nsfgroup

PRESS RELEASE

Non-Standard Finance plc

('Non-Standard Finance', 'NSF', the 'Company' or the 'Group')

Unaudited Half Year Results to 30 June 2020

30 October 2020

Key points

- COVID-19 had a major impact on the Group in the second quarter with low levels of lending and collections impacted by the forbearance measures put in place for customers affected by the pandemic
- Normalised revenue[1] up 4% to £92.2m (2019: £88.3m); reported revenue of £91.2m (2019: £87.1m)
- Normalised operating profit[1] reduced to £5.0m (2019: £19.8m); reported operating loss of £3.4m (2019: operating profit of £16.0m)
- Normalised loss before tax[1] of £9.9m (2019: normalised profit before tax of £6.6m)
- Exceptional charge of £91.3m (2019: £25.3m) includes a provision totalling £15.8m based on the Directors' best estimate of the total costs of a customer redress programme being developed at the request of the FCA; and the non-cash write-off of all remaining goodwill assets and acquired intangibles totalling £75.5m (2019: £12.5m) to give a reported loss before tax[2] of £102.7m (2019: reported loss of £22.4m).
- Given the loss before tax and the absence of distributable reserves, no half year dividend per share is being declared (2019: 0.7p per share)
- At 30 June 2020 the Group had cash balances of £75.7m, gross borrowing of £345.0m and has since repaid £15m drawn on its securitisation facility which remains available, subject to lender consent. At 30 September 2020 the Group had cash balances of £69.9m and gross borrowings of £330.0m
- The Group is continuing to operate within its financial covenants and is in discussions with its lenders regarding possible covenant waivers in the future
- As soon as agreement is reached with the FCA regarding the methodology for customer redress, the Board will re-engage with major investors on the terms of an equity raise. Alchemy, the Group's largest shareholder, has confirmed that it remains supportive of a substantial equity issue and remains actively engaged with the Group
- After careful consideration and despite the presence of a number of material uncertainties detailed below, the Board has concluded that it remains appropriate to continue to adopt the going concern basis of accounting
- Current trading: since the end of June, loan volumes and collections at branch-based lending and home credit have been better than previously expected while the performance at guarantor loans is below expectations; as a result, the Group's overall financial performance is broadly in line with management's expectations

Financial summary

6 months to 30 June	2020 £'000	2019 restated £'000	*% change*
Normalised revenue[1]	92,223	88,287	*4%*
Reported revenue	91,252	87,103	*5%*
Normalised operating profit[1]	5,016	19,796	*-75%*
Reported operating profit	3,446	16,005	*-78%*
Normalised (loss)/profit before tax[1]	(9,896)	6,618	*-249%*
Reported loss before tax[2]	(102,749)	(22,447)	*358%*
Normalised (loss) / earnings per share[3]	(2.55)p	1.72p	*-248%*
Reported loss per share	(32.77)p	(7.36)p	*345%*
Half year dividend per share	Nil	0.70p	*n/a*

[1] Normalised figures are before fair value adjustments, amortisation of acquired intangibles and exceptional items. See glossary of alternative performance measures and key performance indicators in the Appendix.

[2] After fair value adjustments, amortisation of acquired intangible assets and exceptional costs.

[3] Normalised loss per share in 2020 is calculated as normalised loss after tax of £7.952m divided by the weighted average number of shares of 312,437,422. The restated normalised earnings per share in 2019 is calculated as normalised profit after tax of £5.362m, divided by the weighted average number of shares of 312,049,682.

John van Kuffeler, Group Chief Executive, said

"The first half of 2020 has been the most challenging period in the Group's history. As well as managing the significant operational and financial challenges presented by COVID-19 that have impacted the entire UK economy, the Group has also developed a programme of customer redress for certain of its guarantor loans customers. While these factors have placed a significant strain on the Group's resources, the Group has £70m in cash and is trading broadly in line with expectations. Alchemy, the Group's largest shareholder, has confirmed that it remains supportive of a substantial equity issue to strengthen the Group's balance sheet and enable a return to growth."

