

Everyday Lending Limited
Annual report and financial statements
for the year ended 31 December 2020

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 company offers products through both a branch-based lending division and a guarantor loans division. Following a challenging year and subsequent to the reporting date, the Directors made the decision to cease trading in the Guarantor Loans Division, and at the date of signing the financial statements it is in a managed run-off.

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 3 August 2020 the Company's ultimate parent company Non-Standard Finance Plc "NSF" announced that, as part of a multi-firm review into the guarantor loans sector, the FCA had a number of concerns regarding certain aspects of the operating procedures at the Guarantor Loans Division of the Company. NSF launched an immediate and in-depth review, working closely with the FCA, to clarify the scope and scale of its concerns and to develop a possible redress methodology for affected customers. Whilst this work continued, lending by the Guarantor Loans Division was reduced to almost nil although collections continued on the outstanding loan book. Whilst discussions with the FCA regarding the methodology of redress for affected customers has not yet concluded, Everyday Lending Limited holds a £15.3m provision for redress in the balance sheet as at 31 December 2020 (2019: £15.6m). The redress programme is now expected to commence in the second half of 2021.

In April 2021 the Company's ultimate parent company Non-Standard Finance Plc "NSF" commissioned a detailed and independent review of lending and complaints handling activities within the branch-based lending division. This review remains ongoing and includes an assessment of whether the issues identified in guarantor loans division have any implications for this division. The review also includes an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending. These reviews have been considered as part of the Company's year-end provisioning, refer to note 18 for further detail.

On 30 June 2021 having completed a detailed review of the guarantor loans division and its prospects, the Board of NSF Plc has concluded that shareholder interests will be best served by placing the division into a managed run-off and ultimately closing the business. Whilst hugely disappointing, collecting out the loan book is the only rational conclusion given the combined impact of the pandemic, the FCA review into guarantor loans and the expected increase in costs in order to meet revised FCA requirements that would necessarily impede any potential recovery in profitability in the future. Whilst disappointed to be announcing our exit from this segment, the Directors remain focused on concluding its discussions with the FCA regarding redress and completing the independent reviews of its other businesses so that it can then expedite the completion of a substantial capital raise in NSF Plc of around £80 million (the 'Capital Raise') during the third quarter of 2021. The Capital Raise, if successful, would fund the payment of redress and mean that the current constraints on NSF Group's ability to execute the business strategy would be removed. At the same time, the outlook for the NSF Group would be significantly improved on the back of a strengthened balance sheet and with the prospect of a substantial growth opportunity in the Company's branch-based lending division.

The value of Company's portfolio of loans is considered to be the most important key performance indicator. As at the date of this report, the portfolio amounted to £231 million (2019: £320 million), a decrease of 28% (2019: increase of 21%) over the prior year. The significant decrease in the portfolio of loans in 2020 is due to a reduction in lending throughout the Covid-19 pandemic, however, lending volumes in the branch-based lending division have returned to pre Covid-19 levels in the second half the year and this has continued to grow in 2021.

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. The Company's business plan was to have 79 open branches as at 31 December 2020; however, this was delayed due to Covid-19. The Company had 74 open branches as at 31 December 2020 (2019: 73 open branches).

The Company made net income of £94.3m (2019: £99.0m) in the year. The decrease is predominantly due to a reduction in lending throughout the Covid-19 pandemic.

During the year the Company made a loss of £42.8m (2019: £11.2m loss) and has net liabilities of £10.5m (2019: £32.3m net assets). The Company's performance during the year is summarised in the key performance indicator section of the strategic report, whilst the statement of comprehensive income and the statement of financial position are set out on page 17 and 18 respectively.

Strategic report

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 Company's risk management policies are set out in note 5 of the financial statements.

The Company faces a number of potential risks that could have a material impact on its overall performance as a result of the manifestation of the risks that it faces, which might cause financial results to differ materially from both expected and historic results.

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

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

The principal risks facing the Company are:

Liquidity, going concern and solvency

The directors note that material uncertainties exist regarding the successful execution of a capital raise by NSF Plc, current and future impacts of COVID-19 and the impact of potential levels of redress and claims on the Company. The range of assumptions and the likelihood of them all proving correct creates material uncertainty and therefore the impact on liquidity and solvency under both the base case and downside scenarios may cast significant doubt on both the NSF Group's and the Company's ability to continue as a going concern. In such circumstance, the Group may fall under the control of its lenders and there would be a possibility of the Company going into insolvency.

Regulation

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. This risk may be impacted by the outcome of the ongoing reviews of each of the guarantor loans division of the Company. Following a multi-firm review, the NSF Group has developed a proposed methodology for redress to certain guarantor loans customers and has made an exceptional charge of £15.3m to cover the expected costs. Whilst the current estimate represents the directors' best estimate of the total cost of redress, based upon a detailed methodology and analyses developed in conjunction with its advisers, the FCA has not yet approved the methodology proposed. Therefore, although the directors believe their best estimate represents a reasonably possible outcome; there is a risk of a less favourable outcome.

Conduct

Risk of poor outcomes for the Company's customers or other key stakeholders as a result of that Company's actions.

Credit

Risk of loss through poor underwriting in the Company's or a diminution in the credit quality of their customers.

Business strategy

Risk that the Company's strategy fails to deliver the outcomes expected.

Business risks

- Operational – the Company's activities are large and complex and so there are many areas of operational risk that include technology failure, fraud, staff management and recruitment risks, underperformance of key staff, the risk of human error, taxation, increasing numbers of customer complaints, health and safety as well as disaster recovery and business continuity risks;

Strategic report

- Reputational – a failure to manage one or more of the Company's principal risks may damage the reputation of the Company or its parent NSF Plc, which in turn may materially impact the future operational and/or financial performance of the Company;
- Cyber – increased connectivity in the workplace coupled with the increasing importance of data and data analytics in operating and managing consumer finance businesses means that this risk has been identified separately from operational risk; and
- COVID-19 – a large pandemic such as COVID-19, coupled with restrictions on face-to-face contact by HM Government, may cause significant disruption to the operations of the Company and severely impact the supply and level of demand for their products. As a result, any sustained period where such measures are in place could result in the Company's direct and indirect subsidiaries suffering significant financial loss.

Section 172(1) of the Companies Act 2006; Duty to promote the success of the Company

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

- the likely consequences of any decision in the long term;*
This means the directors are not just thinking about short-term needs and also considers carefully the likely impact of its decisions on the Company's long-term prospects and value.
- the need to foster the company's business relationships with suppliers, customers and others;*
The Company draws upon the services and skills of a variety of different suppliers and other stakeholders to provide a quality service to its customers. Building and sustaining these relationships is an important factor for the Company's long-term success.
- the impact of the Company's operations on the community and the environment;*
If the Company fails to respect how it affects communities, it may face significant challenges to its business from a variety of stakeholders including customers, regulators and government.
- the desirability of the company maintaining a reputation for high standards of business conduct;*
A company's reputation is hard won and easily lost, maintaining high standards through a strong and positive culture as well as good governance is vital for building and sustaining long-term value.
- the need to act fairly as between members of the company;*
The interests of all members are considered and treated fairly.

Engaging with our stakeholders

Stakeholder	Why we engage	Key issues	How we manage	Actions and outcomes
Customers	Our customers lie at the heart of our business model. Should we fail to deliver great service or treat our customers unfairly, we are unlikely to meet our long-term financial and strategic objectives.	<ul style="list-style-type: none"> • We aim to design and tailor our products to meet our customers' needs at a price they can afford. • Ensuring we lend and collect responsibly and in compliance with latest FCA rules and guidance. • Having an effective complaint handling process. 	<ul style="list-style-type: none"> • Face-to-face contact is a key part of the lending process in branch-based lending, providing immediate feedback on how we are performing and how we might improve. • We also engage extensively via telephone, email and web. • Third-party customer satisfaction surveys and online recommendation engines. • We also work hard to ensure that if something goes wrong, our complaint handling processes deliver fair and appropriate outcomes. Numbers of complaints and root cause analysis are datapoints that we track and monitor closely. 	<ul style="list-style-type: none"> • Updated processes and systems embedding FCA guidance on COVID-related forbearance. • Amended face-to-face lending processes to comply with government guidelines. • Key learnings from assurance reviews are captured and once understood and assessed, are embedded into our policies and procedures; training; organisation structure; and incentive arrangements. • All complaints are tracked, analysed and fed back into business practice and the Company's 'good customer outcomes dashboard'. Upheld decisions by the FOS are also taken into account.

