

Everyday Lending Limited
Annual report and financial statements
for the year ended 31 December 2019

Registered Number 05850869



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Strategic report

Principal activities and business review

The principal activity of Everyday Lending Limited ("the Company") is the provision of personal instalment loans.

The financial statements for the year ended 2018 have been restated for the following prior year adjustment;

- £4.0m was made to the loan loss provision on the balance sheet dating back to the transition to IFRS 9 at the beginning of 2018 with a consequent reduction in net assets by £3.5m after accounting for deferred tax effects;
- £0.3m was made in respect of an error in the valuation placed on the net assets of immediate subsidiary George Banco.com Limited transferred to Everyday Lending Limited in 2018.

Refer to Note 1.4 for the full details of these adjustments.

Compliance plays an important part in the success of the Company. The Company is authorised by the Financial Conduct Authority (FCA) to sell loan related products.

On 5 August 2020 NSF announced that the FCA had raised concerns regarding certain operating procedures and policies at the Company's Guarantor Loans Division ('GLD'). These concerns had arisen out of a multi-firm review of the guarantor loans sector following which the FCA wrote to firms in the sector identifying their concerns and requesting firms develop a possible redress methodology for affected customers. Having formulated a detailed redress methodology in conjunction with its advisers, the Directors have assessed the full and final cost of the redress programme to be £15.8m, of which £15.6m relates to loans originating prior to 31 December 2019, and £0.2m relates to loans origination from 1 January 2020. As such the Directors have made an associated provision totaling £15.6m in the financial statements for the year ended 31 December 2019. While this represents the Directors' best estimate of the total cost of settlement of redress amounts due to affected guarantor loans customers, the Company has yet to agree its methodology and analysis with the FCA. The Company is continuing to engage with the FCA and is focused on reaching a conclusion as soon as practicable. Further details regarding the provision for customer redress are summarised under 'subsequent events' within the Directors Report.

The value of the portfolio of loans is considered to be the most important key performance indicator. As at 31 December 2019, the portfolio of loans amounted to £320.3 million (2018 restated: £264.9 million), an increase of 20.9% (2018 restated: 59.3%) over the prior year. The significant increase in 2019 in our portfolio of loans is due in part to growth of our branch-based network (personal loans).

Our business model seeks to achieve access to our customers via the development of a branch network throughout the United Kingdom. Accordingly, the number of open branch outlets represents another key performance indicator to measure the Company's progress toward achievement of its business plans. At 31 December 2019, the Company had 73 open branches (2018: 65 open branches), which is in line with the Company's business plans.

The Company made net income of £99.0m (2018 restated: £71.6m) in the year as the loans and advances to customers grew faster than the Company's expense base, generating economies of scale. In addition, increases in credit costs were consistent with the increasing value of loans and advances to customers as the performance of the portfolio continued to improve. The loans and advances to customers and related revenues are expected to continue to outgrow servicing costs which will enable the Company to become increasingly profitable at an operating level.

During 2018, the Company underwent an internal group reorganisation whereby the business and net assets of the immediate subsidiary George Banco.com Limited, were transferred to the Company. The transaction constituted a business transfer whereby the beneficial interest of the George Banco.com Limited loans and advances to customers and net assets were passed to the Company in exchange for an intercompany payable. The details of group reorganisation is explained in more detail in Note 1.2.

The statement of comprehensive income for the year is set out on page 12.

Principal risks and uncertainties

The Company regards the monitoring and controlling of risks as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application. The principal risks inherent in the Company's business are credit, market, liquidity, operational and conduct risks. In 2020, the UK economy has been severely impacted by the COVID-19 pandemic that has also affected the operations and financial performance of the Company. The Company has determined that these events are non-adjusting post balance sheet events, and accordingly the

Strategic report

financial position as at and results of operations for the year ended 31 December 2019 have not been adjusted to reflect their impact, however this represents a new key risk for the coming financial year.

The Company's risk management policies are set out in Note 5 to the financial statements, but a brief description of the risks is provided below.

Since 31 December 2019, in common with many other similar businesses, the outbreak of COVID-19 in the UK and the measures being taken to control its spread, have had a detrimental impact on our business. Specifically, the restrictions on face-to-face contact imposed by HM Government, as a significant portion of the Company's lending activities are made through the branch-based lending brand. As a result, any sustained period where such measures are in place could result in the Company suffering significant financial loss. Whilst in the short-term it is expected that the Company will experience a reduction in income from lending activities, together with an increase in expected credit losses due to the pandemic, the Company also believes that there could be an increase in demand for its products and services. As it remains unclear as to when the situation may begin to normalise and how the business might perform, COVID-19 remains a high risk for the Company.

The Company 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. Following a multi-firm review, the Company has revised certain processes and procedures in its Guarantor Loans Division and developed a proposed methodology for redress provision to certain guarantor loans customers that is estimated to cost £15.8 million in total, including the cost of the redress provision process. It is possible that the actual amount of redress provision may differ, perhaps materially from the current estimate and that this could materially impact the financial statements. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation, as well as the fact that the FCA has not yet reviewed the methodology proposed. In addition, whilst the Company believes that the scope and scale of the operational changes made will not have a material impact on the future profitability of the Company, this may prove to be incorrect and could result in the Company incurring significant financial costs and may mean that the Guarantor Loans Division is no longer able to deliver the level of returns required by the Company's management and equity shareholders.

In its recent paper on relending the FCA has said that it expects firms to consider waiving any right to Early Settlement Charges under the Consumer Credit (Early Settlement) Regulations 2004 on loans that are refinanced. Such charges totalled approximately £2.3m in 2019 and if such charges were waived and no mitigating actions were taken, then this would reduce revenue and the future profitability of the Group.

Credit risk is the risk that a counterparty will be unable to pay amounts in full, when due. This risk is managed through the Company's internal controls and its credit risk policies. In response to the COVID-19 pandemic, the FCA announced new requirements on lenders to provide borrowers affected by COVID-19 with an emergency payment freeze, this may result in an increase in provisions and lower net book values.

Market risk arises from movements in interest rates, which are exposed to general and specific market movements. All of the Company's products are contractually at variable rates, but any changes made to the rates charged are made at management's discretion.

Liquidity risk is the risk that the Company cannot meet its liabilities as they fall due. The payment of redress provision due to affected guarantor loans customers outlined above will reduce the Company's cash balances significantly. The Company takes a conservative approach to managing its liquidity profile and has a credit facility in place with NSF Finco Limited, the financing arm of ultimate parent company. On 11 March 2020 the Group announced that it had entered into a new six-year £200m securitisation facility provided by Ares Management Corporation (Ares). The new facility was put in place to repay £120m from the more expensive term loan facility held by NSF, with the remainder available for growth within the Everyday Loans Group subject to compliance with financial covenants. As a result of the impact of COVID-19, the Group has breached its portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. However, the breach is as a result of COVID-19 which is beyond the Group's control, Ares had granted a temporary waiver for this breach covering the period up to 29 June 2020 so as to allow time for a more permanent solution to be agreed, this waiver was then further extended to 31 July 2020. Subsequently, to improve the efficiency of the balance sheet and reduce funding costs, the Group repaid the £15m on 26 August 2020. As a result, the breach of the portfolio performance covenants that arose as a direct result of COVID-19 have now been waived and the Company has agreed with the provider that, subject to their consent and the satisfaction of standard covenants for a facility of this type, the facility will remain open for future use.

Strategic report

Operational risk is the risk that the Company may be exposed to financial loss from failures of its systems and processes. The Company maintains clear compliance guidelines and provides ongoing training to all staff.

Conduct risk reflects the potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff. The Company takes a principles-based approach, which covers both regulated and unregulated activities.

Future developments

The directors do not envisage any change to the principal activity of the Company in the foreseeable future. The three brands within the Everyday Loans Group; Everyday Loans; Trusttwo; and George Banco will seek to maximise loan book growth whilst minimising impairments as a percentage of net loan book.

Possible implications of Covid-19 and Brexit

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

The full impact of COVID-19 on the Company's future financial performance is highly uncertain and will be heavily influenced by a number of factors including the severity and duration of the pandemic as well as the way in which both government and consumers respond.

The Company is working through the implications of the COVID-19 payment freeze for IFRS 9 provisioning and will continue to monitor the performance of customers as their payment freeze ends. The short-term impact has been a reduction in income from lending activities, together with an increase in expected credit losses, although collections are holding up well. The guarantor loan brands, TrustTwo and George Banco, have seen a higher percentage of COVID-affected customers than the branch-based lending brand, Everyday Loans, which in turn is leading to higher levels of delinquency.

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

In line with FCA guidance, we are focused on treating customers fairly and will continue to consider the needs of vulnerable customers, including any that may fall ill and face financial difficulty as a result.

Whilst macroeconomic and political uncertainty surrounding the possible implications of Brexit remain significant, we have not seen any notable effect on our business to-date and past recessions have demonstrated the contra-cyclical character of the non-standard market.

The Directors will continue to monitor the impact of Covid-19 and Brexit on the Company and the Group on a frequent basis.

By order of the Board



J. Wiggins
Director

Date: 22nd December 2020

Directors' report

The directors submit their annual report and the audited financial statements for the year ended 31 December 2019.

Results for the year

The loss for the year was £11.2m (2018 restated: £5.0m profit). The directors have not recommended a dividend during the year (2018: £nil).

Prior year adjustment

The Company transitioned to IFRS 9 on 1 January 2018. IFRS 9 introduced a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information and replaced the IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss has already been incurred and measures the loss at the most probable outcome. Through a review of the 2019 financial statements, it was determined that an error in the information used at the time of calculation had resulted in an underestimation of the level of loan loss provision required at 1 January 2018 by £3.2m and by a further £0.8m as at 31 December 2018. A prior year adjustment to amounts receivable from customers as at 31 December 2018 has therefore been made by increasing the loan loss provision by £4.0m.

During 2018, the Company underwent an internal group reorganisation whereby the business and net assets of the immediate subsidiary George Banco.Com Limited, were transferred to the Company. As part of this business transfer, the current and future business activities, as well as the net assets of George Banco.Com Limited were transferred to the Company at book value. Through the review of the 2019 financial statements, it was determined that an error in the data used to calculate the value of the net assets transferred had resulted in the overstatement by £0.3m of the Company profits reported for the year ended 31 December 2018. A prior year adjustment to 31 December 2018 amounts receivable from customers has therefore been made to decrease the gross carrying amount of loans and advances with customers by £0.3m.

The effect of the adjustments is set out in Note 1 to the financial statements.

Matters covered in the Strategic report

The Company has chosen to set out the following information within the Strategic report; principal risks and uncertainties and future developments.

Dividend

The directors do not propose the payment of a dividend for the year (2018: £nil).