"The non-standard lending sector provides an invaluable lifeline for many consumers that would otherwise be unable to manage the peaks and troughs in their income and expenditure. We believe that ensuring credit continues to flow to the 10 million UK adults that are unable to access mainstream lenders has never been more important, particularly as the FCA has recently stated that 12 million UK adults are struggling to pay bills due to the pandemic.

"The current tiered system of lockdowns across the country is continuing to present operational challenges, but our staff are demonstrating significant resolve to overcome these hurdles and continue to support the needs of our customers in these unprecedented times."

The tables below provide an analysis of the normalised results (excluding fair value adjustments, amortisation of acquired intangibles and exceptional items) for the Group for the six month period to 30 June 2020 and 30 June 2019 respectively.

6 months to 30 Jun 20 Normalised[4]	**Branch-based lending**	**Guarantor loans**	**Home credit**	**Central costs**	**NSF plc**
	£000	**£000**	**£000**	**£000**	**£000**
Revenue	**47,914**	**17,032**	**27,277**	**-**	**92,223**
Other operating income	888	-	-	-	888
Modification loss	(638)	(58)	-	-	(696)
Derecognition gain	192	494	-	-	686
Impairments	(15,593)	(15,727)	(7,927)	-	(39,247)
Admin expenses	(22,238)	(7,114)	(16,382)	(3,104)	(48,838)
Operating profit (loss)	**10,525**	**(5,373)**	**2,968**	**(3,104)**	**5,016**
Net finance cost	(9,603)	(3,871)	(774)	(664)	(14,912)
Profit (loss) before tax	**922**	**(9,244)**	**2,194**	**(3,768)**	**(9,896)**

6 months to 30 Jun 19 - restated Normalised[4]	**Branch-based lending**	**Guarantor loans**	**Home credit**	**Central costs**	**NSF plc**
	£000	**£000**	**£000**	**£000**	**£000**
Revenue	**43,756**	**13,840**	**30,691**	**-**	**88,287**
Other operating income	221	-	-	-	221
Modification loss	(433)	(72)	-	-	(505)
Derecognition gain (loss)	2,071	(402)	-	-	1,669
Impairments	(10,322)	(3,386)	(8,828)	-	(22,536)
Admin expenses	(20,558)	(6,212)	(17,560)	(3,010)	(47,340)
Operating profit (loss)	**14,735**	**3,768**	**4,303**	**(3,010)**	**19,796**
Net finance cost	(8,399)	(3,453)	(1,108)	(218)	(13,178)
Profit (loss) before tax	**6,336**	**315**	**3,195**	**(3,228)**	**6,618**

[4] *Excludes fair value adjustments, amortisation of acquired intangibles and exceptional items*

The combination of a significant reduction in lending and a robust collections performance, albeit with a marked increase in impairment, meant that the combined net loan book before fair value adjustments fell by 10% as summarised below:

Reconciliation of net loan book	**2020 Normalised**	**2020 Fair value adjustments**	**2020 Reported**	2019 Normalised Restated	2019 Fair value adjustments	2019 Reported Restated
	£m	**£m**	**£m**	£m	£m	£m
Branch-based lending	187.7	-	187.7	201.8	-	201.8
Guarantor loans	87.6	0.4	88.0	95.3	3.1	98.4
Home credit	24.3	-	24.3	35.5	-	35.5
Total	299.6	0.4	300.0	332.6	3.1	335.7

Context for the results

- A prior year adjustment has been made to the opening 2018 balance sheet to reflect an increase in loan loss provisions following the transition to IFRS 9 and the 2019 results have been restated to reflect this change.
- The 2020 and 2019 reported results include fair value adjustments, amortisation of acquired intangibles and exceptional items. Exceptional items in 2020 include the write down of certain intangible assets and all goodwill assets and a provision for customer redress of £15.8m. Exceptional items in 2019 include fees and expenses associated with the offer to acquire Provident Financial plc on the terms set out in an offer document published on 9 March 2019, as well as an impairment loss on the Loans at Home goodwill asset.