Strategic report

Regulators	<p>Maintaining a positive relationship with regulators is key. Through our engagement we aim to ensure they remain well-informed about our own performance as well as market dynamics and how any existing or proposed regulatory changes may impact consumers.</p>	<ul style="list-style-type: none"> • Sustaining a positive business culture is a key driver of behaviour within Company's. • Creditworthiness and affordability – ensuring that appropriate and proportionate checks are conducted at the point of lending. • Vulnerable customers – ensuring their circumstances are taken into account throughout the customer life cycle. • Claims management – proper handling of claims in a timely manner with root cause analysis and noting recent FOS cases. 	<ul style="list-style-type: none"> • We maintain a regular dialogue with the FCA, as part of its ongoing supervision process. • We also engage at a more strategic level through periodic face-to-face meetings and by responding to relevant consultations, policy documents and research. • We continue to keep the FCA and other regulatory bodies, including HM Treasury, fully informed regarding the Company's broader strategic plans. 	<ul style="list-style-type: none"> • Culture is monitored closely at both Company and NSF Plc Board level through a series of measures that are monitored as part of a continuous assessment process. • A 'three lines of defence' model is in place to identify and address any potential regulatory risks. • Following the FCA's review into guarantor loans we developed a redress methodology for customers deemed to have suffered harm to ensure that all affected customers receive their full redress amount. • We also take note of other sector developments to ensure that any read-across to our own business is assessed and any adjustments to processes and procedures made. • We respond to periodic information requests from the FCA that continues to track the performance and dynamics of the market.
Partners and suppliers	<p>Culturally, we are focused on ensuring we are professional at all times and want to establish a reputation as being a reliable customer with whom other firms can and want to do business.</p>	<ul style="list-style-type: none"> • Maintaining an effective procurement process. • Ensuring that the quality of the services being supplied meets the standards expected. • Confirmation that suppliers are also fulfilling their broader obligations of good business practice including issues such as diversity, gender pay, modern slavery and anti-bribery and corruption. • We monitor supplier payment terms to ensure we pay them within the constraints of the Prompt Payment Code. 	<ul style="list-style-type: none"> • We have clear procurement policies with proper oversight over all material contracts. • We seek to maintain strong relationships through regular meetings and contact by phone. • For a limited number of services such as insurance, we can sometimes arrange supply on a Group-wide basis. Other key suppliers include financial brokers, credit reference agencies and providers of data storage. 	<ul style="list-style-type: none"> • If a supplier falls short of the standards we expect or if there is a risk that continuing our relationship may compromise the Company's reputation or business prospects, then we will look to replace them with a comparable alternative, having already identified a number of these at the time of the original tender.

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Environment	It is clear that environmental, social and governance ('ESG') issues are becoming increasingly important for many of our key stakeholders including customers, staff, investors and HM Government.	<ul style="list-style-type: none"> • Our impact on the environment as well as how the environment can impact our business. • Use of energy and natural resources as well as CO2 emissions. • Supply chain, workforce management. • The Taskforce on Climate-related Financial Disclosures ('TCFD') has recommended a series of disclosures expected to be required from April 2022. 	<ul style="list-style-type: none"> • Whilst we are a small company compared with many others and given the nature of our business, we do not believe that we have a material impact on the environment. However, we are keen to minimise any impact that our activities might have. • The NSF Group qualified for the Energy Savings Opportunity Scheme ('ESOS'), established by the Energy Savings Opportunity Scheme Regulations 2014. • Having implemented a strategy to comply with the ESOS requirements, since confirmed by a third-party review and submitted to the Environment Agency, a further audit will be conducted in three years' time. 	<ul style="list-style-type: none"> • The pandemic meant that resource usage and mileage in the NSF Group were significantly reduced in 2020. • The NSF Group are developing a strategy and plan to enhance the Group's assessment and disclosure of ESG targets and related issues so that we will comply with future regulations and to help drive better decisions and long-term performance. • An update on the estimated volume of CO2 production from car mileage and volume of water and electricity used during 2020 together with comparisons with 2019 is available in the NSF Plc Annual Report for the year ended 31 December 2020, via the website nsfgroupplc.com.
Communities and charity	The majority of our business is conducted face-to-face through extensive national networks. As a result, being a valued member of the towns and cities where we have a physical presence is key. With 74 locations across the UK, we are already embedded within the communities where our customers, suppliers, regulators and other key stakeholders are based.	<ul style="list-style-type: none"> • Providing credit to many that have perhaps been excluded by mainstream providers can be an important lifeline and places a significant responsibility on us to get things right. • If we make poor lending decisions this can harm customers, damage company reputation in the community and damage our long-term business prospects. 	<ul style="list-style-type: none"> • Our cultural focus of 'doing the right thing' is embedded within our lending practices. • Amongst other charities we support debt-related charities such as Loan Smart. 	<ul style="list-style-type: none"> • In 2020 the NSF Group donated a total of £132,260 (2019: £53,220) to a range of charities including Loan Smart that seeks to help raise awareness about the dangers of illegal lending.

Business model

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

Long term funding

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

Culture

Providing customers with 'a helping, but firm hand' is an approach that is embedded deeply within our Company.

Strategic report

Infrastructure

The branch-based lending division within the Company is well-invested and highly scalable.

Compliance and risk management

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

Management

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

Business developments in 2020

- The pandemic tested every area of our business including our systems, procedures, people and culture.
- Whilst total loan book in the Company's direct subsidiary undertakings declined, previous investments in our people, infrastructure and culture helped to ensure that we maintained a strong market position in our branch-based lending division.
- We maintained high levels of contact with staff through regular and informative communications both in person and via the Company's intranet.
- Wherever possible we continued to meet customers face-to-face as this remains a core part of our lending process in branch-based lending.
- The Company was named Non-Mainstream Loan Provider of the Year for the second year running by Moneyfacts Consumer Awards 2020.
- The FCA's multi-firm review into guarantor loans and the requirement to pay customer redress meant that lending reduced significantly and the whole sector shrank in 2020.

Key performance indicators

While there were increased numbers of rescheduled and deferred loans, revenue yield remained broadly unchanged at 42.8% (2019: 41.7%), it was the 27.8% decline in the net loan book that drove the decline in revenue. A higher rate of delinquency, increased charge off and a step-up in provisioning meant that impairment as a percentage of revenue increased sharply, impacting the risk adjusted margin that fell from 31.8% to 22.9%. This fed through into a negative operating profit margin and negative return on asset of (12.8)% (2019: 2.1% positive return on assets).

Key performance indicators	2020	2019
Number of branches	74	73
Period-end customer numbers (000)	94.3	108.0
Period-end loan book (£m)	231.3	320.3
Average loan book (£m)	279.2	294.5
Loan book growth	(27.8)%	20.9%
Revenue yield	42.8%	41.7%
Risk adjusted margin	22.9%	31.8%
Impairment/revenue	46.5%	23.6%
Impairment/average loan book	19.9%	9.9%
Cost:income ratio	55.1%	51.4%
Operating profit margin	(29.8)%	5.0%
Return on assets	(12.8)%	2.1%

Future developments

- NSF Plc announced that the guarantor loans division within the Company's direct subsidiary undertakings would be placed into a managed run-off ultimately resulting in the closure of that business;
- Wind down and collect out the guarantor loans portfolio whilst controlling costs;
- Position the Company's and its direct subsidiary undertakings as the number one choice for applicants on average incomes that are also credit impaired;
- Stabilise and then grow the loan books of the branch-based lending division;
- Remain flexible and adapt to what is likely to be a highly dynamic macroeconomic environment
- Continue to invest in driving good customer outcomes whilst supporting our staff.

Strategic report

Implications of Brexit

As an exclusively UK-focused lender, the Company exposure to changes in EU-orientated legislation is limited, but we nonetheless have been monitoring the impact of Brexit and its potential effect on both the Company's own business model and those of our commercial partners, such as Credit Reference Agencies ('CRAs'). The Credit Rating Agencies Regulations 2019 came into effect on 31 December 2020 and effectively 'onshored' previous EU legislation and enshrined it into UK law without any material changes. The CRA partners of the Company are shown on the FCA register with full permissions as required to carry on regulated activities. Whilst the Company do not trade with, or send data to businesses in the EU, some of their legal documents referenced the EU or at least EU regulation, some of which has also been onshored in recent months. This has meant changes to some domestic legislation affecting the Company as The Financial Services and Economic and Monetary Policy (Consequential Amendments) (EU Exit) Regulations 2020, changing pre-contract consumer credit information documentation as well as changes to The Data Protection Act 2018 and the associated changes to what is now the UK GDPR which sits alongside it as per the Keeling Schedule. The Directors have therefore taken the requisite steps to ensure that all of the Company's legal and contractual agreements reflect such changes ahead of the required deadlines. EU/EEA citizens seeking to continue working in the UK after 30 June 2021 need to have applied for settled status under the EU Settlement Scheme. Whilst the number of EU/EEA nationals directly employed by the Company is small, the Company has reminded staff of these requirements for them to apply for pre-settled or settled status. If the Company wishes to employ anyone from the EU/EEA who is not eligible for EU settled status, then the company concerned will have to apply to the Home Office to become eligible to sponsor applications.

Covid-19

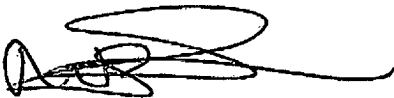
The impact of the pandemic has been severe and has affected all areas of the business conducted by the Company, requiring each the entities to adapt to a highly dynamic and uncertain business and macroeconomic environment.

Social distancing rules as well as a series of national and regional lockdowns, in conjunction with the offer of unprecedented levels of forbearance for customers, placed significant strain on the business model of the Company.

Whilst the pandemic forced a temporary adaption of the approach in the branch-based lending division within the Company, the Directors remain committed to the traditional face-to-face lending models and continue to believe that this approach can deliver superior outcomes for customers and significant and sustainable benefits for our other key stakeholders over the medium term.

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

Approved and signed by the Board of Directors by



J Wiggins
Director
Date 30 July 2021

Directors' report

The directors submit their annual report and the audited financial statements for the year ended 31 December 2020.