Directors

The following directors served throughout the year, except where noted below:

S White	Executive Director (Resigned 31 October 2020)
J Wiggins	Executive Director
F Herratt	Executive Director (Appointed 01 May 2019)
M Flint	Executive Director (Appointed 01 May 2019)
P Reynolds	Non-Executive Director
N Teunon	Non-Executive Director (Resigned 30 April 2020)
M Cresswell-Turner	Executive Director (Resigned 21 October 2019)
M Howells	Executive Director (Resigned 01 October 2019)
P Gill	Non-Executive Director (Appointed 23 January 2019)
J Gillespie	Non-Executive Director (Appointed 17 December 2019)
J de Blocq van Kuffeler	Non-Executive Director (Appointed 19 May 2020)

J Gillespie and J de Blocq van Kuffeler are also directors of the ultimate parent company, Non-Standard Finance plc. The Company directors were entitled to participate in the Everyday Loans Limited Long-Term Incentive Plan ('LTIP'), details of which are provided in the financial statements of Everyday Loans Limited. A copy the financial statements for Everyday Loans Limited can be obtained from Secure Trust House, Boston Drive, Bourne End, Buckinghamshire, SL8 5YS

Directors' interests

No director had a beneficial interest in shares of the Company during the financial year and up to the date of signing of this report (2018: nil). All directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Directors' report

Subsequent events

On 10 March 2020, the Non-Standard Finance plc Group, of which the Company is a subsidiary, entered into a new, six-year securitisation facility totalling £200m. An initial drawdown of £15m was made during April 2020, which was subsequently repaid on 26 August 2020.

Redress provision

On 5 August 2020 Non-Standard Finance Plc (NSF) announced that the FCA had raised concerns regarding certain operating procedures and policies in use within the Company's Guarantor Loans Division ('GLD') prior to and during the year ended 31 December 2019. These concerns had arisen out of a multi-firm review of the guarantor loans sector following which the FCA wrote to firms in the sector identifying their concerns and requesting firms develop a possible redress methodology for affected customers.

Together with its advisers, the Company has therefore developed a detailed redress methodology and while the FCA has not yet reviewed the proposed methodology and supporting analyses, the Directors have assessed the full and final costs of the redress programme to be £15.8m, of which £15.6m relates to loans originating prior to 31 December 2019, and £0.2m relates to loans originating since 1 January 2020. As such the Directors have included an exceptional provision of £15.6m in the financial statements for the year ended 31 December 2019 being their best estimate of the full and final costs of the redress programme for loans originating prior to 31 December 2019. The estimate includes: (i) the sum of all redress due to customers, including penalty interest (the 'Gross Redress Amount') of £16.0m, offset by existing impairment provisions of £1.2m, resulting in a net amount of £14.8m; and (ii) the associated operational costs of executing the programme amounting to £1.0m. It is possible that the Gross Redress Amount may differ, perhaps materially from the current estimate and that this could materially impact the financial statements. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation, as well as the fact that the FCA has not yet reviewed the methodology proposed.

Having already implemented a number of operational changes since the acquisition of George Banco on 17 August 2017 and following a number of further recommendations by the FCA, GLD has begun to implement additional enhancements to its lending process. Having reduced lending significantly since the outbreak of the pandemic, it is expected that the low volume of lending will continue into 2021.

Refer to Note 22 for full details on all subsequent events.

Political donations

No political donations were made by the Company during the year (2018: £nil).

Going concern

In adopting the going concern assumption in preparing the financial statements, the Directors have considered the activities of the Company and that of its ultimate parent Non-Standard Finance plc ('NSF').

The Company is part of the Non-Standard Finance Group (the "Group"). Funding for the Company is provided in the form of intercompany loans which are held with NSF Finco Limited (another subsidiary within the Group). NSF Finco Limited acts as a debt financing vehicle for the Group and holds the external debt facilities in the form of term loan and revolving credit facilities (RCF) which in turn, have the benefit of guarantees from the Company. In addition, any form of additional equity which might be received by the Company would be in the form of a contribution provided by its ultimate parent. Given the Company is both a guarantor under the Group's external financing facilities, and future growth may be dependent on receiving additional funding or capital from the Group, its going concern status is directly impacted by the ultimate going concern position of the Group. The shape of future growth and funding requirements of the Company remain dependent on the collections performance and lending potential of the Company, and for the purposes of the going concern assessment has been considered under both a base and downside scenario as detailed below. Therefore whilst the assessment for the purposes of these financial statements reflects that of the Company, consideration has also been made in regards to that of the Group in order to reach a conclusion on going concern.

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

Directors' report

Base Case

Under the Company's base case, having regard to the impact of COVID-19 and a provision for customer redress to certain customers within Company's Guarantor Loan division (GLD), it is forecast that the Company will continue to operate and meet its liabilities as they fall due for the next 12 months and remain solvent from a balance sheet perspective. However, as there exists interdependencies within the Group in regards to intercompany funding provided to the Company, the Directors have also considered the Group's base case and how it may affect the going concern assessment of the Company. Taken as a whole, under the Group's base case, which in addition to recognising the impact of COVID-19 and guarantor loan customer redress, assumes no additional equity is raised by the Group to support the divisions, includes potential costs of obtaining covenant waivers from lenders in the event of a covenant breach, and assumes the absence of mitigating actions, it is forecast the Group will breach its financial covenants within the next 12 months.

The Group's solvency position is also highly dependent on the base case assumptions and any mitigating actions which could be implemented to offset any adverse movement, not varying materially from the base case. As a result of the Group's position, the Company may therefore have to further restrict lending activities and/or exercise further financial levers around costs in order to maintain solvency. A material uncertainty therefore exists regarding the assumptions and outcome of the base case which may affect the Group and thus Company's going concern position in the following areas:

- the impact of current COVID-19 affected customers on trading performance;
- the potential future impact of COVID-19 on the macroeconomic environment;
- the ultimate cost of the GLD redress programme;
- the outcome of discussions with lenders;
- changes in the regulatory environment which could impact the viability of any of the divisions; and
- the ability to raise capital.

The Group is continuing to discuss the forecast impact of the customer redress provision on covenants with its lenders as well as a possible capital raise with its major shareholder in order to both strengthen the Group's balance sheet and help fund the redress programme. While it is expected that waivers could be granted by the Group's lenders at a cost, this remains uncertain. The challenge in predicting the trajectory of the pandemic and its impact on the Company means that there is also a material uncertainty around the timing of a return to profitability.

Due to the uncertainty regarding the full current and future impact of COVID-19 and the customer redress programme on the Company and Group's forecasts, the movement in any one or a number of the base case assumptions creates a material uncertainty in the liquidity and/or solvency position of the Group which therefore also casts a material uncertainty over the liquidity and the solvency position of the Company.

Key risks to the assumptions made include:

- The possibility that the Group is unable to negotiate appropriate waivers with its lenders (or, in the absence of such waivers, raise sufficient equity capital in a reasonable timeframe)
- The possibility that the current performance of the loan book deteriorates beyond current delinquency trends and that a recovery of customer performance is not as anticipated;
- Further changes in the regulatory environment which negatively impact the Company and Group's other division;
- A further negative shift in the macroeconomic environment;
- A higher level of loans rescheduled and/or deferred within the Company over and above that currently forecast;
- The inability to realise planned savings in operating expenses as the business shifts to a recovery phase during 2020 and 2021;
- Higher than anticipated pay-outs required in relation to complaints and the Guarantor loans customer redress scheme;
- In the event of a covenant breach at the Group level, the response of the lenders to such breaches in terms of their willingness to waive such breaches and if they agree to do so, the terms on which they propose to grant such a waiver may differ from that forecast;
- Changes in the regulatory environment which could impact the viability of the Company and other divisions within the Group; and
- Changes in the pricing assumptions around substantially modified loans within the Company.

Directors' report

Downside case

The downside scenario reflects stresses to the key risks described above.

Under this scenario we have assumed:

- The reimplementation of social restrictions across the UK and more frequent local lockdowns in an effort to curb the recent rise in COVID-19 cases, therefore leading to lower lending than expected.
- Higher levels of delinquency than expected.

Under this scenario, it is expected that the Company could remain solvent however, upon incorporating a downside assumption that the actual cost of the GLD customer redress is higher than estimated and an assumption that no additional equity is raised by the Group, the Group would breach certain borrowing covenants during the next 12 months, would not be able to access further funding over the period of breach and would require waivers from its lenders in order to remain viable as well as being required to raise additional equity. The covenant waivers required by the Group under the downside scenario are beyond those discussed in previous negotiations with lenders. This directly impacts the Company given the Group's term loan and RCF facility arrangements have the benefit of guarantees from the Company.

Furthermore, the Directors have considered the potential impact of restrictions on right to Early Settlement Charges in the solvency analysis under this scenario. In its recent paper on relending the FCA has said that it expects firms to consider waiving any right to Early Settlement Charges under the Consumer Credit (Early Settlement) Regulations 2004 on loans that are refinanced. Such charges totalled approximately £2.3m in 2019 and if such charges were waived and no mitigating actions were taken, then this would reduce revenue and the future profitability of the Group.

The Group would not remain solvent from a balance sheet perspective if some or all of the above downside stresses were to take place without a significant injection of further equity.

Assessment

On the basis of the above analysis, the Directors note that a material uncertainty exists regarding the current and future impacts of COVID-19 and the extent of the redress to be paid to certain guarantor loans customers on the Group's liquidity and solvency position, and as such, the corresponding impact on the Company who remains a guarantor under the Group's term loan and RCF facilities. Therefore, this may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

The Directors felt that the range of assumptions made in both the base case and downside scenario were such that given the uncertainties around the current and future impacts of COVID-19 and the customer redress programme on the Company, alongside the uncertainty of the impact of COVID-19 on the home credit division within the NSF Group, the likelihood of a waiver being granted by the Group's lenders and the level and timing of support which might be provided by shareholders, there is a material uncertainty around the liquidity and solvency position of the Company.

The Company's Directors believe that the most immediate and appropriate mitigant to the material uncertainties is an injection of additional equity into the Group. Given the widespread government-led support to consumers and businesses, the ongoing business performance of the branch-based and home credit division, as well as discussions held to date with lenders and the Group's largest shareholder, the Directors have a reasonable belief that the Group's lenders will agree to waive potential covenant breaches to an extent, albeit at a higher cost and/or, that the Group will be able to raise sufficient further capital in a timely manner. As noted above however, there is a material uncertainty around the extent of this support, especially whilst the quantum of the customer redress remains uncertain.