Investor presentation and dial-in details

There will be an investor presentation at 9.30 am on 30 October 2020. The meeting will be broadcast via webcast and conference call. To watch the live webcast, please register for access by visiting the Group's website www.nsfgroupplc.com. For those unable to access the web, details of a dial-in facility are given below. A copy of the webcast and slide presentation given at the meeting will be available on the Group's website later today.

Dial-in details to listen to the analyst presentation at 9.30 am, 30 October 2020

09.20 am	*Please call +44 (0)330 606 1122*
Room number	*217833*
Access code	*5055*
9.30 am	*Meeting starts*

All times are Greenwich Mean Time.

For more information:

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The non-standard consumer finance market

The non-standard consumer finance market represents a significant segment of the UK's retail financial services sector. It provides credit to consumers that either fail to meet the lending requirements of high street financial institutions or that choose not to borrow from them. These consumers represent approximately a third of the UK's adult population and include those that have no credit history, low credit status or are credit impaired. A well-regulated, trusted and sustainable credit sector is imperative to these consumers, particularly in the current economic climate. A recent study by the FCA found, that due to the impact of the pandemic there are now around 12 million people in the UK with low financial resilience. Each of NSF's businesses is focused on serving the needs of these sub-prime borrowers for whom access to appropriate financial services can be important in helping them manage the peaks and troughs of their income and expenditure.

About Non-Standard Finance

Non-Standard Finance plc is listed on the main market of the London Stock Exchange (ticker: NSF) and is a leading player in the UK's non-standard finance market with leadership positions in three segments: branch-based lending, guarantor loans and home credit. The Group's evolution from a cash shell back in 2015 has been achieved thanks to a period of significant investment in all three divisions with a clear differentiating feature being the Group's focus on face-to-face lending unless the applicant has the support of a guarantor. Our business is founded on building personal relationships with our customers, many of whom have already been excluded by high-street lenders and other mainstream providers. These relationships, supported by significant physical and technological infrastructure, represent the very heart of our business model that is focused on addressing the credit needs of a growing proportion of the 10 million adults[4] that are either unable or unwilling to borrow from mainstream banks and other lenders.

[4] *UK Specialist Lending Market Trends and Outlook 2019. Executive insights Volume XX, Issue 39 – L.E.K Consulting*

Group Chief Executive's statement

Introduction

Whilst the first two months of the year delivered a solid trading performance, the impact of COVID-19, the associated restrictions on social distancing and the slowdown of the entire UK economy each had a profound and immediate impact on all areas of the Group's business, operations and financial performance. Despite these challenges, the Group's business divisions adapted quickly to a remote-only operating model whilst government rules and health and safety concerns meant that face-to-face contact was temporarily restricted.

While plans to address the resulting constraints on the Group's capital structure through an equity issue had reached an advanced stage by August 2020, these were put on hold following concerns raised by the FCA regarding certain operating procedures and policies at the Group's Guarantor Loans Division ('GLD'). These concerns had arisen out of a multi-firm review of the guarantor loans sector following which the FCA wrote to firms in the sector identifying their concerns and requesting firms develop a possible redress methodology for affected customers.

Having formulated a detailed redress methodology in conjunction with its advisers, the Board has made an associated provision totalling £15.8m in the 2020 half year results. While this represents the Directors' best estimate of the total cost of settlement of redress amounts due to affected guarantor loans customers, the Group has yet to agree its methodology and analysis with the FCA. The Group is continuing to engage with the FCA and is focused on reaching a conclusion as soon as practicable when a further announcement will be made. Further details regarding the provision for customer redress are summarised in 'Redress for certain customers of Guarantor Loans Division' below.