Results for the year

The loss for the year was £42.8m (2019: £11.2m loss). The directors have not recommended a dividend during the year (2019: £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 (Resigned 16 December 2020)
M Flint	Executive Director (Resigned 15 July 2021)
P Reynolds	Non-Executive Director
N Teunon	Non-Executive Director (Resigned 30 April 2020)
P Gill	Non-Executive Director
J Gillespie	Non-Executive Director
J de Blocq van Kuffeler	Non-Executive Director (Appointed 19 May 2020)
A Forsyth	Director (Appointed 26 March 2021)

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 of the financial statements for Everyday Loans Limited can be obtained from 1st Floor North, 2 Dukes Meadow, Bourne End, Buckinghamshire, SL8 5XF.

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 (2019: nil). All directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

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 have not recommended a dividend during the year (2019: £nil).

Political donations

No political donations were made by the Company during the year (2019: £nil).

Environmental factors

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

Financial instruments

Details of the financial risk management objectives and policies of the Company and the exposure of the Company to market, interest rate, credit, capital management and liquidity risk are included in note 5 to the financial statements.

Directors' report

Subsequent events

Branch-based lending review

In April 2021 the NSF Group commissioned a detailed and independent review of its lending and complaints handling activities within the branch-based lending division of the Company. This review remains ongoing and includes an assessment of whether the issues identified in guarantor loans have any implications for this division. The review also includes an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending.

Taxation in the March 2021 Budget

In the 3 March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This is a non-adjusting event and will have a consequential effect on the Company's future tax charge.

Guarantor loans division operational review

On 30 June 2021 having completed a detailed review of the guarantor loans division and its prospects, the Board of NSF Plc has concluded that shareholder interests will be best served by placing the division into a managed run-off and ultimately closing the business. Whilst hugely disappointing, collecting out the loan book is the only rational conclusion given the combined impact of the pandemic, the FCA review into guarantor loans and the expected increase in costs in order to meet revised FCA requirements that would necessarily impede any potential recovery in profitability in the future. Whilst disappointed to be announcing our exit from this segment, the Directors remain focused on concluding its discussions with the FCA regarding redress and completing the independent reviews of its other businesses so that it can then expedite the completion of a substantial capital raise in NSF Plc of around £80 million (the 'Capital Raise') during the third quarter of 2021. The Capital Raise, if successful, would fund the payment of redress and mean that the current constraints on NSF Group's ability to execute the business strategy would be removed. At the same time, the outlook for the NSF Group would be significantly improved on the back of a strengthened balance sheet and with the prospect of a substantial growth opportunity in the branch-based lending division of the Company.

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 principal activity of the Company is the provision of personal instalment loans. The Company receives intercompany funding from NSF Finco Limited (another subsidiary within the Non-Standard Finance Group (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. As the Company is a guarantor under the Group's external financing facilities and any equity contributions received would ultimately come from its ultimate parent NSF, its going concern status is directly impacted by the ultimate going concern position of the Group. Therefore, whilst the assessment for the purposes of these financial statements reflects that of the Company, consideration has also been made in regard to that of the Group in order to reach a conclusion on going concern.

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

Under the base case, additional equity funds in the second half of 2021 mean that the Group does not breach its covenants in the next 12 months and therefore would not require covenant waivers from its lenders in order to remain viable. The base case prepared in June 2021 assumed no breach in covenant as at 30 June 2021 as on the basis of current forecasts the Group does not expect to do so.

Directors' report

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

The Directors additionally ran a liquidity reverse stress test on the base case to identify the level that expected collections would have to fall by so as to cause the Group to deplete all cash reserves. This showed that, assuming no changes to lending levels and operating expenses, collections would be required to fall by over 23% from current expected levels in the base case for the Group to then be unable to fund operating expenses and interest payments beyond the next 12 months. Based on evidence to date, such a reduction in collections, with no mitigating actions, was thought by the Directors to be an unlikely event, though the Directors also recognised access to such cash generated by the collections is ring fenced by the lenders and therefore in the event of a breach of covenants, the ring fence is triggered, and the cash would not be available to the Group or Company.

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

On the basis of the above analysis, the Directors note that a material uncertainty exists regarding the successful execution of a capital raise, current and future impacts of COVID-19 and the impact of potential levels of redress and claims across the Group. The range of assumptions and the likelihood of them all proving correct creates material uncertainty on liquidity and solvency under both the base case and downside scenarios and as such, creates material uncertainty as to the corresponding impact on the Company.

In making their assessment, the Company's Directors took account of the Group's current financial and operational positions, the status of conversations with the regulator and advisors, as well as recent trading activity and in particular, recent collections activity. They noted the proposed equity raise to support the Group and in particular the continued interest of the Group's major shareholder Alchemy in supporting a capital raise subject to the outcome of the Group's engagement with its lenders, Alchemy's analysis of the FCA and Group's regulatory reviews, and greater levels of certainty around redress and claims. In addition, they noted, contingent on a successful capital raise having been completed, the informal support of a proposed extension to the term of the Group's existing facilities by its lenders. The Directors also note the existence of the securitisation facility, however they noted that this is currently suspended and the ability to use this facility remains outside of the Group's control as it is subject to the consent of the lenders and the satisfaction of standard covenants for a facility of this type.

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

The assumption of shareholder support for additional equity, lender support for the extension of existing financing facilities, and the satisfactory conclusion of regulatory and redress matters within or close to the assumptions made in the base case, forms a significant judgement of the Directors in the context of approving the Company's going concern status.

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

Directors' statement as to disclosure of information to auditor

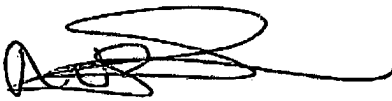
Each Director at the date of approval of the financial statement confirms that so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that she/he ought to have taken as a director in order to make her/himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

Directors' report

Auditor

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

Approved and signed on behalf of the board of directors by



J Wiggins
Director

Date: 30 July 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements 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:

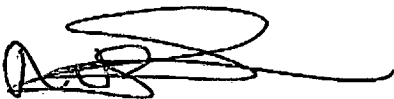
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to 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 together with a description of the principal risks and uncertainties that they face.



J Wiggins
Director

Date: 30 July 2021

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 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs); 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 24.

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

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 that the Company is dependent on the Group to continue as a going concern. There is a material uncertainty on the ability of the Group to continue as a going concern. This material uncertainty is as a result of the performance of the Group, of which the Company is a subsidiary, and its ability to stay within its financial covenants, with both very much influenced by a number of factors not entirely within the Group's control including the successful execution of a capital raise, current and future impacts of COVID-19 on collections and lending volumes, and the impact of potential levels of redress across the Group as well as the outcome of the independent reviews being performed at the branch-based lending and home credit divisions. As stated in note 1.3, these events or conditions, along with the other matters as set forth in note 1.3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

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

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

Independent auditors' report

to the members of Everyday Lending Limited

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

We have nothing to report in this regard.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the Company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities.

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

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

We discussed among the audit engagement team involving relevant internal specialists, including tax, impairment, valuations, IT, analytics and modelling, fraud, data, regulatory risk and credit risk specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

Independent auditors' report

to the members of Everyday Lending Limited

- **Bad debt provision:**
 - We have reconciled the bad debt provision per the core systems to the trial balance; and
 - We have challenged the assumptions underpinning the bad debt provision, making reference to both historical and post-balance sheet performance.
- **Revenue recognition:**
 - We have considered the appropriateness of the interest recognition methodology for compliance with IFRS 9;
 - We have challenged management's assumptions in respect of cash flow estimates by comparing to underlying data sources and benchmarks; and
 - We have tested management's manual adjustments relating to interest recognition by recalculating the interest adjustments made based on the modified terms of the loans, specifically in relation to loans that have been modified in the period.
- **GLD redress provision:**
 - We have assessed the completeness of management's methodology against the findings raised by the FCA and review performed by the skilled person;
 - We have involved our market conduct specialists in our challenge of management's valuation of the redress provision and sensitivities disclosed; and
 - We have tested the methodology used to determine the provision, including involving our data specialists in reperforming redress decisions in line with the communicated methodology and recalculated the provision.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- involving our fraud specialists to assist with design of audit procedures linked to fraud risk;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the Financial Conduct Authority.

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 returns adequate for our audit have not been received from branches not visited by us; 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.

Independent auditors' report

to the members of Everyday Lending Limited

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.

DocuSigned by:

Simon Stephens

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

30 July 2021

Statement of comprehensive income

		Year ended 31 December 2020	Year ended 31 December 2019
	Note	£000	£000
Interest, fees and similar income	3	119,561	122,803
Interest expense and similar charges		(25,212)	(23,783)
Net income		94,349	99,020
Impairment losses on loans and advances	11	(55,640)	(29,013)
Modification loss	11	(6,282)	(1,181)
Derecognition loss	11	(2,643)	(440)
Other Operating Income		474	954
Operating expenses	7	(65,934)	(63,146)
Operating (loss)/profit		(35,676)	6,194
Exceptional items	9	(5,509)	(15,599)
Loss before income tax		(41,185)	(9,405)
Income tax expense	10	(1,580)	(1,798)
Loss for the year		(42,765)	(11,203)
Loss attributable to:			
Equity holders of the Company		(42,765)	(11,203)
Total comprehensive loss attributable to:			
Equity holders of the Company		(42,765)	(11,203)

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.

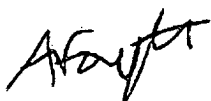
The notes on pages 21 to 50 are an integral part of these financial statements.