Directors' report

The Company's Directors acknowledge the considerable challenges presented by the outbreak of COVID-19 and the guarantor loan customer redress programme and recognising the material uncertainty at the NSF Group level, the Directors note that as at the date of signing, the Company has repaid £62.5m of its intercompany loan with NSF Finco Limited. The impact of COVID-19, the FCA's review into guarantor loans, alongside uncertainty around the level of lender and shareholder support of the Group means that a material uncertainty exists which may cast significant doubt on the ability of the Group to continue to adopt the going concern basis of accounting and therefore the Company has a material uncertainty that casts significant doubt on its ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, considering all of the above, the Directors believe that the Company has sufficient cash resources to manage its business risks despite the uncertain outlook. In addition, the Directors note that up to the date of signing, the Group remains compliant with its financial covenants. It is therefore the Directors' reasonable expectation that the Company will 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 lender and shareholder support for covenant breaches and solvency at the Group level forms a significant judgement of the Directors in the context of approving the Company's going concern status.

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

Disclosure of Information to Auditor

Each director in office at the date of this directors' report confirms that, so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director in order to make themselves 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 the provisions of s418 of the Companies Act 2006.

Reappointment of auditor

Deloitte LLP is the Company's auditor and has indicated its willingness to continue in office. A resolution to reappoint it as auditor will be proposed at the next Board meeting.

By order of the Board



J. Wiggins
Director

Date: 22nd December 2020

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by 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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings as a whole, together with a description of the principal risks and uncertainties that they face.



J Wiggins
Director

Date: 22nd December 2020

Independent auditors' report

to the members of Everyday Lending Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Everyday Lending Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related Notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

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

We are independent of the 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1.3 in the financial statements, which indicates the impact of COVID-19, the FCA's review into guarantor loans, alongside uncertainty around the level of lender and shareholder support of the Non-standard Finance PLC (the "Group") and therefore the Company. As stated in note 1.3, these events or conditions, along with the other matters as set forth in note 1.3 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Independent auditors' report

to the members of Everyday Lending Limited

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by 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 Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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

Independent auditors' report

to the members of Everyday Lending Limited



Simon Stephens - FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

Date: 22nd December 2020

Statement of comprehensive income

		Year ended 31 December 2019	Year ended 31 December 2018 Restated ¹
	Note	£000	£000
Interest, fees and similar income	3	122,803	86,944
Interest expense and similar charges		(23,783)	(15,334)
Net income		99,020	71,610
Impairment losses on loans and advances	11	(29,013)	(18,706)
Modification loss	11	(1,181)	(78)
Derecognition loss	11	(440)	(129)
Other Operating Income		954	1,397
Operating expenses	7	(63,146)	(47,969)
Operating profit		6,194	6,125
Exceptional items	9	(15,599)	-
(Loss)/profit before income tax		(9,405)	6,125
Income tax expense	10	(1,798)	(1,139)
(Loss)/profit for the year		(11,203)	4,986
(Loss)/profit attributable to:			
Equity holders of the Company		(11,203)	4,986
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(11,203)	4,986

¹ Restated for prior year adjustment on transition to IFRS 9 on 1 January 2018, refer to Note 1 for further detail.

The Company has no recognised gains and losses other than those included in the results above.

The Company's results above are from continuing operations.

The notes on pages 16 to 44 are an integral part of these financial statements

Statement of financial position

		31 Dec 2019	31 Dec 2018	1 Jan 2018
	Note	£000	Restated ¹ £000	Restated ¹ £000
ASSETS				
Loans and advances to customers	11	320,298	264,853	166,256
Cash and cash equivalents	13	6,834	8,539	4,032
Deferred tax assets	14	1,580	940	691
Current tax asset		1,453	103	395
Intercompany loan		3,500	3,500	-
Other assets	15	1,577	9,522	1,389
Total assets		335,242	287,457	172,763
EQUITY AND LIABILITIES				
Liabilities				
Intercompany liability – NSF Finco Limited	16	282,127	240,360	127,449
Non-current liabilities		282,127	240,360	127,449
Other liabilities	17	20,806	3,585	1,610
Current liabilities		20,806	3,585	1,610
Total liabilities		302,933	243,945	129,059
Equity attributable to the Company's equity holders				
Share capital	18	5	5	5
Share premium	18	49,374	49,374	49,374
Retained loss		(17,070)	(5,867)	(5,675)
Total equity		32,309	43,512	43,704
Total equity and liabilities		335,242	287,457	172,763

¹ 31 December 2018 and 1 January 2018 balance sheet amounts receivable from customers has been restated, refer to Note 1 for further detail.

The financial statements on pages 12 to 44 were approved by the Board of Directors on 22nd December 2020 and were signed on its behalf by:



Jono Gillespie
Director

Company number: 05850869

The notes on pages 16 to 44 are an integral part of these financial statements

Statement of changes in equity

	Note	Share capital £000	Share premium £000	Retained loss £000	Total £000
Balance at 1 January 2018		5	49,374	(3,036)	46,343
Prior year adjustment – loans and advances to customers	1.4	-	-	(2,639)	(2,639)
Balance at 1 January 2018 restated		5	49,374	(5,675)	43,704
Total comprehensive income for the year:					
Profit for the year		-	-	4,986	4,986
Total comprehensive income for the year		-	-	4,986	4,986
Transactions recorded directly to equity:					
IFRS 9 transition		-	-	(5,178)	(5,178)
Transactions recorded directly to equity		-	-	(5,178)	(5,178)
Balance at 31 December 2018		5	49,374	(5,867)	43,512
Total comprehensive income for the year:					
Loss for the year		-	-	(11,203)	(11,203)
Total comprehensive income for the year		-	-	(11,203)	(11,203)
Balance at 31 December 2019		5	49,374	(17,070)	32,309

The notes on pages 16 to 44 are an integral part of these financial statements

Statement of cash flows

		Year ended 31 December 2019 £000	Year ended 31 December Restated ¹ 2018 £000
	Note		
Cash flows from operating activities			
(Loss)/profit for the year		(11,203)	4,986
Adjustments for:			
Income tax expense	10	1,798	1,139
Impairment losses on loans and advances		29,013	18,421
Modification loss		1,181	78
Derecognition loss		440	129
Income tax paid		(3,788)	(1,793)
Cash flows from operating profits before changes in working capital		17,441	22,960
Changes in operating assets and liabilities:			
Net increase in loans and advances to customers		(86,079)	(122,402)
Net decrease/(increase) in other assets		7,946	(10,937)
Net increase in other liabilities		17,221	1,975
Net cash outflow from operating activities		(43,471)	(108,404)
Cash flows from financing activities			
Increase in other borrowed funds		41,766	112,911
Net cash inflow financing activities		41,766	112,911
Net increase in cash and cash equivalents		(1,705)	4,507
Cash and cash equivalents at 1 January		8,539	4,032
Cash and cash equivalents at 31 December	13	6,834	8,539

¹ The cash flow statement for the year ended 31 December 2018 has been restated, refer to Note 1.4 for further detail.

Notes to the financial statements

1. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Reporting entity

The Company, Everyday Lending Limited, is a private company limited by shares that is registered in England and Wales, with company registration number 05850869. The registered address of the Company is Secure Trust House, Boston Drive, Bourne End, Buckinghamshire, SL8 5YS. The principal activity of the Company is the provision of personal instalment loans.

1.2 Basis of presentation

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

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. In estimating the fair value of an asset or a liability, the Company 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 financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of Assets.

During 2018, the Company underwent an internal group reorganisation whereby the business and net assets of the immediate subsidiary George Banco.Com Limited, were transferred to the Company. As part of this business transfer, the current and future business activities, as well as the net assets of George Banco.Com Limited were transferred to the Company at book value. As the Company and George Banco.com Limited, have the same ultimate parent company, this transaction met the definition of a common control transaction. IFRS 3 provides no specific guidance on accounting for entities under common control and therefore other relevant standards have been considered. These standards refer to hybrid accounting in individual accounts and this is the methodology that has been used to reflect the transaction. Accordingly, the transfer of activities and net assets from George Banco.com Limited to Everyday Lending Limited has been accounted for as a business transfer.

The table below provides summary of net assets transferred as part of group reorganisation:

Description	Amount (£'000)
Cash at bank	719
Loans and advances to customers	46,511
Amounts due to related parties	(3,831)
Deferred tax	383
Other liabilities	(11)
Intercompany liability – NSF Finco Limited	(42,162)
Net assets transferred	1,609

1.3 Going concern assessment

In adopting the going concern assumption in preparing the financial statements, the Directors have considered the activities of the Company and that of its ultimate parent Non-Standard Finance plc ('NSF').

The Company is part of the Non-Standard Finance Group (the "Group"). Funding for the Company is provided in the form of intercompany loans which are held with NSF Finco Limited (another subsidiary within the Group). NSF Finco Limited acts as a debt financing vehicle for the Group and holds the external debt facilities in the form of term loan and revolving credit facilities (RCF) which in turn, have the benefit of guarantees from the Company. In addition, any form of additional equity which might be received by the Company would be in the form of a contribution provided by its ultimate parent.

Notes to the financial statements

Given the Company is both a guarantor under the Group's external financing facilities, and future growth may be dependent on receiving additional funding or capital from the Group, its going concern status is directly impacted by the ultimate going concern position of the Group.

The shape of future growth and funding requirements of the Company remain dependent on the collections performance and lending potential of the Company, and for the purposes of the going concern assessment has been considered under both a base and downside scenario as detailed below. Therefore whilst the assessment for the purposes of these financial statements reflects that of the Company, consideration has also been made in regards to that of the Group in order to reach a conclusion on going concern.

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

Base Case

Under the Company's base case, having regard to the impact of COVID-19 and a provision for customer redress to certain customers within Company's Guarantor Loan division (GLD), it is forecast that the Company will continue to operate and meet its liabilities as they fall due for the next 12 months and remain solvent from a balance sheet perspective. However, as there exists interdependencies within the Group in regards to intercompany funding provided to the Company, the Directors have also considered the Group's base case and how it may affect the going concern assessment of the Company. Taken as a whole, under the Group's base case, which in addition to recognising the impact of COVID-19 and guarantor loan customer redress, assumes no additional equity is raised by the Group to support the divisions, includes potential costs of obtaining covenant waivers from lenders in the event of a covenant breach, and assumes the absence of mitigating actions, it is forecast the Group will breach its financial covenants within the next 12 months.

The Group's solvency position is also highly dependent on the base case assumptions and any mitigating actions which could be implemented to offset any adverse movement, not varying materially from the base case. As a result of the Group's position, the Company may therefore have to further restrict lending activities and/or exercise further financial levers around costs in order to maintain solvency. A material uncertainty therefore exists regarding the assumptions and outcome of the base case which may affect the Group and thus Company's going concern position in the following areas:

- the impact of current COVID-19 affected customers on trading performance;
- the potential future impact of COVID-19 on the macroeconomic environment;
- the ultimate cost of the GLD redress programme;
- the outcome of discussions with lenders;
- changes in the regulatory environment which could impact the viability of any of the divisions; and
- the ability to raise capital.

