £000	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000
Reported operating profit/(loss)	**13,419**	29,653	**(2,509)**	9,102	**(28,565)**	5,895	**(24,452)**	32,066
Add back fair value adjustments	**–**	–	**–**	–	**1,437**	2,873	**1,437**	2,873
Add back amortisation of intangibles	**–**	–	**–**	–	**–**	–	**1,298**	7,226
Add back exceptional provision for customer redress	**–**	–	**–**	–	**15,401**	–	**15,401**	–
Normalised operating profit/(loss)	**13,419**	29,653	**(2,509)**	9,102	**(11,727)**	8,768	**(6,316)**	42,165

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.

[illegible] profit/(loss) before tax

	31 Dec 2020 £000	31 Dec 2019 £000
Reported loss before tax	**(135,721)**	(75,976)
Add back fair value adjustments	**1,437**	2,873
Add back amortisation and write-off of intangibles	**1,298**	7,226
Add back exceptional items	**97,834**	80,584
Normalised (loss)/profit before tax	**(35,152)**	14,707

Fair value adjustments, amortisation of intangibles, and exceptional items have been excluded due to them being non-business-as-usual transactions. The fair value adjustments and amortisation of intangibles have resulted from the Group making acquisitions, whilst the exceptional items are one-off and are not as a result of underlying business-as-usual transactions (refer to note 8 for further detail on exceptional costs in the year) and therefore do not reflect the underlying performance of the business. Hence, removing these items is deemed to give a fairer representation of the underlying profit performance within the financial year.

[illegible] Normalised profit/(loss) for the year

	Group	
	31 Dec 2020 £000	31 Dec 2019 £000
Reported loss for the year	**(135,557)**	(76,308)
Add back fair value adjustments	**1,437**	2,873
Add back amortisation of intangibles	**1,298**	7,226
Add back exceptional items	**97,834**	80,584
Adjustment for tax relating to above items	**(164)**	(2,929)
Normalised profit/(loss) for the year	**(35,152)**	11,446
Weighted average shares	**312,437,422**	312,126,220
Normalised earnings/(loss) per share (pence)	**(11.25)p**	3.67p

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.

[illegible]

	Branch-based lending		Home credit		Guarantor loans		Group	
	31 Dec 2020 £000	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000
Normalised revenue	**89,788**	93,002	**43,834**	60,835	**30,480**	29,820	**164,102**	183,657
Impairment	**(31,449)**	(20,635)	**(10,495)**	(16,435)	**(24,318)**	(7,996)	**(66,262)**	(45,066)
Impairment as a percentage revenue	**35.0%**	22.2%	**23.9%**	27.0%	**79.8%**	26.8%	**40.4%**	24.5%

Impairment as a percentage revenue is a key measure for the Group in monitoring risk within the business.

	Branch-based lending		Home credit		Guarantor loans		Group	
	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000
Reported opening net loan book	**214,783**	182,661	**39,904**	41,026	**106,961**	86,971	**361,648**	310,659
Less fair value adjustments	**–**	–	**–**	–	**(1,437)**	(4,309)	**(1,437)**	(4,309)
Normalised opening net loan book	**214,783**	182,661	**39,904**	41,026	**105,524**	82,662	**360,211**	306,350
Reported closing 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 closing net loan book	**171,460**	214,783	**26,947**	39,904	**59,794**	105,524	**258,201**	360,211
Normalised opening net loan book	**214,783**	182,661	**39,904**	41,026	**105,524**	82,662	**360,211**	306,350
Normalised closing net loan book	**171,460**	214,783	**26,947**	39,904	**59,794**	105,524	**258,201**	360,211
Average net loan book	**192,990**	200,421	**28,243**	36,324	**86,229**	94,093	**307,462**	330,838
Impairment	**(31,449)**	(20,635)	**(10,495)**	(16,435)	**(24,318)**	(7,996)	**(66,262)**	(45,066)
Impairment as a percentage loan book	**16.3%**	10.3%	**37.2%**	45.2%	**28.2%**	8.5%	**21.6%**	13.6%

Impairment as a percentage loan book allows review of impairment level movements year on year.

	Branch-based lending		Home credit		Guarantor loans		Group	
	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000
Normalised opening net loan book	**214,783**	182,661	**39,904**	41,026	**105,524**	82,662	**360,211**	306,350
Normalised closing net loan book	**171,460**	214,783	**26,947**	39,904	**59,794**	105,524	**258,201**	360,211
Net loan book growth	**(20.2%)**	17.6%	**(32.5%)**	(2.7%)	**(43.3%)**	27.7%	**(28.3%)**	17.6%

	Branch-based lending		Home credit		Guarantor loans	
	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000
Normalised operating profit	**13,419**	29,653	**(2,509)**	9,102	**(11,727)**	8,768
Average net loan book	**192,990**	200,421	**28,243**	36,324	**86,229**	94,093
Return on asset	**7.0%**	14.8%	**(8.9%)**	25.1%	**(13.6%)**	9.3%

The return on asset measure is used internally to review the return on the Group's primary key assets.

	Branch-based lending		Guarantor loans		Home credit	
	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000
Normalised revenue	**89,788**	93,002	**43,834**	60,835	**30,480**	29,820
Average net loan book	**192,990**	200,421	**28,243**	36,324	**86,229**	94,093
Revenue yield percentage	**46.5%**	46.4%	**155.2%**	167.5%	**35.3%**	31.7%

Revenue yield percentage is deemed useful in assessing the gross return on the Group's loan book.

	Branch-based lending		Home credit		Guarantor loans	
	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000	31 Dec 2020 £000	31 Dec 2019 £000
Normalised revenue	**89,788**	93,002	**43,834**	60,835	**30,480**	29,820
Impairments	**(31,449)**	(20,635)	**(10,495)**	(16,435)	**(24,318)**	(7,996)
Normalised risk adjusted revenue	**58,339**	72,367	**33,339**	44,400	**6,162**	21,823
Average net loan book	**192,990**	200,421	**28,243**	36,324	**86,229**	94,093
Risk adjusted margin percentage	**30.2%**	36.1%	**118.0%**	122.2%	**7.1%**	23.2%

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.

Appendix continued

[illegible]

	Branch-based lending		Home credit		Guarantor loans	
	31 Dec 2020 £000	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000
Normalised operating profit	**13,419**	29,653	**(2,509)**	9,102	**(11,727)**	8,768
Normalised revenue	**89,788**	93,002	**43,834**	60,835	**30,480**	29,820
Operating profit margin percentage	**14.9%**	31.9%	**(5.7%)**	15.0%	**(38.5%)**	29.4%

[illegible]

	Branch-based lending		Home credit		Guarantor loans	
	31 Dec 2020 £000	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000	**31 Dec 2020 £000**	31 Dec 2019 £000
Normalised revenue	**89,788**	93,002	**43,834**	60,835	**30,480**	29,820
Administration expense	**(41,236)**	(42,235)	**(35,866)**	(35,298)	**(13,773)**	(12,895)
Operating profit margin percentage	**45.9%**	45.4%	**81.8%**	58.0%	**45.2%**	43.2%

This measure allows review of cost management.

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