Statement of financial position

	Note	31 Dec 2020 £000	31 Dec 2019 restated £000	1 Jan 2019 restated £000
ASSETS				
Non-current assets				
Deferred tax asset	14	-	1,580	940
Total non-current assets		-	1,580	940
Current assets				
Loans and advances to customers	11	231,255	320,298	264,853
Cash and cash equivalents	13	27,347	6,834	8,539
Current tax asset		288	1,453	103
Intercompany loan	15	3,566 ¹	4,313 ¹	12,988 ¹
Other assets	16	98 ¹	763 ¹	34 ¹
Total current assets		262,554	333,661	286,517
Total assets		262,554	335,241	287,457
EQUITY AND LIABILITIES				
Liabilities				
Intercompany liability	17	254,317 ¹	283,735 ¹	241,969 ¹
Non-current liabilities		254,317	283,735	241,969
Other liabilities	18	18,693 ¹	19,197 ¹	1,976 ¹
Current liabilities		18,693	19,197	1,976
Total liabilities		273,010	302,932	243,945
Equity attributable to the Company's equity holders				
Share capital	19	5	5	5
Share premium	19	49,374	49,374	49,374
Retained loss		(59,835)	(17,070)	(5,867)
Total equity		(10,456)	32,309	43,512
Total equity and liabilities		262,554	335,241	287,457

¹ For 31 December 2019 and 1 January 2019, other assets incorrectly included an intercompany loan asset balance of £813k and £9,488k respectively. Other liabilities also incorrectly included an intercompany loan liability balance of £1,608k and £1,608k respectively. The balances have been restated above to reflect this and the 2020 balances also reflects this classification.

The financial statements on pages 17 to 50 were approved by the Board of Directors on 30 July 2021 and were signed on its behalf by:



A Forsyth
Director

Company number: 05850869

The notes on pages 21 to 50 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 2019		5	49,374	(5,867)	43,512
Total comprehensive loss for the year:					
Loss for the year		-	-	(11,203)	(11,203)
Total comprehensive loss for the year		-	-	(11,203)	(11,203)
Balance at 31 December 2019		5	49,374	(17,070)	32,309
Total comprehensive loss for the year:					
Loss for the year		-	-	(42,765)	(42,765)
Total comprehensive loss for the year		-	-	(42,765)	(42,765)
Balance at 31 December 2020		5	49,374	(59,835)	(10,456)

The notes on pages 21 to 50 are an integral part of these financial statements.

Statement of cash flows

		Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
	Note		
Cash flows from operating activities			
Loss for the year		(42,765)	(11,203)
Adjustments for:			
Income tax expense	10	1,580	1,798
Impairment losses on loans and advances		55,640	29,013
Modification loss		6,282	1,181
Derecognition loss		2,643	440
Income tax paid		1,165	(3,788)
Cash flows from operating profits before changes in working capital		24,545	17,441
Changes in operating assets and liabilities:			
Net decrease/(increase) in loans and advances to customers		24,477	(86,079)
Net decrease in other assets		1,479	7,946
Net increase in other liabilities		7,563	17,221
Net cash inflow/(outflow) from operating activities		33,519	(60,912)
Cash flows from financing activities			
(Decrease)/increase in other borrowed funds		(37,551)	41,766
Net cash (outflow)/inflow financing activities		(37,551)	41,766
Net increase/(decrease) in cash and cash equivalents		20,513	(1,705)
Cash and cash equivalents at 1 January		6,834	8,539
Cash and cash equivalents at 31 December	13	27,347	6,834

The notes on pages 21 to 50 are an integral part of these financial statements.

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 1st Floor North, 2 Dukes Meadow, Bourne End, Buckinghamshire, SL8 5XF. The principal activity of the Company is the provision of personal instalment loans.

1.2 Basis of presentation

As part of a listed Group, the Company elected to prepare its financial statements in accordance with international accounting standards in conformity with the requirements 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.

The Company's financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency), and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Prior year restatement

In the year ended 31 December 2020, intercompany assets and intercompany liabilities have been correctly disclosed separately and are no longer embedded in the other assets and liabilities to enable users to understand the nature of the assets and liabilities presented in the financial statements. The balances in the year ended 31 December 2019 have also been amended to ensure the information remains comparable. Refer to the Statement of Financial Position on page 18 and notes 4, 5 and 5 on pages 35 to 41.

1.3 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 principal activity of the Company is the provision of personal instalment loans. The Company receives intercompany funding from NSF Finco Limited (another subsidiary within the Non-Standard Finance Group (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. As the Company is a guarantor under the Group's external financing facilities and any equity contributions received would ultimately come from its ultimate parent NSF, its going concern status is directly impacted by the ultimate going concern position of the Group. Therefore, whilst the assessment for the purposes of these financial statements reflects that of the Company, consideration has also been made in regard to that of the Group in order to reach a conclusion on going concern.

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

Notes to the financial statements

1.3 Going concern assessment (*continued*)

solvency position is very much dependent on the outcome of the Group, this also creates a material uncertainty regarding the ability of the Company to remain a going concern,

Under the base case, additional equity funds in the second half of 2021 mean that the Group does not breach its covenants in the next 12 months and therefore would not require covenant waivers from its lenders in order to remain viable. The base case prepared in June 2021 assumed no breach in covenant as at 30 June 2021 as on the basis of current forecasts the Group does not expect to do so.

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

The Directors additionally ran a liquidity reverse stress test on the base case to identify the level that expected collections would have to fall by so as to cause the Group to deplete all cash reserves. This showed that, assuming no changes to lending levels and operating expenses, collections would be required to fall by over 23% from current expected levels in the base case for the Group to then be unable to fund operating expenses and interest payments beyond the next 12 months. Based on evidence to date, such a reduction in collections, with no mitigating actions, was thought by the Directors to be an unlikely event, though the Directors also recognised access to such cash generated by the collections is ring fenced by the lenders and therefore in the event of a breach of covenants, the ring fence is triggered, and the cash would not be available to the Group or Company.

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

On the basis of the above analysis, the Directors note that a material uncertainty exists regarding the successful execution of a capital raise, current and future impacts of COVID-19 and the impact of potential levels of redress and claims across the Group. The range of assumptions and the likelihood of them all proving correct creates material uncertainty on liquidity and solvency under both the base case and downside scenarios and as such, creates material uncertainty as to the corresponding impact on the Company.

In making their assessment, the Company's Directors took account of the Group's current financial and operational positions, the status of conversations with the regulator and advisors, as well as recent trading activity and in particular, recent collections activity. They noted the proposed equity raise to support the Group and in particular the continued interest of the Group's major shareholder Alchemy in supporting a capital raise subject to the outcome of the Group's engagement with its lenders, Alchemy's analysis of the FCA and Group's regulatory reviews, and greater levels of certainty around redress and claims. In addition, they noted, contingent on a successful capital raise having been completed, the informal support of a proposed extension to the term of the Group's existing facilities by its lenders. The Directors also note the existence of the securitisation facility, however they noted that this is currently suspended and the ability to use this facility remains outside of the Group's control as it is subject to the consent of the lenders and the satisfaction of standard covenants for a facility of this type.

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

The assumption of shareholder support for additional equity, lender support for the extension of existing financing facilities, and the satisfactory conclusion of regulatory and redress matters within or close to the assumptions made in the base case, forms a significant judgement of the Directors in the context of approving the Company's going concern status.

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

Notes to the financial statements

1.4 Adoption of new and revised IFRS standards

New and amended standards and interpretations issued but not effective for the financial year ending 31 December 2020

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

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

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 1.14), 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 2020 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. The Company has incurred £5.5m of exceptional costs for the year ended 31 December 2020 (2019: £15.6m), refer to note 9 for details.

1.9 Income taxation

The tax credit/expense represents the sum of the tax currently receivable/payable and any deferred tax.

The current tax credit/charge is based on the taxable loss for the year. Taxable loss differs from net loss as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's asset/liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year-end date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised. Deferred tax is charged or credited to comprehensive income, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Notes to the financial statements

1.9 Income taxation *(continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle on a net basis.

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.

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 payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

While cash and cash equivalents 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.

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

Notes to the financial statements

1.11 Financial assets (*continued*)

The Company does not use hedge accounting.

1.12 Trade and other receivables

Trade and other receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the EIR method. Intercompany loans have been assessed for impairment, refer to note 15 and 17 for further detail.

1.13 Amounts receivable from customers

Amounts receivable from customers originated by the Company are initially recognised at the amount loaned to the customer plus directly attributable costs. Subsequently, amounts receivable from customers are increased by revenue and reduced by cash collections and any deduction for loan loss provisions.

1.14 Recognition of expected credit losses

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

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

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

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

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

The branch-based lending and the guarantor loans divisions use historical data and risk models to determine ECL. Risk models are used in order to determine the PD of customer receivables and the corresponding IFRS 9 stage categorisations. The ECL assessment at the branch-based lending and guarantor loan divisions are run at account level and estimated by reference to future cash flows based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. Loan loss provisions are thereby calculated by reference to their stage and measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted using the EIR of the loan.