The Group is continuing to discuss the forecast impact of the customer redress provision on covenants with its lenders as well as a possible capital raise with its major shareholder in order to both strengthen the Group's balance sheet and help fund the redress programme. While it is expected that waivers could be granted by the Group's lenders at a cost, this remains uncertain. The challenge in predicting the trajectory of the pandemic and its impact on the Company means that there is also a material uncertainty around the timing of a return to profitability.

Due to the uncertainty regarding the full current and future impact of COVID-19 and the customer redress programme on the Company and Group's forecasts, the movement in any one or a number of the base case assumptions creates a material uncertainty in the liquidity and/or solvency position of the Group which therefore also casts a material uncertainty over the liquidity and the solvency position of the Company.

Notes to the financial statements

Key risks to the assumptions made include:

- The possibility that the Group is unable to negotiate appropriate waivers with its lenders (or, in the absence of such waivers, raise sufficient equity capital in a reasonable timeframe)
- The possibility that the current performance of the loan book deteriorates beyond current delinquency trends and that a recovery of customer performance is not as anticipated;
- Further changes in the regulatory environment which negatively impact the Company and Group's other division;
- A further negative shift in the macroeconomic environment;
- A higher level of loans rescheduled and/or deferred within the Company over and above that currently forecast;
- The inability to realise planned savings in operating expenses as the business shifts to a recovery phase during 2020 and 2021;
- Higher than anticipated pay-outs required in relation to complaints and the Guarantor loans customer redress scheme;
- In the event of a covenant breach at the Group level, the response of the lenders to such breaches in terms of their willingness to waive such breaches and if they agree to do so, the terms on which they propose to grant such a waiver may differ from that forecast;
- Changes in the regulatory environment which could impact the viability of the Company and other divisions within the Group; and
- Changes in the pricing assumptions around substantially modified loans within the Company.

Downside case

The downside scenario reflects stresses to the key risks described above.

Under this scenario we have assumed:

- The reimplementation of social restrictions across the UK and more frequent local lockdowns in an effort to curb the recent rise in COVID-19 cases, therefore leading to lower lending than expected.
- Higher levels of delinquency than expected.

Under this scenario, it is expected that the Company could remain solvent however, upon incorporating a downside assumption that the actual cost of the GLD customer redress is higher than estimated and an assumption that no additional equity is raised by the Group, the Group would breach certain borrowing covenants during the next 12 months, would not be able to access further funding over the period of breach and would require waivers from its lenders in order to remain viable as well as being required to raise additional equity. The covenant waivers required by the Group under the downside scenario are beyond those discussed in previous negotiations with lenders. This directly impacts the Company given the Group's term loan and RCF facility arrangements have the benefit of guarantees from the Company.

Furthermore, the Directors have considered the potential impact of restrictions on right to Early Settlement Charges in the solvency analysis under this scenario. In its recent paper on relending the FCA has said that it expects firms to consider waiving any right to Early Settlement Charges under the Consumer Credit (Early Settlement) Regulations 2004 on loans that are refinanced. Such charges totalled approximately £2.3m in 2019 and if such charges were waived and no mitigating actions were taken, then this would reduce revenue and the future profitability of the Group.

The Group would not remain solvent from a balance sheet perspective if some or all of the downside stresses were to take place without a significant injection of further equity.

Assessment

On the basis of the above analysis, the Directors note that a material uncertainty exists regarding the current and future impacts of COVID-19 and the extent of the redress to be paid to certain guarantor loans customers on the Group's liquidity and solvency position, and as such, the corresponding impact on the Company who remains a guarantor under the Group's term loan and RCF facilities. Therefore, this may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

The Directors felt that the range of assumptions made in both the base case and downside scenario were such that given the uncertainties around the current and future impacts of COVID-19 and the customer redress programme on the Company,

Notes to the financial statements

alongside the uncertainty of the impact of COVID-19 on the home credit division within the NSF Group, the likelihood of a waiver being granted by the Group's lenders and the level and timing of support which might be provided by shareholders, there is a material uncertainty around the liquidity and solvency position of the Company.

The Company's Directors believe that the most immediate and appropriate mitigant to the material uncertainties is an injection of additional equity into the Group. Given the widespread government-led support to consumers and businesses, the ongoing business performance of the branch-based and home credit division, as well as discussions held to date with lenders and the Group's largest shareholder, the Directors have a reasonable belief that the Group's lenders will agree to waive potential covenant breaches to an extent, albeit at a higher cost and/or, that the Group will be able to raise sufficient further capital in a timely manner. As noted above however, there is a material uncertainty around the extent of this support, especially whilst the quantum of the customer redress remains uncertain.

The Company's Directors acknowledge the considerable challenges presented by the outbreak of COVID-19 and the guarantor loan customer redress programme and recognising the material uncertainty at the NSF Group level, the Directors note that as at the date of signing, the Company has repaid £62.5m of its intercompany loan with NSF Finco Limited. The impact of COVID-19, the FCA's review into guarantor loans, alongside uncertainty around the level of lender and shareholder support of the Group means that a material uncertainty exists which may cast significant doubt on the ability of the Group to continue to adopt the going concern basis of accounting and therefore the Company has a material uncertainty that casts significant doubt on its ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, considering all of the above, the Directors believe that the Company has sufficient cash resources to manage its business risks despite the uncertain outlook. In addition, the Directors note that up to the date of signing, the Group remains compliant with its financial covenants. It is therefore the Directors' reasonable expectation that the Company will 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 lender and shareholder support for covenant breaches and solvency at the Group level forms a significant judgement of the Directors in the context of approving the Company's going concern status.

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

1.4 Prior year restatement

The Company transitioned to IFRS 9 on 1 January 2018. IFRS 9 introduced a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information and replaced the IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss has already been incurred and measures the loss at the most probable outcome. Through the review of the 2019 financial statements, it was determined that an error in the data used to calculate the post model adjustments had resulted in an underestimation of the level of loan loss provision required at 1 January 2018 by £3.2m. The input data did not adequately capture all relevant elements of the underlying loan population required by the model to calculate an accurate impairment provision. As a result, the level of loan loss provisions has remained below that required at the time of transition and thereafter with the provision £4.0m lower than that required at 31 December 2018. A prior year adjustment to 31 December 2018 amounts receivable from customers has therefore been made to the loan loss provision by £4.0m. In the restated statement of comprehensive income, the portion of the derecognition gain/(loss) relating to substantial modifications during 2018 has been re-presented from modification loss to derecognition gain/(loss), and the impact of the prior year adjustment on the derecognition gain/loss has also been reflected in the restated amounts as shown in the below table.

During 2018, the Company underwent an internal group reorganisation whereby the business and net assets of the immediate subsidiary George Banco.Com Limited, were transferred to the Company. As part of this business transfer, the current and future business activities, as well as the net assets of George Banco.Com Limited were transferred to the Company at book value. Through the review of the 2019 financial statements, it was determined that an error in the data used to calculate the value of the net assets transferred had resulted in the overstatement by £0.3m of the Company profits reported for the year ended 31 December 2018. A prior year adjustment to 31 December 2018 amounts receivable from customers has therefore been made to decrease the gross carrying amount of loans and advances with customers by £0.3m, with a corresponding decrease in retained earnings of £0.3m and £0.015m increase to 'interest, fees and similar income' the statement of comprehensive income.

Furthermore, the Company adopted a change in the presentation of modification loss in the statement of comprehensive income, this resulted in a £0.207m increase to 'interest, fees and similar income', and a corresponding increase in 'modification loss'.

The effect of these adjustments on the Company is summarised below.

Notes to the financial statements

Impact on transition to IFRS 9 and adjustment for transfer of business and assets as at 1 January 2018:

	Opening balance sheet at 1 Jan 2018	Adjustment	Restated opening balance sheet at 1 Jan 2018
	£000	£000	£000
ASSETS			
Loans and advances to customers	169,436	(3,180)	166,256
LIABILITIES			
Deferred tax	150	541	691
EQUITY			
Retained loss	(3,036)	(2,639)	(5,675)

Impact on year ended 31 December 2018:

	Closing balance sheet at 31 Dec 2018	Adjustment	Restated opening balance sheet at 1 Jan 2018
	£000	£000	£000
ASSETS			
Loans and advances to customers	269,115	(4,262)	264,853
LIABILITIES			
Deferred tax	460	480	940
Current tax	(105)	208	103
EQUITY			
Retained loss	(2,293)	(3,574)	(5,867)

	Year ended 31 Dec 2018 as reported	Adjustment	Restated Year ended 31 Dec 2018 reported £000
	£000	£000	£000
Interest, fees and similar income	86,723	221	86,944
Interest expense and similar charges	(15,334)	-	(15,334)
Net income	71,389	221	71,610
Impairment losses on loans and advances	(17,449)	(1,257)	(18,706)
Modification loss	(482)	404	(78)
Derecognition loss	-	(129)	(129)
Other Operating Income	1,397	-	1,397
Operating expenses	(47,969)	-	(47,969)
Profit before income tax	6,886	(761)	6,125
Income tax expense	(1,286)	147	(1,139)
Profit for the year	5,600	(614)	4,986

Notes to the financial statements

	Year ended 31 Dec 2018 as reported £000	Adjustment £000	Restated Year ended 31 Dec 2018 reported £000 £000
Cash flows from operating activities			
Profit/(loss) for the year	5,600	(614)	4,986
Adjustments for:			
Income tax expense	1,286	(147)	1,139
Impairment losses on loans and advances	17,449	972	18,421
Modification loss	482	(404)	78
Derecognition loss	-	129	129
Net increase in loans and advances to customers	(122,468)	66	(122,402)
Net increase in other assets	(10,935)	(2)	(10,937)

1.5 Interest, fees and similar income

Interest income represents interest receivable on loans to customers.

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, see Note 1.12), the interest income is calculated by applying the EIR to the amortised cost of the receivable (i.e. the gross carrying amount less the allowance for expected credit losses). For details of interest income for the year ended 31 December 2019 under IFRS 9, see Note 3.

1.6 Interest expense and similar charges

Interest expense comprises bank interest payable on loans used to finance customer receivables.

1.7 Other operating income

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

1.8 Exceptional items

Exceptional items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Company's results, refer to Note 9 for details.

1.9 Income taxation

Current income tax which is payable on taxable profits is recognised as an expense in the year in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1.10 Financial instruments

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

Notes to the financial statements

1.11 Financial assets

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

The standard sets out three types of business model:

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

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Company 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 Company 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 Company has assessed its business models in order to determine the appropriate IFRS 9 classification for its financial assets. As part of this assessment, the Company has recognised that it has no intentions of selling the assets which it originates. The financial assets are held to collect contractual cash flows with 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 Company'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 rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability, or where appropriate, a shorter period, to the gross carrying amount on initial recognition.

While cash and cash equivalents and intercompany loans are also subject to the impairment requirements of IFRS 9, the Company has concluded that the expected credit loss on these items is nil and therefore no impairment loss adjustment is required.

The Company does not use hedge accounting.

1.12 Impairment of financial assets

Assets carried at amortised cost

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses ('ECL') based on unbiased forward-looking information.

The Company applies the ECL impairment model when determining the loan loss provisions to be applied to loans and advances to 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

Notes to the financial statements

gross carrying amount. Loan loss provisions are therefore calculated based on an unbiased probability-weighted outcome which take into account historic performance and considers the outlook for macro-economic conditions. The Company reviews its portfolio of loans and advances to customers for impairment at each balance sheet date.

Loans and advances to customers have been categorised into the three stages as defined in IFRS 9 with reference to the following criteria:

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

The Company use historical data and risk models to determine the probability of default ('PD'), loss given default ('LGD') and the exposure at default ('EAD'). ECL are then predicted by multiplying these three forward-looking parameters and the result is discounted at the original effective interest rate ('EIR'). The ECL drivers of PD, EAD and LGD are modelled at a portfolio level which considers vintage, maturity, exogenous and other credit factors and applied across all receivables at initial recognition. The result is therefore an unbiased probability-weighted estimation of credit losses as determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, multiple scenarios are modelled to ensure an unbiased representative sample of the complete distribution when determining the expected loss. The model used reflects a blended outcome based on four macro-economic 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 macro-economic variables which are modelled include Bank of England base rate, GDP, CPI, HPI and unemployment rate. Management adjustments and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

Alongside a review of the economic climate, management have considered a variety of weightings in the assessment of the macroeconomic outlook. The weightings address the risk of non-linearity in the relationship between credit losses and economic conditions, with provisions increasing more in unfavourable conditions (particularly severe conditions) than they reduce in favourable conditions. The loan loss provision recognised is therefore the probability-weighted sum of the provisions calculated under a range of economic scenarios. The Company has adopted the use of four main economic scenarios:

- Base (BoE) Base: Bank of England 2019 stress testing base scenario
- Severe downside stress (BoE Stress): Bank of England 2019 stress testing annual cyclical scenario ('ACS') scenario
- Positive: constructed in-house, but based on PwC's UK Economic Outlook, 2019
- Downside Stress: constructed in-house, based on a review and impact of the financial crisis during 2008

The scenarios and the weightings are derived using external data together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions.

The base scenario represents the most likely economic forecast. This scenario reflects a benign scenario where base rate and unemployment remain low at around 4%, GDP and HPI grow steadily in line with past trends and CPI increases only gradually.

Notes to the financial statements

At 31 December 2018 it was assigned a probability weighting of 85% and at 31 December 2019 it was assigned a 50% probability weighting. The downside stress, severe downside stress and positive economic scenarios are considered less likely to occur and have been given the following weightings:

	31 December 2019	31 December 2018
Downside stress	30%	0%
Severe downside stress	15%	10%
Positive	5%	5%

The downside stress scenario constructed in house reflects a slightly more severe position than what was seen during the 2008 financial crisis. GDP and HPI fall substantially, CPI and unemployment increase. In 2008 base rate fell to 0.25% and stayed at that level for a considerable time, in this scenario we have assumed base rate increases to >1% to simulate what may happen if the BoE had to raise interest rates to curb inflation. Severe downside stress scenario is based upon the BoE's own stress scenario. This represents for each individual variable a severe downside with sharp falls in GDP and HPI combined with sharp increases in unemployment (>9%) CPI and base rate (4%). The BoE provides base and stress scenario data but not a positive scenario, for our positive scenario we use PwC's Economic Outlook which is updated annually. For the positive scenario we use 3% for GDP, a low, stable base rate of interest and low levels of unemployment.

A sensitivity of these scenarios and weightings has been performed Note 2.

Significant increase in credit risk

The Company monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Company 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 Company 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 Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available.

There are three ways a customer account can demonstrate significant increase in credit risk ('SICR'):

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

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

- Exogenous – effects that influence performance at a calendar date. These are typically external factors (such as macroeconomic conditions) but may also be internally driven (e.g. changes to forbearance strategy).
- Maturity – effects that influence performance at a time on book. Credit accounts typically 'mature' according to a predictable schedule from the time that they are originated. For instance, PD typically peaks one to two years from origination for unsecured products.

Notes to the financial statements

- Vintage – effects that relate to the period in which the accounts were originated. The most obvious driver of changes in performance from this perspective is changes to credit strategy.

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

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

Curing policy

Loans in stage 3 which have not been cured represent those which have gone 90 days in arrears at one point in time. If a loan has ever been 90 days in arrears, regardless of performance, the loan will remain in stage 3. The business has introduced a policy during 2019 to categorise these loans as performing or not performing based on their delinquency at the reporting date. For those

deemed performing for a full 12 months are deemed to have moved back to stage 1. Loans that have performed for more than 6 months but less than 12 months are deemed to have moved back to stage 2. Those loans which were deemed not performing at year end will remain in stage 3.

Definition of default

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

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

- the borrower is past due more than 90 day; or
- the borrower is insolvent or unlikely to pay its credit obligations to the Company in full.

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

Modification of financial assets

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

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

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

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

Notes to the financial statements

If the contractual cash flows on a financial asset have been renegotiated or otherwise modified the Company 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 Company's ability to collect the modified cash flows taking into account the Company's previous experience, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Company 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 Company's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Company's ability to collect the modified cash flows taking into account the Company'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 Company calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Company measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

Write-off policy

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.

1.13 Cash and cash equivalents

Cash comprises cash in hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including certain loans and advances to banks and building societies and short-term highly liquid debt securities. Bank overdrafts which are repayable on demand and which form an integral part of an entity's cash management are also included as a component of cash and cash equivalents.

1.14 Intercompany liability – NSF Finco Limited

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

Notes to the financial statements

1.15 Dividends paid

Dividend distributions are recognised in the financial statements when the shareholders' right to receive payment is established. Final dividend distributions are recognised in the year in which they are approved by the shareholders, whilst interim dividend distributions are recognised in the year in which they are declared and paid. These accounts demonstrate sufficient distributable reserves to support the payment of a dividend.

1.16 Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds received.

2. Critical accounting estimates and judgements in applying accounting policies

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.

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

Critical accounting judgements:

Going concern

As part of the Company's going concern assessment, there is an assumption of lender and shareholder support for potential covenant breaches and solvency at the Group level which forms a significant judgement of the Directors in the context of approving the Company's going concern status. Refer to Note 22 for further detail on funding and subsequent events.

Loans and advances to customers - significant increase of credit risk

Expected credit loss ('ECL') is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk therefore the Company 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 Company takes into account qualitative and quantitative reasonable and supportable forward-looking information. As per Note 1, an ECL 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. Refer to Note 1 for more details and sensitivity below.

Provision for guarantor loans division redress programme

Part of the provision included in the statement of financial position relates to a provision recognised for the customer redress programme in the guarantor loans division. 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. It is possible that the eventual outcome may differ, perhaps materially from the current estimate and this could impact the financial statements and position of the company. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation.

Our estimate of the overall cost of the redress programme has required a detailed assessment of our past business to determine if our assessment of affordability at the time of underwriting was appropriate. In instances where we have concluded affordability wasn't appropriate, we have further considered whether or not the customer suffered any harm as a consequence of this, and if we believe there was harm, we have provided for redress accordingly.

Therefore, the key assumptions in our estimate are:

- the proportion of our past business where we do not believe the affordability process was appropriate
- the proportion of those customers who suffered harm; and
- the costs associated with providing redress to those customer

Notes to the financial statements

Our estimate of the cost is £15.8m. If our work had indicated a higher or lower proportion of customers were affected, then the impact on the provision would have been as follows:

- 5% increase/decrease in affordability assessment : +£0.8m/-£0.8m
- 5% increase/decrease in customers who have suffered harm as a consequence: +£0.8m/-£0.8m

It is anticipated that any redress will be paid throughout 2021.

Key sources of estimation uncertainty:

Loans and advances to customers

The Company reviews its portfolio of loans and advances to customers for expected credit losses at each balance sheet date. The following are key estimations that the directors have used in the process of applying the Company's recognition of expected credit losses policy:

- Incorporation of macro-economic data: Establishing the number and relative weightings of macro-economic scenarios for each type of product/market and determining the macro-economic information relevant to each scenario. The Company incorporates macro-economic information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of expected credit loss. This is achieved by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss. Therefore, when measuring ECL the Company 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.

Sensitivity analysis of amounts receivable from customers:

Macroeconomic data

The Company has performed sensitivity analysis on the key macro-economic variables. The model used reflects a blended outcome based on four macro-economic scenarios of Base, Severe downside stress, Downside stress and Positive (refer Note 1 for further detail), with which specified weightings are applied. The macro-economic scenarios are reviewed no less than twice annually. The weighting used for the Downside stress (constructed in-house) considers the impact of the 2008 financial crisis.

As summarised below, the outputs demonstrate the impact of changing the probability weightings of the scenarios adopted on the loan loss provisioning figures. The first sensitivity is based on optimistic scenario weightings, the second sensitivity considered by management is to be the most extreme scenario in the current economic environment. This is because it considers the impact of a 50% severe downside stress weighting which assumes a stress impact on GDP, CPI, HPI, interest rates and unemployment variables worse than what was seen during the 2008 financial crisis. These sensitivities do not take into account any impact of COVID-19.

Notes to the financial statements

Macro-economic weightings	Weighting	Impact on ECL £'000
Current:		
Base	50%	
Downside stress	30%	
Severe downside stress	15%	
Positive	5%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Optimistic:		
Base	85%	
Downside stress	0%	
Severe downside stress	10%	
Positive	5%	
Impact on ECL		1,255
Pessimistic:		
Base	50%	
Downside stress	0%	
Severe downside stress	50%	
Positive	0%	
Impact on ECL		(3,080)

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 macro-economic downside indicators is minimal and therefore a macro economic adjustment is currently not necessary.

3. Interest income

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

	2019 £'000	2018 £'000
Interest income	122,803	86,944

4. Maturity analysis of assets and liabilities

The Company's financial assets and liabilities all mature within the next five years.