Notes to the financial statements

1.14 Recognition of expected credit losses (*continued*)

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

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

Macroeconomic variables

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

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

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

For the year ended 31 Dec 2020	Positive	Base	Downside Stress
2021			
Maximum (Peak) unemployment rate	5.1%	7.5%	9.3%
Maximum (Peak) GDP rate ¹	102	97	95
Maximum (Peak) Base rate	0.1%	0.1%	2.0%
Maximum (Peak) HPI rate ¹	104	101	100
Maximum (Peak) CPI rate	110	110	113

Notes to the financial statements

1.14 Recognition of expected credit losses (*continued*)

2022

Maximum (Peak) unemployment rate	4.6%	7.3%	11.0%
Maximum (Peak) GDP rate ¹	105	101	95
Maximum (Peak) Base rate	0.10%	0.10%	2.00%
Maximum (Peak) HPI rate ¹	108	102	87
Maximum (Peak) CPI rate	112	111	118

2023

Maximum (Peak) unemployment rate	4.0%	6.2%	9.9%
Maximum (Peak) GDP rate ¹	106	102	98
Maximum (Peak) Base rate	0.10%	0.10%	2.00%
Maximum (Peak) HPI rate ¹	113	107	72
Maximum (Peak) CPI rate	113	113	122

For the year ended 31 Dec 2020

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

¹ Referenced against first month equaling 100bps

For the year ended 31 Dec 2019

	Positive	Base	Downside Stress	Severe Stress
2020				
Maximum (Peak) unemployment rate	3.9%	4.0%	5.7%	8.0%
Maximum (Peak) GDP rate ¹	103	101	100	100
Maximum (Peak) Base rate	0.8%	0.9%	0.9%	4.0%
Maximum (Peak) HPI rate ¹	104	102	100	100
Maximum (Peak) CPI rate	110	111	112	112
2021				
Maximum (Peak) unemployment rate	3.9%	4.0%	5.9%	8.6%
Maximum (Peak) GDP rate ¹	106	103	98	96
Maximum (Peak) Base rate	0.75%	1.03%	1.03%	4.00%
Maximum (Peak) HPI rate ¹	108	105	96	87
Maximum (Peak) CPI rate	111	113	116	118

Notes to the financial statements

1.14 Recognition of expected credit losses (*continued*)

2022				
Maximum (Peak) unemployment rate	3.9%	4.0%	5.9%	8.5%
Maximum (Peak) GDP rate ¹	109	105	100	97
Maximum (Peak) Base rate	0.75%	1.13%	1.13%	4.00%
Maximum (Peak) HPI rate ¹	113	110	91	72
Maximum (Peak) CPI rate	112	115	120	121
For the year ended 31 Dec 2019	Positive	Base	Downside Stress	Severe Stress
2020				
Average unemployment rate	3.9%	4.0%	4.9%	6.0%
Average GDP rate ¹	102	101	98	97
Average Base rate	0.75%	0.79%	0.79%	2.25%
Average HPI rate ¹	102	101	98	94
Average CPI rate	109	110	110	110
2021				
Average unemployment rate	3.9%	4.0%	5.9%	8.5%
Average GDP rate ¹	105	102	98	96
Average Base rate	0.75%	0.97%	0.97%	4.00%
Average HPI rate ¹	106	104	93	80
Average CPI rate	111	112	114	115
2022				
Average unemployment rate	3.9%	3.9%	5.7%	8.3%
Average GDP rate ¹	108	104	99	97
Average Base rate	0.75%	1.09%	1.09%	4.00%
Average HPI rate ¹	111	107	90	68
Average CPI rate	112	114	118	120

¹ Referenced against first month equaling 100bps

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

Coronavirus (COVID-19) pandemic impact on expected credit losses

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

Significant increase in credit risk ('SICR')

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

Notes to the financial statements

1.14 Recognition of expected credit losses (*continued*)

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.

Within the branch-based lending and guarantor loans divisions there are three ways a customer account can demonstrate SICR:

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

Along with the presumption that loans past 30 days due or loans subject to curing treatment represents a SICR, a quantitative assessment is carried out. This quantitative assessment involves evaluating the impact of increased credit losses on risk adjusted margin ('RAM' being revenue less impairment) by score band across the loan portfolio. A PD above the minimum level (deemed as the 'stage 2 threshold') provides a very close approximation to the point at which the 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.
- Vintage – effects that relate to the period in which the accounts were originated. The most obvious driver of changes in performance from this perspective is changes to credit strategy.

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

As a back-stop when an asset becomes 30 days past due, the 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. In 2019, the business introduced a policy to categorise these loans as performing or not performing based on their delinquency at the reporting date. For those deemed performing for a full 12 months are deemed to have moved back to stage 1. Loans that have performed for more than six months but less than 12 months are deemed to have moved back to stage 2. Those loans which were deemed not performing at year end will remain in stage 3.

Definition of default

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

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

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

Notes to the financial statements

1.14 Recognition of expected credit losses (*continued*)

When assessing if the borrower is unlikely to pay their 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 term 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 Company considers the following:

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

If the contractual cash flows on a financial asset have been renegotiated or otherwise modified the 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 behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the 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.

Notes to the financial statements

1.14 Recognition of expected credit losses (*continued*)

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.

Impact of Coronavirus (COVID-19) pandemic impact on the write off policy

During 2020, the guarantor loan division temporarily amended their write off policy to allow customers with emergency payment freezes "EPF" additional time to recover their financial situation. Although these customer's balances are greater than 180 days in arrears and have not been written off, they have been fully provided for. There was no change to the branch-based lending division in the current year.

1.15 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.

1.16 Financial liabilities and equity

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

1.17 Intercompany liability – NSF Finco Limited

Intercompany liability – NSF Finco Limited includes borrowings 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.

1.18 Provisions

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

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

1.19 Dividends paid

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

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

1.20 Equity instruments

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

Notes to the financial statements

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the year-end date and the reported amounts of revenues and expenses during the reporting period.

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

Critical accounting judgements:

Going concern

As part of the Company's going concern assessment, judgement has been made in the form of assumption of shareholder support for additional equity, lender support for the extension of existing financing facilities, and the satisfactory conclusion of regulatory and redress matters within or close to the assumptions made in the base case, which forms a significant judgement of the Directors in the context of approving the Company's going concern status. Refer note 1 of the financial statements for further detail.

The Company has made no other material accounting judgements or key sources of estimation uncertainty in the preparation of the financial statements for the year ended 31 December 2020.

Amounts receivable from customers – significant increase in credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk and therefore the 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, for branch-based lending and guarantor loans, a PD above the minimum level (deemed as the 'stage 2 threshold') provides a very close approximation to the point at which the Company would not have written the loan and therefore represents a significant increase in credit risk. Management therefore considers the stage 2 threshold to be a critical accounting judgement in the determination of ECL.

Key sources of estimation uncertainty:

Amounts receivable from customers

The Company assesses its portfolio of amounts receivable from customers for ECL at each balance sheet date. The following are key estimations that the Directors have used in the process of applying the Company's recognition of ECL policy:

- Incorporation of macroeconomic data: establishing the number and relative weightings of macroeconomic scenarios for each type of product/market and determining the macroeconomic information relevant to each scenario. The Company incorporates macroeconomic information into both its assessment of whether the credit risk of a financial asset has increased significantly since initial recognition and its measurement of PD. This is achieved by developing a number of potential economic scenarios and modelling the PD for each scenario. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted PD which is then used to calculate ECL. Therefore, when measuring PD and ECL the 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.
- COVID-19 overlay: During the year, the Company made adjustments in order to reflect the higher PD, LGD and EAD for the proportion of branch-based lending and guarantor loan customers who were financially impacted by the pandemic. This was informed by the Company's detailed analysis of past repayment behaviours and expected repayments behaviour across the entire customer base. In the branch-based lending division, a COVID-19 overlay was derived by consideration of the recent collection performance on COVID-19 affected accounts and whether any impact on collection performance was deemed to be temporary or permanent. An overlay adjustment was therefore made to increase provisions for accounts for which the impact was deemed permanent and/or who were not making full payments. For the guarantor loans division, recent payment performance of those customers who were impacted by COVID-19 but are no longer on an emergency payment freeze (EPF) were used to inform expected delinquency trends of customers who had not yet resumed payment following an EPF. A provision overlay was then applied to reflect expected performance consistent with the recent performance behaviours observed.

Notes to the financial statements

2. Critical accounting judgements and key sources of estimation uncertainty (*continued*)

Sensitivity analysis of amounts receivable from customers – key sources of estimation uncertainty:

COVID-19 overlay

The sensitivity of the COVID-19 overlay adjustment applied by the branch-based lending and guarantor lending divisions are noted below. The below sensitivities assume all other variables used in the calculation of expected credit losses (ECL) remains constant.

Branch based lending:

If no overlay is applied to 50% of COVID-19 impacted customer accounts who have missed payments and are deemed to be permanently impacted, ECL would reduce by £0.9m.

If 50% of COVID-19 impacted customer accounts deemed as temporarily impacted and have missed payments, are permanently impacted, ECL would increase by £1.2m.

Guarantor lending:

If no overlay is applied to 50% of COVID-19 impacted customer accounts, ECL would reduce by £1.6m.

If 50% of COVID-19 impacted accounts were assumed to be written off and therefore fully provided for, ECL would increase by £3.7m.

Branch based lending division:

The calculation of ECL in branch-based lending uses historical data to forecast future cash flows, discounted at the receivable's EIR. A sensitivity run on collections performance shows that a 5% increase or decrease in expected cash collections would result in a £8.0m increase/decrease in provisions. The suitability of the 5% sensitivity run has been reviewed and considered appropriate based on historical performance.

Guarantor loans division

The calculation of ECL in the Guarantor Loans Division uses historical data to forecast future cash flows, discounted at the receivable's EIR. A sensitivity run on collections performance shows that a 10% increase or decrease in expected cash collections would result in a £5m increase/decrease in provisions. The suitability of the 10% sensitivity run has been reviewed and considered appropriate based on historical performance.