Notes to the financial statements

The table below shows the contractual maturity analysis of the Company's financial assets and liabilities as at 31 December 2019:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2019			
ASSETS			
Cash and cash equivalent	6,834	-	6,834
Loans and advances to customers	135,530	184,768	320,298
Intercompany loan to Non-Standard Finance plc	-	3,500	3,500
Other assets	821	-	821
Total assets	143,185	188,268	331,453
LIABILITIES			
Intercompany liability – NSF Finco Limited	-	282,127	282,127
Other liabilities	20,806	-	20,806
Total liabilities	20,806	282,127	302,933

The table below shows the contractual maturity analysis of the Company's financial assets and liabilities as at 31 December 2018:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2018 - restated			
ASSETS			
Cash and cash equivalents	8,539	-	8,539
Loans and advances to customers	68,737	196,116	264,853
Intercompany loan to Non-Standard Finance plc	-	3,500	3,500
Other assets	9,488	-	9,488
Total assets	86,764	199,616	286,380
LIABILITIES			
Intercompany liability – NSF Finco Limited	-	240,360	240,360
Other liabilities	3,585	-	3,585
Total liabilities	3,585	240,360	243,945

Notes to the financial statements

5. Financial risk management

Strategy

Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board and the executive committee also receive regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

The principal risks inherent in the Company's business are credit, market, liquidity, operational and conduct risk.

(a) COVID-19

In 2020, the UK economy has been severely impacted by the COVID-19 pandemic. A large pandemic such as COVID-19, coupled with restrictions on face-to-face contact as imposed by HM Government, may cause significant disruption to the Company operations and severely impact the level of supply and demand for the Company products. As a result, any sustained period where such measures are in place could result in the Company suffering significant financial loss.

The Company 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, and with the lending divisions still able to lend and collect remotely, without the need for face-to-face contact with customers. HM Government has put a series of measures in place to support the economy and to help soften the impact on the business community, and the Company has availed of the Coronavirus Job Retention Scheme grant offered to support furloughed employees during this period, as well as the deferral of payments to the UK tax authorities. NSF has long-term funding in place, which it will use to support the Company operations where required. COVID-19 began to impact the UK economy in March 2020. Whilst in the short-term it is expected that the Company will experience a reduction in income from lending activities, the Company also believe that there could be an increase in demand for its products and services. As it remains unclear as to when the situation may begin to normalise and how the business might perform, COVID-19 remains a high risk for the Company.

(b) Credit risk

The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Significant changes in the economy could result in losses that are different from those provided for at the statement of financial position date.

The Company structures the levels of credit risk by placing limits on the amount of risk accepted in relation to individual borrowers or groups of borrowers. The limits on the level of credit risk are approved periodically by the Board of Directors.

Exposure to credit risk is minimised by the use of credit scoring techniques which are designed to ensure the Company 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 Company's maximum exposure to credit risk is as follows:

	2019	Restated 2018
	£000	£000
Cash and cash equivalents	6,834	8,539
Loans and advances to customers	320,298	264,853
Intercompany loan	3,500	3,500
Other assets	821	9,488
At 31 December	331,453	286,380

The above table represents the maximum credit risk exposure (net of impairment) to the Company at 31 December 2019 and 2018, without taking into account any collateral held or other credit enhancements attached. The exposures are based on the net carrying amounts as reported in the statement of financial position.

Notes to the financial statements

The Company assessment to determine whether credit risk has increased significantly since initial recognition is outlined in Note 1 to the financial statements.

The tables below present information in line with how credit risk is monitored and assessed by the credit committee. For personal loans, credit risk is monitored by the use of defined score bands ranging from A1-A9, whilst for guarantor loans it is based on homeowner/non-homeowner status. This analysis assists management with identifying and monitoring credit risk within its customer base:

Year ended 31 December 2019:

Score bands	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
A1-A3	142,932	15,912	3,953	162,797
A4-A6	42,919	8,512	3,302	54,733
A7-A8+	10,282	2,414	1,396	14,092
Homeowner	31,858	2,487	615	34,960
Non-homeowner	66,326	7,379	2,829	76,534
Total gross receivables	294,317	36,704	12,095	343,116
Loan loss provision	(10,163)	(7,595)	(5,060)	(22,818)
At 31 December 2019	284,154	29,109	7,035	320,298

Year ended 31 December 2018:

Score bands	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
A1-A3	125,217	9,671	2,566	137,454
A4-A6	38,302	5,619	2,551	46,472
A7-A8+	9,715	1,786	1,154	12,655
Homeowner	22,537	2,153	372	25,062
Non-homeowner	51,697	7,268	1,560	60,525
Total gross receivables	247,468	26,497	8,203	282,168
Loan loss provision	(8,356)	(5,200)	(3,759)	(17,315)
At 31 December 2018	239,112	21,297	4,444	264,853

(c) Market risk

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements.

The Company does not undertake position taking or trading books of this type and therefore market risk is not a concern.

The Company has performed sensitivity analysis on the key macro-economic variables (GDP, CPI, HPI and unemployment). Management has considered three scenarios; base, stress and positive. The outputs demonstrated that the probability weighting of these scenarios does not have a material impact on the loan loss provisioning figures.

(c)(i) Currency risk

The Company has no exposures in foreign currencies.

(c)(ii) Interest rate risk

Interest rate risk is the potential adverse impact on the Company's future cash flows from changes in interest rates. It arises from the differing interest rate risk characteristics of the Company's assets and liabilities. In particular, fixed rate products expose the Company to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows. All of the Company's products are contractually at variable rates, but any changes made to the rates charged are made at management's discretion.

Notes to the financial statements

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or can only do so at excessive cost. The Company's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations and to enable the Company to meet its financial obligations as they fall due.

	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Due within one year £000	Due after more than one year £000
At 31 December 2019				
Non-derivative liabilities				
Intercompany liability – NSF Finco Limited	282,127	(282,127)	-	(282,127)
Other liabilities	20,806	(20,806)	(20,806)	-
	302,933	(302,933)	(20,806)	(282,127)
At 31 December 2018				
Non-derivative liabilities				
Intercompany liability – NSF Finco Limited	240,360	(240,360)	-	(240,360)
Other liabilities	3,585	(3,585)	(3,585)	-
	243,945	(243,945)	(3,585)	(240,360)

(e) Operational risk

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the senior management within the Company.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the Company's senior management.

(f) Conduct risk

Conduct risk reflects the potential for customers (and the business) to suffer financial loss or other detriment through the actions and decisions made by the business and its staff. We define conduct risk as the risk that the Company's services, and the way they are delivered, result in poor outcomes for customers or markets in which we operate, or harm to the Company. This could be as a direct result of poor or inappropriate execution of our business activities or behaviour from our staff. The Company takes a principles-based approach, which covers both regulated and unregulated activities. All conduct risks are rated and actions to ensure the controls to mitigate the risks are effective and are tracked in the risk register. Key controls to mitigate conduct risk are monthly Quality Assurance reviews of customer facing activity, branch, telephony and online channels, and a Conduct Risk Dashboard which reflects how the business is performing against its appetite for risk.

6. Financial instruments

The tables below set out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9 as at 31 December 2019 and 2018. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

Notes to the financial statements

	Fair value through profit and loss account £000	Fair value through other comprehensive income £000	Amortised cost £000	Non- financial assets/ liabilities £000	Total £000
At 31 December 2019					
Assets					
Cash and cash equivalents	-	-	6,834	-	6,834
Loans and advances to customers	-	-	320,298	-	320,298
Current tax asset	-	-	-	1,453	1,453
Deferred tax assets	-	-	1,580	-	1,580
Intercompany loan	-	-	3,500	-	3,500
Other assets	-	-	821	-	821
Total assets	-	-	333,033	1,453	334,486
Liabilities					
Intercompany liability – NSF Finco Limited	-	-	282,127	-	282,127
Other liabilities	-	-	20,806	-	20,806
Total liabilities	-	-	302,933	-	302,933

	Fair value through profit and loss account £000	Fair value through other comprehensive income £000	Amortised cost £000	Non- financial assets/ liabilities £000	Total £000
At 31 December 2018 - restated					
Assets					
Cash and cash equivalents	-	-	8,539	-	8,539
Loans and advances to customers	-	-	264,853	-	264,853
Current tax asset	-	-	-	103	103
Deferred tax assets	-	-	940	-	940
Intercompany loan	-	-	3,500	-	3,500
Other assets	-	-	9,488	-	9,488
Total assets	-	-	287,320	103	287,423
Liabilities					
Intercompany liability – NSF Finco Limited	-	-	240,360	-	240,360
Other liabilities	-	-	3,585	-	3,585
Total liabilities	-	-	243,945	-	243,945

7. Operating expenses

The Company had £63.15m of operating expenses in 2019, of which £59.99m related to management charges from the immediate parent company, Everyday Loans Limited (2018: £47.97m, of which £45.41m related to management charges).

The remuneration of the auditors in relation to the audit of these financial statements was £53,000 (2018: £53,000) and was borne by the Company's parent company Everyday Loans Limited, which made no recharge to the Company.

8. Employee information

The Company had no employees during 2019 (2018: none). Human resource services are provided by the immediate parent company Everyday Loans Limited, for which a management charge is levied.

Notes to the financial statements

Directors' emoluments were paid by the immediate parent company, Everyday Loans Limited, which makes no recharges to the Company for their services.

9. Exceptional items

In the twelve months ended 31 December 2019, the Company incurred exceptional costs totaling £15.6m (2019: £nil) in relation to the FCA redress. A provision of £15.6m has been made based upon the Directors' best estimate of the total redress payable to certain customers for loans originating prior to 31 December 2019 within the Company's guarantor loans division which includes: (i) the sum of all redress due to such customers of £15.8m, offset by existing impairment provisions of £1.2m, resulting in a net amount of £14.6m; and (ii) the associated operational costs amounting to £1.0 million, refer to Note 17 for more details.

10. Income tax expense

	2019 £000	Restated 2018 £000
Current taxation		
Corporation tax charge - current year	2,130	812
Adjustments in respect of prior periods	308	25
	2,438	837
Deferred taxation		
Deferred tax charge - current year	138	(100)
Adjustments in respect of prior periods	(778)	402
	(640)	302
Income tax expense	1,798	1,139
Tax reconciliation:		
(Loss)/profit before tax	(9,405)	6,125
Tax (refund)/expense at 19% (2018: 19%)	(1,787)	1,163
Tax rate change – deferred tax	(15)	(8)
Deferred tax on George Banco Ltd transfer	-	(26)
Expenses not deductible for tax purposes	2,964	-
Current year deferred tax charge/(credit)	138	(66)
Prior year adjustment – corporation tax	308	23
IFRS 9 Adjustments in respect of prior periods	190	53
Income tax expense for the year	1,798	1,139

11. Loans and advances to customers

During 2018, the business and net assets of the immediate subsidiary George Banco.com Limited, were transferred to the Company. As part of this business transfer, the beneficial interest in the George Banco.Com loans and advances to customers and the right to underwrite future loans under the George Banco brand was transferred to the Company and is reflected in the below balances.

	2019 £000	Restated 2018 £000
Gross loans and advances	343,116	282,168
Less: allowances for impairment on loans and advances	(22,818)	(17,315)
	320,298	264,853

Notes to the financial statements

Included within the gross carrying amount above are unamortised broker commissions, see table below:

	2019 £'000	2018 £'000
Total unamortised broker commissions	14,311	11,182

The fair value of amounts receivable from customers is approximately £449.9m (2018: £386.4m). 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).

For a maturity profile of loans and advances to customers, refer to Note 4.

Analysis of loans and advances to customers

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
31 December 2019				
Gross carrying amount	294,317	36,704	12,095	343,116
Impairment provision	(10,163)	(7,595)	(5,060)	(22,818)
Net amounts receivable	284,154	29,109	7,035	320,298
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
31 December 2018 - restated				
Gross carrying amount	247,468	26,497	8,203	282,168
Impairment provision	(8,356)	(5,200)	(3,759)	(17,315)
Net amounts receivable	239,112	21,297	4,444	264,853

Modification of loans and advances to customers

Financial assets with a loss allowance measures at an amount equal to lifetime ECL of £2.2m (2018: £1.6m) were subject to non-substantial modification during the year, with a resulting loss of £1.2m (2018: £0.08m). The gross carrying amount of financial assets for which the loss allowances has changed to a 12-month ECL during the year amounts to £0.08m (2018: £0.03m).

As a result of the Company's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification has resulted in derecognition.

	2019	Restated 2018
Financial assets (with loss allowance based on lifetime ECL) modified as at the balance sheet date	£000	£000
Gross carrying amount before modification	44,361	32,891
Loan loss provision before modification	(6,570)	(5,533)
Net loans and advances before modification	37,791	27,358
Net derecognition gain	145	585
Net loans and advances after modification	37,936	27,943

Movement in derecognition loss in the year ended 31 December 2019 was £0.44m (2018: £0.13m).

Notes to the financial statements

12. Allowances for impairment of loans and advances

During 2018, the business and net assets of the immediate subsidiary George Banco.com Limited, were transferred to the Company. As part of this business transfer, the beneficial interest in the George Banco.Com loans and advances to customers and the right to underwrite future loans under the George Banco brand was transferred to the Company. This has also resulted in the transfer of associated allowance for impairment of loans and advances which are reflected in the below balances.

A reconciliation of the allowance account for losses on loans and advances under IFRS 9 is as follows:

	2019 £000	Restated 2018 £000
At 1 January	17,315	8,944
Utilised during the year	(4,762)	(2,813)
Increase in provision	10,265	11,184
At 31 December	22,818	17,315

The loss allowance 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 month or lifetime ECL
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models
- Impacts on the measurement of ECL due to changes made to models and assumptions
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis
- Financial assets de-recognised during the period and write-offs of 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 Company’s IFRS 9 model scenarios for the Company have been discussed in Note 1.

The following tables explain the changes in the loan loss provision between the beginning and the end of the period due to these factors:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loan loss provision				
Loan loss provision as at 1 January 2019	8,356	5,200	3,759	17,315
Changes in the loss provision attributable to:				
New receivables originated or purchased	13,875	-	-	13,875
- Transfer from stage 1 to 2	(5,658)	5,658	-	-
- Transfer from stage 1 to 3	(3,496)	-	3,496	-
- Transfers from stage 2 to 1	268	(268)	-	-
- Transfers from stage 2 to 3	-	(2,237)	2,237	-
- Transfers from stage 3 to 2	-	15	(15)	-
- Transfers from stage 3 to 1	2	-	(2)	-
- Write offs	-	-	(4,762)	(4,762)
Net re-measurement of ECL arising from transfer of stages	(129)	1,020	935	1,826
Change in ECL resulting from repayment of loans	(3,032)	(2,262)	(548)	(5,842)
Other movements	69	9	5	83
Derecognition of modified loans	(92)	460	(45)	323
Loan loss provision as at 31 December 2019	10,163	7,595	5,060	22,818

Notes to the financial statements

	Stage 1	Stage 2	Stage 3	Total
Loan loss provision - restated	£'000	£'000	£'000	£'000
Loan loss provision as at 1 January 2018	4,464	2,482	1,998	8,944
Prior year adjustment ¹	1,669	1,360	906	3,935
Loan loss provision as at 1 January 2018 restated ¹	6,133	3,842	2,904	12,879
Changes in the loss provision attributable to:				
New receivables originated or purchased	11,498	-	-	11,498
- Transfer from stage 1 to 2	(4,193)	4,193	-	-
- Transfer from stage 1 to 3	(3,172)	-	3,172	-
- Transfers from stage 2 to 1	122	(122)	-	-
- Transfers from stage 2 to 3	-	(1,360)	1,360	-
- Transfers from stage 3 to 2 ²	-	5	(5)	-
- Transfers from stage 3 to 1 ²	1	-	(1)	-
- Write offs	-	-	(2,813)	(2,813)
Net re-measurement of ECL arising from transfer of stages	(127)	715	23	611
Change in ECL resulting from repayment of loans	(2,621)	(1,617)	(456)	(4,694)
Derecognition of modified loans	118	(1,111)	(887)	(1,880)
Transfer of George Banco.com	574	656	422	1,652
Other movements	23	(1)	40	62
Loan loss provision as at 31 December 2018	8,356	5,200	3,759	17,315

¹ For details of prior year adjustment refer to Note 1

² The staging of the loan loss provision has been re-presented to reflect the formalisation of the curing policy during 2019 in order to more accurately reflect the staging of performing loans which have been previously flagged as 90 days past due.

The following table further explains changes in the gross carrying amount of loans and advances to customers to help explain their significance to the changes in the loss allowance for the same portfolios as discussed previously

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - amounts receivable from customers	£'000	£'000	£'000	£'000
Gross carrying amount as at 1 January 2019	247,468	26,497	8,203	282,168
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	247,538	-	-	247,538
- Transfer from stage 1 to 2	(39,313)	39,313	-	-
- Transfer from stage 1 to 3	(19,323)	-	19,323	-
- Transfers from stage 2 to 1	2,700	(2,700)	-	-
- Transfers from stage 2 to 3	-	(11,839)	11,839	-
- Transfers from stage 3 to 2	-	101	(101)	-
- Transfers from stage 3 to 1	67	-	(67)	-
- Write offs	-	-	(24,372)	(24,372)
Changes due to modification that did not result in derecognition	-	(991)	(190)	(1,181)
Change in ECL resulting from repayment of loans	(146,544)	(13,075)	(467)	(160,086)
Other movements	-	-	(45)	(45)
Derecognition of modified loans	1,724	(602)	(2,028)	(906)
Gross carrying amount as at 31 December 2019	294,317	36,704	12,095	343,116

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Gross carrying amount - amounts receivable from customers - restated	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2018	154,466	14,472	4,941	173,879
Prior year adjustment ¹	888	-	-	888
Gross carrying amount as at 1 January 2018 restated	155,354	14,472	4,941	174,767
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	151,508	-	-	151,508
- Transfer from stage 1 to 2	(27,013)	27,013	-	-
- Transfer from stage 1 to 3	(11,394)	-	11,394	-
- Transfers from stage 2 to 1	646	(646)	-	-
- Transfers from stage 2 to 3	-	(6,591)	6,591	-
- Transfers from stage 3 to 2 ²	-	103	(103)	-
- Transfers from stage 3 to 1 ²	69	-	(69)	-
- Write offs	-	-	(14,161)	(14,161)
Change in ECL resulting from repayment of loans	(78,905)	(6,595)	279	(85,221)
Derecognition of modified loans	7,050	(6,854)	(2,389)	(2,193)
Transfer of George Banco Ltd	50,153	5,595	1,720	57,468
Gross carrying amount as at 31 December 2018	247,468	26,497	8,203	282,168

¹ For details of prior year adjustment refer to Note 1

² The staging of the loan loss provision has been re-presented to reflect the formalisation of the curing policy during 2019 in order to more accurately reflect the staging of performing loans which have been previously flagged as 90 days past due.

13. Cash and cash equivalents

Cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	2019 £000	2018 £000
Cash at bank	6,834	8,539
	6,834	8,539

During 2018, George Banco.Com Limited transferred its business which comprised its activities, assets and liabilities to the Company at book value. As part of this business transfer, the benefit of the George Banco.Com loans existing at the date of transfer was given to the Company and thus the associated cash flows are recognised in the cash balances of the Company above.

14. Deferred taxation

	2019 £000	Restated 2018 £000
Other short-term timing differences	1,580	940
Deferred tax assets	1,580	940
At 1 January	940	691
Prior year adjustment due to adoption of IFRS 9	763	297
George Banco Ltd transfers in	-	26
Current year deferred tax	(138)	(82)
Effects of tax rate change	15	8
Deferred tax assets at 31 December	1,580	940

During 2018, the business and net assets of the immediate subsidiary George Banco.com Limited, were transferred to the Company. This has resulted in the transfer of deferred tax assets at net book value as at the date of transfer and is reflected in the above balances.

Notes to the financial statements

Future tax developments:

Reductions in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

15. Other assets

	2019 £000	2018 £000
Prepayments and accrued income	756	34
Amounts due to related companies	821	9,488
	1,577	9,522

During 2018, the business and net assets of the immediate subsidiary George Banco.com Limited, were transferred to the Company. This has resulted in the transfer of all other assets at net book value as at the date of transfer and is reflected in the above balances.

16. Intercompany liability – NSF Finco Limited

	2019 £000	2018 £000
Intercompany borrowing – due in more than one year	282,127	240,360
	282,127	240,360

During 2018, the business and net assets of the immediate subsidiary George Banco.com Limited, were transferred to the Company. This has resulted in the transfer of all intercompany borrowings at net book value as at the date of transfer and is reflected in the above balances.

Financial support is provided by the ultimate parent company Non-Standard Finance plc.

17. Other liabilities

	2019 £000	2018 £000
Accruals and deferred income	3,598	1,976
Amounts due to related parties	1,609	1,609
FCA redress provision	15,599	-
	20,806	3,585

During 2018, the business and net assets of the immediate subsidiary George Banco.com Limited, were transferred to the Company. This has resulted in the transfer of all other liabilities at net book value as at the date of transfer and is reflected in the above balances.

Amounts due to related companies have no fixed date for repayment and are therefore repayable on demand. It is a financial liability measured at amortised cost. Its fair value is not considered to be significantly different from its amortised cost carrying value.

Part of the provision included in the statement of financial position relates to a provision recognised for the customer redress programme in the guarantor loans division. 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. It is possible that the eventual outcome may differ, perhaps materially from the current estimate and this could impact the financial statements and position of the company. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation.