Provisions

Provision for customer complaints

Provisions for customer complaints are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Judgement is applied to determine whether the criteria for establishing and retaining a provision have been met. Provisions for customer redress are in respect of complaints received where the outcome has not yet been determined. Judgement is applied to determine the quantum of such provisions, including making assumptions regarding the extent to which the complaints received may be upheld, average redress payments and related administrative costs. Past experience is used as a predictor of future expectations with management applying overlays where necessary depending on the nature and circumstances. The cost could differ from the Company's estimates and the assumptions underpinning them and could result in a further provision being required. There is also uncertainty around the impact of proposed regulatory changes, claims management companies and customer activity.

The key assumptions in these calculations which involve management judgement and estimation relate primarily to the projected costs of existing complaints where it is considered likely that customer redress will be appropriate.

These key assumptions are:

- uphold rate percentage – the expected average uphold rate applied to existing complaint volumes where it is considered more likely than not that customer redress will be appropriate;
- average redress cost – the estimated compensation, inclusive of balance adjustments and cash payments, for upheld complaints included in the provision; and

Notes to the financial statements

2. Critical accounting judgements and key sources of estimation uncertainty (*continued*)

- customer complaint volumes - the level of claims which would be due remediation in future based on recent experience of valid claims.

These assumptions remain subjective due to the uncertainty associated with future complaint volumes and the magnitude of redress which may be required. Complaint volumes may include complaints under review by the Financial Ombudsman Service, cases received from complaint management companies or cases lodged directly by customers.

Branch based lending division

A 50% increase/decrease in customer complaints volumes would result in a £0.45m increase/decrease in provisions for the Company, a 50% increase/decrease in average claim redress would result in a £0.45m increase/decrease in provisions for the Company, and a 50% increase/decrease in upheld rate would result in a £0.45m increase/ decrease in provisions for the Company.

Guarantor Loans division

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'). Having formulated a detailed redress methodology in conjunction with its advisers, the Directors 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 as such the Directors made an associated provision totaling £15.6m in the financial statements for the year ended 31 December 2019. Whilst discussions with the FCA regarding the methodology of redress for affected customers has not yet concluded, Everyday Lending Limited holds a £15.3m provision for redress in the balance sheet as at 31 December 2020. The provision represents an accounting estimate of the expected future outflows arising using information available as at the date of signing these financial statements. Identifying whether a present obligation exists and estimating the probability, timing, nature and quantum of the redress payments that may arise from past events requires judgements to be made on the specific facts and circumstances relating to individual customers. It is possible that the eventual outcome may differ, perhaps materially, from the current estimate and this could impact the financial statements. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, the uncertainty surrounding the final cost of redress is heightened by the fact that the FCA has not yet approved the methodology proposed. Therefore, although the Directors believe their best estimate represents a reasonably possible outcome; there is a risk of a less favourable outcome. Refer to note 18 for more detail regarding the customer redress provisions.

As at the date of signing these financial statements, the Company is working closely with the FCA to reach a conclusion regarding the redress methodology. The FCA has raised questions around the Company's assessment of whether or not the customer has suffered harm (in instances where we have concluded that the affordability assessment at the time of underwriting was not appropriate). Under the Company's proposed methodology there are a range of factors which need to be met in order to conclude that a customer has suffered harm, including external indicators that harm may have been incurred. The current methodology requires multiple indicators to be present to trigger redress, however, should only one of these factors in isolation be taken as a definition of harm, then the redress provision could be c.£10m higher than that currently provided for in the financial statements. Furthermore, until such time the redress approach has been agreed with the FCA, there remains uncertainty around this estimate and therefore the ultimate cost could be higher than this £10m sensitivity indicates. The ultimate redress amount will also be subject to a manual case-by-case review of customers who have incomplete electronic records that may be affected. This could result in the ultimate pay out being higher than estimated under the proposed methodology.

Macroeconomic data

The Company has performed sensitivity analysis on the key macroeconomic variables. The model used reflects a blended outcome based on four macroeconomic scenarios of base, downside severe stress, downside stress and positive (refer to note 1 for further detail), with which specified weightings are applied. The macroeconomic scenarios are reviewed no less than twice annually.

As summarised below, the outputs demonstrate the impact of changing the probability weightings of the scenarios adopted on the loan loss provisioning figures. These sensitivities take into account the impact of COVID-19 on underlying macroeconomic variables and weightings.

Notes to the financial statements

2. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Branch-based lending

Macroeconomic weightings	Weighting	Impact on ECL £000
Current:		
Base	50%	
Downside stress	40%	
Severe downside stress	0%	
Positive	10%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Optimistic:		
Base	75%	
Downside stress	10%	
Severe downside stress	0%	
Positive	15%	
Impact on ECL		134
Pessimistic:		
Base	50%	
Downside stress	50%	
Severe downside stress	0%	
Positive	0%	
Impact on ECL		(68)

Guarantor loans		
Macroeconomic weightings	Weighting	Impact on ECL £000
Current:		
Base	50%	
Downside stress	40%	
Severe downside stress	0%	
Positive	10%	
Impact on ECL		n/a
Sensitivity of adjusting weightings		
Optimistic:		
Base	75%	
Downside stress	10%	
Severe downside stress	0%	
Positive	15%	
Impact on ECL		119
Pessimistic:		
Base	50%	
Downside stress	50%	
Severe downside stress	0%	
Positive	0%	
Impact on ECL		(203)

Notes to the financial statements

3. Interest income

Revenue is recognised by applying the EIR to the carrying value of a loan. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

	2020 £'000	2019 £'000
Interest income	119,561	122,803

4. Maturity analysis of assets and liabilities

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

The table below shows the contractual maturity analysis of the Company's financial assets and liabilities as at 31 December 2020:

	Due within one year £000	Due after more than one year £000	Total £000
At 31 December 2020			
ASSETS			
Cash and cash equivalent	27,347	-	27,347
Loans and advances to customers	107,143	124,112	231,255
Intercompany loan	-	3,566	3,566 ²
Other assets	98	-	98 ²
Total assets	134,588	127,678	262,266
LIABILITIES			
Intercompany liability	-	254,317	254,317 ²
Other liabilities	18,693	-	18,693 ²
Total liabilities	18,693	254,317	273,010

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 equivalents	6,834	-	6,834
Loans and advances to customers	135,530	184,768	320,298
Intercompany loan	-	4,313	4,313 ²
Other assets	763	-	763 ²
Total assets	143,127	189,081	332,208
LIABILITIES			
Intercompany liability	-	283,735	283,735 ²
Other liabilities	19,197	-	19,197 ²
Total liabilities	19,197	283,735	302,932

² In the financial statements for the year ended 31 December 2019, other assets and other liabilities incorrectly included an intercompany loan asset balance of £813k and intercompany loan liability balance of £1,608k respectively. The 2019 maturity analysis of assets and liabilities table above has been restated to reflect this and the 2020 table also reflects this classification.

Notes to the financial statements

5. Financial risk management

The Company's operations expose it to a variety of financial risks including credit risk, liquidity risk and interest rate risk. The Directors have delegated the responsibility of monitoring financial risk management to the Risk Committee.

The Company's objectives are to maintain a well-spread and quality-controlled customer base by applying strong emphasis on good credit management, both through strict lending criteria at the time of underwriting and continuously monitoring the collection process.

Strategy

Key risks identified by the directors are formally reviewed and assessed at least once a year, 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 directors 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 directors.

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's immediate parent Company Everyday Loans Limited 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's credit risk inherent in amounts receivable from customers is reviewed as part of the impairment assessment process as per note 12. This 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:

	2020	2019
	£000	£000
Cash and cash equivalents	27,347	6,834
Loans and advances to customers	231,255	320,298
Intercompany loan	3,566 ³	4,313 ³
Other assets	6	- ³
At 31 December	262,174	331,445

³ In the year ended 31 December 2019, other assets incorrectly included an intercompany loan balance of £813k, which has now been restated to intercompany loan in the table above. The 2020 balance also reflects this classification. The remaining £8k of other assets in the year ended 31 December 2019 related to prepayments which did not have an association with credit risk and therefore has also been excluded from other assets.

Notes to the financial statements

5. Financial risk management (*continued*)

The above table represents the maximum credit risk exposure (net of impairment) to the Company at 31 December 2020 and 2019, 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.

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

The following tables present information in line with how credit risk is monitored and assessed by the credit committee. Within our branch based lending division, credit risk is monitored by the use of defined score bands ranging from A1-A9 where A1 represents the lowest credit risk and the guarantor loans division by homeowner/non-homeowner status. This analysis assists management with identifying and monitoring credit risk within its customer base:

Year ended 31 December 2020:

Score bands	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
A1-A3	106,936	25,570	3,006	135,512
A4-A6	27,836	11,440	2,109	41,385
A7-A8+	5,646	2,463	656	8,765
Homeowner	4,742	2,788	2,173	9,703
Non-homeowner	29,824	23,043	18,975	71,842
Total gross receivables	174,984	65,304	26,919	267,207
Loan loss provision	(7,377)	(8,959)	(19,616)	(35,952)
At 31 December 2020	167,607	56,345	7,303	231,255

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

(c) Market risk

Market risk is the risk that the FV or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk – interest rate risk, currency risk and other prices risk.

The Company does not undertake position taking or trading books of this type. The Company's exposure is primarily to the risk of changes in interest rates.

(c)(i) Currency risk

The Company has no exposures in foreign currencies.