Our estimate of the overall cost of the redress programme has required a detailed assessment of our past business to determine if our assessment of affordability at the time of underwriting was appropriate. In instances where we have concluded affordability

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wasn't appropriate, we have further considered whether or not the customer suffered any harm as a consequence of this, and if we believe there was harm, we have provided for redress accordingly.

Therefore, the key assumptions in our estimate are:

- the proportion of our past business where we do not believe the affordability process was appropriate
- the proportion of those customers who suffered harm; and
- the costs associated with providing redress to those customer

Our estimate of the cost is £15.8m. If our work had indicated a higher or lower proportion of customers were affected, then the impact on the provision would have been as follows:

- 5% increase/decrease in affordability assessment : +£0.8m/-£0.8m
- 5% increase/decrease in customers who have suffered harm as a consequence: +£0.8m/-£0.8m

It is anticipated that any redress will be paid throughout 2021.

18. Share capital and share premium

	Number of shares	Share capital £	Share premium £
At 1 January 2018	493,791	4,938	49,374,062
Issue of shares	-	-	-
At 31 December 2018	493,791	4,938	49,374,062
Issue of shares	-	-	-
At 31 December 2019	493,791	4,938	49,374,062

19. Contingent liabilities and commitments

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 such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Group incurring a liability. 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 to management's best estimate of the amount required at the relevant balance sheet date.

The Company acts as a guarantor for the Group's term loan and RCF facility arrangements.

The Company recognises that there continues to be risks around claims management company activity in the non-standard lending sectors and incurs the cost of settling complaints as part of its normal business as usual activity. The Company has estimated that if it is to be unsuccessful in defending certain irresponsible lending complaints, the cost of settling such complaints is not material as at 31 December 2019. The Company 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.

20. Related-party transactions

During 2018, the Company underwent an internal group reorganisation whereby the business and net assets of the immediate subsidiary George Banco.com Limited, were transferred to the Company. The transaction constituted a business transfer whereby the beneficial interest of the Company's loans and advances to customers and net assets were passed to the Company in exchange for an intercompany payable.

Directors' report

As at 31 December 2019, the Company has following balances with group companies:

Amounts due from related parties:	2019 £000	2018 £000
Non-Standard Finance plc	3,500	3,500
Everyday Loans Limited	-	5,678
George Banco Limited	3,810	3,810
	7,310	12,988

Amounts due to related parties:	2019 £000	2018 £000
NSF Finco Limited	282,127	240,360
Everyday Loans Limited	2,241	-
George Banco.com Limited	1,609	1,609
	285,977	241,969

During the year the Company paid a service charge of £59.99m (2018: £45.41m) to its immediate parent company Everyday Loans Limited.

21. Immediate and ultimate parent company

The immediate parent company of the Company is Everyday Loans Limited, a private company limited by shares and registered in England and Wales. The ultimate parent company of the Company is Non-Standard Finance plc, a company registered in England and Wales. Non-Standard Finance plc heads the largest and smallest group in which the Company is consolidated. A copy of the consolidated financial statements of Non-Standard Finance plc may be obtained from 7 Turnberry Park Road, Gildersome, Morley, Leeds, LS27 7LE.

The immediate parent company is Everyday Loans Limited; a company incorporated in Great Britain and registered in England and Wales. A copy the financial statements for Everyday Loans Limited can be obtained from Secure Trust House, Boston Drive, Bourne End, Buckinghamshire, SL8 5YS.

22. Events after the balance sheet date

On 10 March 2020, the Non-Standard Finance plc Group, of which the Company is a subsidiary, entered into a new, six-year securitisation facility totalling £200m. An initial drawdown of £15m was made during April 2020, which was subsequently repaid on 26 August 2020.

Provision for guarantor loans division redress programme

On 5 August 2020 Non-Standard Finance Plc (NSF) announced that the FCA had raised concerns regarding certain operating procedures and policies within the Company's Guarantor Loans Division ('GLD'). These concerns had arisen out of a multi-firm review of the guarantor loans sector following which the FCA wrote to firms in the sector identifying their concerns and requesting firms develop a possible redress methodology for affected customers.

Together with its advisers, the Company has therefore developed a detailed redress methodology and while the FCA has not yet reviewed the proposed methodology and supporting analyses, the Directors have assessed the full and final costs of the redress programme to be £15.8m, of which £15.6m relates to loans originating prior to 31 December 2019, and £0.2m relates to loans originating since 1 January 2020. As such the Directors have included an exceptional provision of £15.6m in the financial statements for the year ended 31 December 2019 being their best estimate of the full and final costs of the redress programme for loans originating prior to 31 December 2019. The estimate includes: (i) the sum of all redress due to customers, including penalty interest (the 'Gross Redress Amount') of £16.0m, offset by existing impairment provisions of £1.2m, resulting in a net amount of £14.8m; and (ii) the associated operational costs of executing the programme amounting to £1.0m. The provision represents an accounting estimate of the expected future outflows arising using information available as at the date of signing these financial

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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. It is possible that the Gross Redress Amount may differ, perhaps materially from the current estimate and that this could materially impact the financial statements. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation, as well as the fact that the FCA has not yet reviewed the methodology proposed.

Having already implemented a number of operational changes since the acquisition of George Banco on 17 August 2017 and following a number of further recommendations by the FCA, GLD has begun to implement additional enhancements to its lending process. Having reduced lending significantly since the outbreak of the pandemic, it is expected that the low volume of lending will continue into 2021.

COVID-19 impact on funding and business activities

As noted in the Strategic Report, the Company has a credit facility in place with NSF Finco Limited, the financing arm of ultimate parent company Non-Standard Finance plc. The Group announced on 11 March 2020 the signing of a new six-year £200m securitisation facility and has subsequently drawn down £15m from the new facility.

As a result of the impact of COVID-19, the Group breached its portfolio performance covenants in relation to the securitisation facility, thereby preventing the Group from drawing down further from this facility. However, as the breach was a direct result of COVID-19 which is beyond the Group's control, the lender granted a temporary waiver for this breach covering the period up to 29 June 2020 so as to allow time for a more permanent solution to be agreed, this waiver was further extended to 31 July 2020. Subsequently, to improve the efficiency of the balance sheet and reduce funding costs, the Group repaid the £15m on 26 August 2020. As a result, the breach of the portfolio performance covenants that arose as a direct result of COVID-19 have now been waived and the Company has agreed with the provider that, subject to their consent and the satisfaction of standard covenants for a facility of this type, the facility will remain open for future use.

Since 31 December 2019, there has been a global outbreak of COVID-19 which continues to have a significant impact on businesses across the world. Each of the Group's three brands is continuing to trade in an unprecedented business environment. It

is expected that as a result of the pandemic, the Group will experience a reduction in income from lending activities, together with increased expected credit losses (ECL). Whilst the overall impact of COVID-19 cannot be reliably estimated at this time, the Company assessed its key sensitivity was in relation to ECLs on amounts receivable from customers.

The estimate of ECL at 31 December 2019 was based on macroeconomic assumptions which did not include nor anticipate the unprecedented impact of the COVID-19 pandemic. The ECL sensitivity to reasonably possible changes in those assumptions outside of COVID-19 is set out at Note 2. Considering the impact on ECLs as a result of COVID-19, it is anticipated that this would result in increased ECLs driven by customer repayment behaviours as well as a more pessimistic macro-economic weighting being applied to the provisioning model (in the form of an increase to the severe downside weighting). As part of its viability assessment, the Group assessed a number of macroeconomic scenarios which reflect economic developments since the reporting date. The Group recognises that whilst the severity of the impact of COVID-19 on the economy is uncertain, it is likely to result in disruption in the form of a recession and therefore require an increase in the severe downside weightings on which ECL is calculated. The sensitivity of the Company's loan loss provision as at 31 December 2019 to a more pessimistic economic outlook resulting from COVID-19 is detailed as follows:

Macro-economic assumptions

The Company has assessed its macroeconomic assumptions used at December 2019 against the current economic environment and revised economic forecasts in light of COVID-19 related developments since the reporting date.

The Company recognises that the current weightings used in the year ended 31 December 2019 financial statements do not consider the impact of recent economic changes arising from the effects of COVID-19 and therefore has sought to adjust its macroeconomic weightings in order to reflect this in the form of an increase to the severe downside weighting. An illustration of the potential effect on ECL as a result of a shift in weightings is shown below. The weightings assume a severe downside weighting which is more pessimistic than our current weighting in order to recognise the new threat of COVID-19, but remain below the pessimistic sensitivity weightings disclosed in Note 2 due to the severity of the Bank of England stress ACS scenario which was even more negative than the BoE COVID-19 scenarios (Bank of England May 2020 Monetary Policy Report scenario). The estimated impact of potential mitigations to the impact on ECL, such as the support the Company is offering those customers who are experiencing financial difficulty and government support available to consumers as a result of the pandemic, has not been subject to audit as the impact cannot be objectively verified. The impact has however been considered in assessing the potential

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impact of COVID-19 on our macroeconomic weightings.

Macroeconomic weightings	Weighting	Impact on ECL £'000
Current:		
Base	50%	
Downside stress	30%	
Severe downside stress	15%	
Positive	5%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Increase in severe downside weighting:		
Base	50%	
Downside stress	15%	
Severe downside stress	30%	
Positive	5%	
Impact on ECL		(2,115)
Pessimistic:		
Base	50%	
Downside stress	0%	
Severe downside stress	50%	
Positive	0%	
Impact on ECL		(3,080)

The final impact of COVID-19 on expected credit losses remains uncertain and could be significantly higher or lower than anticipated. The Company notes that in particular for guarantor loans, while the proportion of payments being paid by guarantors in April and May 2020 was broadly unchanged from that prior to the restrictions coming into force, given the strong loan book growth prior to the restrictions and the uncertainties surrounding the outcome of the pandemic, it is possible that the level of loan loss provisions could increase in 2020. As the Company's assessment of its status as a going concern detailed in Note 1.3 relies upon the impact of a range of assumptions which cannot be verified with certainty, a material uncertainty exists with regards to this.

As noted in the going concern statement, the impact of COVID-19 on the Company's future profitability is materially uncertain and therefore depending on the outcome, it may result in a future impairment of the deferred tax asset recognised as at 31 December 2019 of up to £1.8m.

The impact of potential reduced collections and lending across all our divisions and a revised economic outlook has been considered in going concern assessment. The Board will continue to monitor the Company's financial position carefully over the coming weeks and months as a better understanding of the impact of COVID-19 is developed.

The full impact of COVID-19 on the Company's future financial performance therefore remains uncertain and will be heavily influenced by a number of factors including the severity and duration of the pandemic as well as the way in which both Government and consumers respond, thereby preventing the Company from quantifying the potential impact on our 2020 revenues and impairment provisions.

Corporate contacts & advisers

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