(c)(ii) Interest rate risk

The Company has an exposure to interest rate risk arising on changes in interest rates which leads to an increase in the Company's cost of borrowing. The Company monitors interest rates but has not chosen to hedge this item given the much greater effective interest on financial assets as compared to the EIR on financial liabilities.

The Company is exposed to movements in LIBOR rates on its external borrowings. A 1% movement in the interest rate applied to financial liabilities during 2020 would not have had a material impact on the Company's result for the year.

Notes to the financial statements

5. Financial risk management (*continued*)

There is minimal interest rate risk on financial assets including amounts receivable from customers as interest rates are fixed.

LIBOR reform

The Company has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by IBOR regulators. Key benchmark interest rates and indices, such as the London Interbank Offered Rate ('LIBOR'), are being reformed in favour of risk-free rates such as the Sterling Overnight Index Average ('SONIA') in the UK. LIBOR will be withdrawn at the end of 2021. The Company currently only has LIBOR linked liabilities relating to the Company's term loan and revolving credit facility which were fully drawn as at 31 December 2020, and its securitisation facility which remains undrawn as at year end. There is no impact to the Company's financial assets or fixed rate liabilities, which are all on administered rates. Discussions are underway with lenders to ensure appropriate fall-back provisions are in place and to ensure a smooth transition by the end of 2021. LIBOR reform is therefore not considered to have a material impact on the Company.

(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 2020				
Non-derivative liabilities				
Intercompany liability	254,317	(254,317)	-	(254,317)
Other liabilities	18,693	(18,693)	(18,693)	-
	273,010	(273,010)	(18,693)	(254,317)

	Carrying amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000
At 31 December 2019				
Non-derivative liabilities				
Intercompany liability	283,735 ⁴	(283,735) ⁴	-	(283,735) ⁴
Other liabilities	19,197 ⁴	(19,197) ⁴	(19,197) ⁴	-
	302,932	(302,932)	(19,197)	(283,735)

⁴ In the financial statements for the year ended 31 December 2019, other liabilities incorrectly included an intercompany loan liability balance of £1,608k. The 2019 liquidity risk table above has been restated to reflect this and the 2020 table also reflects this classification.

(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

Notes to the financial statements

5. Financial risk management (*continued*)

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.

(g) Capital risk management

The Board of Directors assesses the capital needs of the Company on an ongoing basis and approves all capital transactions. The capital structure of the Company consists of net debt (borrowings after deducting cash and bank balances) and equity of the Company (comprising capital, reserves, retained earnings and non-controlling interests). The Company's objective in respect of capital risk management is to maintain a conservative loan-to-value ratio level with respect to market conditions, whilst taking account of business growth opportunities in a capital-efficient manner.

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 2020 and 2019. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

	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 2020					
Assets					
Cash and cash equivalents	-	-	27,347	-	27,347
Loans and advances to customers	-	-	231,255	-	231,255
Current tax asset	-	-	-	288	288
Deferred tax assets	-	-	-	-	-
Intercompany loan	-	-	3,566	-	3,566 ⁵
Other assets	-	-	6	92	98 ⁵
Total assets	-	-	262,174	380	262,554
Liabilities					
Intercompany liability	-	-	254,317	-	254,317 ⁵
Other liabilities	-	-	18,693	-	18,693 ⁵
Total liabilities	-	-	273,010	-	273,010

Notes to the financial statements

6. Financial instruments (continued)

At 31 December 2019	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
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	-	-	4,313	-	4,313 ⁵
Other assets	-	-	-	763	763 ⁵
Total assets	-	-	333,025	2,216	335,241
Liabilities					
Intercompany liability	-	-	283,735	-	283,735 ⁵
Other liabilities	-	-	19,197	-	19,197 ⁵
Total liabilities	-	-	302,932	-	302,932

⁵ In the financial statements for the year ended 31 December 2019, other assets and other liabilities incorrectly included an intercompany loan asset balance of £813k and intercompany loan liability balance of £1,608k respectively. The 2019 table above has been restated to reflect this and the 2020 table also reflects this classification.

7. Operating expenses

	2020 £000	2019 £000
Operating expenses comprise:		
Bank service charges	454	410
Service charges	58,085	59,988
Marketing	1,547	1,958
NSF recharge	895	-
Legal and professional fees	328	210
Other administrative expenses	4,625	580
Total operating expenses	65,934	63,146

The Company had £65.9m of operating expenses in 2020, of which £58.1m related to management charges from the immediate parent company, Everyday Loans Limited (2019: £63.2m, of which £60m related to management charges).

The remuneration of the auditors in relation to the audit of these financial statements was £259k (2019: £53k) and was borne by the Company's immediate parent company Everyday Loans Limited, which made no recharge to the Company.

8. Employee information

The Company had no employees during 2020 (2019: none). Human resource services are provided by the immediate parent company Everyday Loans Limited, for which a management charge is levied.

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

Notes to the financial statements

9. Exceptional items

During the year ended 31 December 2020, the Company incurred exceptional costs totaling £5.5m (2019: £15.6m) of which a £0.3m credit to the Statement of Comprehensive Income related to a decrease in the provision for the FCA redress programme and a £5.8m charge to the Statement of Comprehensive Income related to arrangement fees associated with the securitisation facility opened in March 2020.

FCA redress programme

On 5 August 2020 NSF Plc announced that the FCA had raised concerns regarding certain operating procedures and policies at the Company's guarantor loans division ('GLD'). Having formulated a detailed redress methodology in conjunction with its advisers, the Directors 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 as such the Directors made an associated provision totaling £15.6m in the financial statements for the year ended 31 December 2019. Whilst discussions with the FCA regarding the methodology of redress for affected customers has not yet concluded, Everyday Lending Limited reduced the redress provision to £15.3m at the balance sheet 31 December 2020, resulting in a corresponding credit of £0.3m to the Statement of Comprehensive Income during the year.

Securitisation facility

During the first half of 2020, the NSF Group put in place a new six-year securitisation facility provided by Ares Management Corporation and drew down £15m in April 2020. The onset of the COVID-19 pandemic resulted in the Company breaching certain performance triggers on the facility during the first half of 2020. As a result, the amount previously drawn down was repaid on 26 August 2020, removing the outstanding breach. Whilst the facility remains available for potential future use, given the uncertainty as at 31 December 2020 regarding the Company's ability to access the securitisation facility in the future, the capitalised fees associated with the securitisation facility of £5.8m were fully written off.

The securitisation fees have been treated as non-deductible for tax purposes, whilst the FCA redress provision has been treated as a tax-deductible expense.

10. Income tax expense

	2020 £000	2019 £000
Current taxation		
Corporation tax charge - current year	-	2,130
Adjustments in respect of prior periods	-	308
	-	2,438
Deferred taxation		
Deferred tax charge - current year	1,580	138
Adjustments in respect of prior periods	-	(778)
	1,580	(640)
Income tax expense	1,580	1,798
Tax reconciliation:		
Loss before tax	(41,185)	(9,405)
Tax credit at 19% (2019: 19%)	(7,825)	(1,787)
Tax rate change – deferred tax	-	(15)
Unrelieved tax losses carried forward	5,402	-
Expenses not deductible for tax purposes	205	2,964
Group loss relief	2,218	-
Current year deferred tax charge/(credit)	1,580	138
Prior year adjustment – corporation tax	-	308
IFRS 9 Adjustments in respect of prior periods	-	190
Income tax expense for the year	1,580	1,798

Notes to the financial statements

11. Loans and advances to customers

	2020	2019
	£000	£000
Gross loans and advances	267,207	343,116
Less: allowances for impairment on loans and advances	(35,952)	(22,818)
	231,255	320,298

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

	2020	2019
	£'000	£'000
Total unamortised broker commissions	9,231	14,311

The fair value of amounts receivable from customers is approximately £390m (2019: £449.9m). 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	Stage 2	Stage 3	Total
	£000	£000	£000	£000
31 December 2020				
Gross carrying amount	174,984	65,304	26,919	267,207
Impairment provision	(7,377)	(8,959)	(19,616)	(35,952)
Net amounts receivable	167,607	56,345	7,303	231,255
	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£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

Modification of loans and advances to customers

Financial assets with a loss allowance measure at an amount equal to lifetime ECL of £10.1m (2019: £2.2m) were subject to non-substantial modification during the year, with a resulting loss of £3.7m (2019: £1.2m). The gross carrying amount of financial assets for which the loss allowances has changed to a 12-month ECL during the year amounts to £1.0m (2019: £0.1m).

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.

Financial assets (with loss allowance based on lifetime ECL) modified as at the balance sheet date	2020	2019
	£000	£000
Gross carrying amount before modification	48,221	44,361
Loan loss provision before modification	(6,101)	(6,570)
Net loans and advances before modification	42,120	37,791
Net derecognition (loss)/gain	(3,823)	145
Net loans and advances after modification	38,297	37,936

Movement in derecognition loss in the year ended 31 December 2020 was £2.6m (2019: £0.4m).

Notes to the financial statements

12. Allowances for impairment of loans and advances

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

	2020 £000	2019 £000
At 1 January	22,818	17,315
Utilised during the year	(15,241)	(4,762)
Increase in provision	28,375	10,265
At 31 December	35,952	22,818

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 2020	10,163	7,595	5,060	22,818
Changes in the loss provision attributable to:				
New receivables originated or purchased	9,771	-	-	9,771
- Transfer from stage 1 to 2	(2,770)	2,770	-	-
- Transfer from stage 1 to 3	(4,293)	-	4,293	-
- Transfers from stage 2 to 1	151	(151)	-	-
- Transfers from stage 2 to 3	-	(1,272)	1,272	-
- Transfers from stage 3 to 2	-	36	(36)	-
- Transfers from stage 3 to 1	31	-	(31)	-
- Write offs	(3,073)	(1,224)	(10,944)	(15,241)
Net re-measurement of ECL arising from transfer of stages	(63)	5,007	24,148	29,092
Change in ECL resulting from repayment of loans	(2,540)	(3,802)	(4,146)	(10,488)
Loan loss provision as at 31 December 2020	7,377	8,959	19,616	35,952

Notes to the financial statements

12. Allowances for impairment of loans and advances (continued)

	Stage 1	Stage 2	Stage 3	Total
Loan loss provision	£'000	£'000	£'000	£'000
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

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 2020	294,317	36,704	12,095	343,116
Changes in the gross carrying amount attributable to:				
New receivables originated or purchased	100,785	-	-	100,785
- Transfer from stage 1 to 2	(70,184)	70,184	-	-
- Transfer from stage 1 to 3	(28,373)	-	28,373	-
- Transfers from stage 2 to 1	21,643	(21,643)	-	-
- Transfers from stage 2 to 3	-	(6,423)	6,423	-
- Transfers from stage 3 to 2	-	2,543	(2,543)	-
- Transfers from stage 3 to 1	6,995	-	(6,995)	-
- Write offs	(3,071)	(1,226)	(44,912)	(49,209)
Changes due to modification that did not result in derecognition	(310)	(2,011)	(4,089)	(6,410)
Change in ECL resulting from repayment of loans	(146,858)	(12,295)	38,211	(120,942)
Derecognition of modified loans	40	(529)	356	(133)
Gross carrying amount as at 31 December 2020	174,984	65,304	26,919	267,207

Notes to the financial statements

12. Allowances for impairment of loans and advances (*continued*)

Gross carrying amount - amounts receivable from customers	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2019	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

13. Cash and cash equivalents

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

	2020 £000	2019 £000
Cash at bank	27,347	6,834
	27,347	6,834

14. Deferred taxation

	2020 £000	2019 £000
Other short-term timing differences	-	1,580
Deferred tax assets	-	1,580
At 1 January	1,580	940
Prior year adjustment due to adoption of IFRS 9	-	763
Current year deferred tax	(1,580)	(138)
Effects of tax rate change	-	15
Deferred tax assets at 31 December	-	1,580

Future tax developments:

In the 3 March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a material effect on the Company's future tax charge.

Notes to the financial statements

15. Intercompany loan

	2020	2019
	£000	£000
NSF PLC	3,566	3,500
Everyday Loans Limited	-	813
	3,566	4,313

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

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

In the prior year, amounts due from related companies were presented within other assets. In the current year, these balances have been disclosed separately. Refer to note 1.2 for further detail.

16. Other assets

	2020	2019
	£000	£000
Prepayments and accrued income	92	763
Securitisation loan	6	-
	98	763

In the prior year, amounts due to/from related companies were presented within other assets. In the current year, these balances have been disclosed separately. Refer to note 1.2 for further detail.

17. Intercompany liability

	2020	2019
	£000	£000
Everyday Loans Limited	8,066	-
George Banco.com Limited	1,608	1,608
NSF Finco Ltd	244,643	282,127
	254,317	283,735

During the year the Company paid a service charge of £58.1m (2019: £60m) to its immediate parent company Everyday Loans Limited.

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.

In the prior year, amounts due to/from related companies were presented within other assets. In the current year, these balances have been disclosed separately. Refer to note 1.2 for further detail.

Notes to the financial statements

18. Other liabilities	2020	2019
	£000	£000
Accruals and deferred income	3,380	3,598
FCA redress provision	15,313	15,599
	18,693	19,197

As part of its multi-firm review into the guarantor loans segment, the FCA raised some concerns regarding certain aspects of the division's processes and procedures. Following the completion of the review, the Company has agreed the final methodology with the FCA and have included an exceptional provision of £15.3m as at 31 December 2020 (2019: £15.6m) based on their best estimate of the full and final costs of the redress programme using the methodology described above. The estimate includes: the sum of all redress due to customers, including penalty interest of £16.7m (2019: £15.8m), and cost of implementation of £1.0m (2019: £1.0m), offset by existing impairment provisions of £2.4m (2019: £1.2m), resulting in a net amount of £15.3m (2019: £15.6m). Whilst the methodology used has been agreed with the FCA, the ultimate redress amount will be subject to a case-by-case review of those customers affected. As a result, it is possible that the eventual outcome may differ from the current estimate, and this could materially impact the financial statements. The redress programme is now expected to commence in the second half of 2021.

The Company has recognised a provision for complaints of £1.7m as at 31 December 2020 (2019: £nil) in relation to potential outflows to customers related to past non-compliance with regulations relating to affordability assessments. Judgement is applied to determine the quantum of such provisions, including making assumptions regarding the extent to which the complaints already received may be upheld, average redress payments and related administrative costs. Refer to note 2 for sensitivity on this. As part of their assessment, the Directors also considered an independent review commissioned by the ultimate parent company NSF Plc in April 2021 of the lending and complaints handling activities of the branch-based lending division. This review remains ongoing and includes an assessment of whether the issues identified in the guarantor loans division have any implications for the branch-based lending division. The review also includes an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending. As at the date of these financial statements, the Directors recognise that whilst the review work done so far has not identified any systemic issues requiring an increase in provision, there remains a risk that the final outcome of these reviews may result in the identification of customers who may require redress, and the cost of redress for the Company could be materially higher than is currently provided for in the financial statements.

In the prior year, amounts due to related companies were presented within other liabilities. In the current year, these balances have been disclosed separately. Refer to note 1.2 for further detail.

19. Share capital and share premium

Authorised:

	2020	2019
	£000	£000
493,791 Ordinary shares of £0.01 each	4,938	4,938

	Number of shares	Share capital £	Share premium £
At 1 January 2019	493,791	4,938	49,374,062
Issue of shares	-	-	-
At 31 December 2019	493,791	4,938	49,374,062
Issue of shares	-	-	-
At 31 December 2020	493,791	4,938	49,374,062

All shares in issue are Ordinary shares of nominal value £0.01 each and are all fully paid up.

Notes to the financial statements

20. 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 Company 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 Company 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 recognises that there continue to be risks around Claims Management Company activity in the non-standard lending sectors and the Company continues to incur the cost of settling complaints as part of its normal business activity. The Company has included a provision within its financial statements for complaints where the outcome has not yet been determined (refer to provisions in note 18) and continues to robustly defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard. However, it is possible that claims could increase in the future due to unforeseen circumstances such as COVID-19 and/or if FOS were to change its policy with respect to how such claims are adjudicated. Should the final outcome of these complaints differ materially to management's best estimates, the cost of resolving such complaints could be higher than expected. It is however not possible to estimate any such increase reliably.

21. Related-party transactions

Summary of transactions with other related parties

During the year the Company paid a service charge of £58,084,766 (2019: £59,987,892) to its parent, Everyday Loans Limited. At the balance sheet date, the Company has an intercompany asset of £0.8m due from Everyday Loans Limited (2019: £9.5m intercompany asset).

Transactions with related parties are on an arm's length basis. Refer to note 15 and note 17 for further detail regarding intercompany balances.

22. Immediate and ultimate parent company

The immediate parent company of the Company is Everyday Loans Limited, a private company limited by shares, registered in England and Wales. A copy of the financial statements for Everyday Loans Limited can be obtained from 1st Floor North, 2 Dukes Meadow, Bourne End, Buckinghamshire, SL8 5XF.

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.

23. Controlling party

The immediate parent company of the Company, Everyday Loans Limited, is the controlling party of the Company.

24. Events after the balance sheet date

Branch-based lending review

In April 2021 the NSF Group commissioned a detailed and independent review of its lending and complaints handling activities within the branch-based lending. This review remains ongoing and includes an assessment of whether the issues identified in guarantor loans have any implications for these divisions. The review also includes an assessment of recent FOS decisions in order to determine whether there exists a subset of customers that may be eligible for redress on the basis of factors which may indicate instances of unaffordable lending. However, the Company has been unable to determine the financial impact of this as at the date of authorisation of the financial statements.

Taxation in the March 2021 Budget

In the 3 March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This is a non-adjusting event and will have a consequential effect on the Company's future tax charge as taxable profits or losses are produced.

Guarantor Loans division operational review

Having completed a detailed review of the guarantor loans division and its prospects, the Board has decided to place the division into a managed run-off which is expected to conclude by the end of 2025. Whilst a full detailed assessment of the cost implications is yet to be carried out and this is a non-adjusting subsequent event, it is estimated that the recognition of a provision for redundancies would be c.£0.52m. No material asset write-downs are expected to be required as a result of the decision taken.

Notes to the financial statements

24. Events after the balance sheet date (*continued*)

The Company recognises there is a risk around changes to customer behaviour following this decision, refer to note 2 for sensitivities on loan loss provisions based on past-experience of how the parameters can potentially move. This is not expected to have a material impact on the investment impairment assessment.

Corporate contacts & advisers

Secretary & Registered Office

Reena Patel

1st Floor North

2 Dukes Meadow

Bourne End

Buckinghamshire

SL8 5XF

Advisers

Statutory Auditor:

Deloitte LLP

Statutory Auditor

1 New Street

London

EC4A 3HQ

Principal Banker:

The Royal Bank of Scotland

250 Bishopsgate

London

EC2M 4AA