2020 half year results

Despite a significant reduction in lending volumes from the end of March 2020 and a marked increase in the levels of forbearance being offered to affected customers due to COVID-19, normalised revenue before fair value adjustments increased to £92.2m (2019: £88.3m). However, this modest uplift was combined with a marked increase in impairment due to the pandemic and an increase in the macroeconomic risk weighting of a severe downside scenario. As a result, the business delivered a sharp reduction in normalised operating profit to £5.0m in the period (2019 restated: operating profit of £19.8m). The reported operating profit was £3.4m (2019 restated: operating profit of £16.0m) and the reported loss before tax (which was after an exceptional charge of £91.3m (2019: £25.3m)), was £102.7m (2019 restated: £22.4m). The exceptional charge comprised a provision of £15.8m to cover the estimated costs of redress to certain customers in the Group's Guarantor Loans Division (see below); and a non-cash £75.5m write-down of certain intangible assets and all remaining goodwill assets.

Branch-based lending

The planned opening of five new branches during the first half of 2020 was put on hold following the outbreak of the pandemic at the end of March when we temporarily closed the branch network and shifted to a home working model. With lending reduced to almost zero in April 2020, approximately 40% of staff in the branch network were placed on furlough although they continued to be paid in full. We reopened the network on 11 May 2020 and began the process of restarting lending using a revised process, with updated scorecards to reflect the significant changes to the macroeconomic environment. With lower volumes and a highly uncertain outlook, the decision was taken to reduce staff numbers while those on furlough returned to work at the beginning of July. Although reduced revenue and increased impairments and provisions meant that the division delivered a much reduced normalised operating profit of £10.5m (2019 restated: £14.7m), cash generation was strong due to a robust collections performance and reduced levels of lending.

Since the end of June 2020, lending volumes have recovered strongly such that the net loan book returned to growth in August and September 2020. At an average of 89% of pre-COVID levels since the end of June, collections have also been better than expected. Whilst further lockdowns and the prospect of a second wave of infection remain current challenges, the proportion of customers that remain COVID-flagged has fallen significantly from the peak in June 2020 with the result that rates of delinquency have also reduced and whilst not quite back at pre-pandemic levels, the trend is encouraging.

Guarantor loans

Having already reduced the rate of loan book growth in the fourth quarter of 2019, the onset of the pandemic reduced lending further and required that the division switch to home working in late March 2020. Lending volumes reduced substantially in April 2020 as we adjusted our scorecards and took time to assess the likely impact on applicants. The younger demographic of guarantor loans customers relative to the Group's other divisions meant that a much larger proportion of the loan book was affected by COVID-19 as it is young adults that appear to have suffered the greatest economic impact from the pandemic. As a result, an even greater operational shift away from lending to collections and forbearance management was required. Contrary to the normal collections process, but in line with FCA guidance, for those loan accounts affected by COVID, we did not contact borrowers or guarantors for payment whilst the borrower remained on an emergency payment freeze. This impacted both the net loan book and revenue growth during the first half of 2020. At the same time, impairments increased significantly, reflecting both the severe impact of COVID-19 on the division's customer base and an increased risk weighting of a downside scenario against the backdrop of a deteriorating macroeconomic outlook. The net result was that the division produced a normalised operating loss, which is before an exceptional provision for customer redress (see below), of £5.4m (2019 restated: normalised operating profit of £3.8m).

While lending volumes began to recover in July, they were reduced in August following concerns raised by the FCA as part of its multi-firm review in to the guarantor loans sector. Since then, while lending has been limited, collections have remained robust, averaging 81% of pre-COVID levels since the end of June with the result that the loan book has continued to decline. Although lending volumes and delinquency performance have both been below expectations and whilst uncertainty regarding a possible second wave of infection remains, the proportion of customers that are COVID-flagged, having been adversely impacted by the pandemic, appears to have stabilised at around 23% of the total and the majority of these have returned to making full or part payments.

Home credit

Prior to the onset of the pandemic, all lending and the majority of collecting was face-to-face in the customer's home with c.28% of collections performed remotely. The shift to home working by staff and agents at the end of March 2020 also required a rapid transition by both customers and self-employed agents to a 100% remote collections model. Lending was reduced to nil during April 2020, not only because it was difficult to assess the impact of the pandemic on applicants' ability or willingness to pay, but also because, given our historic focus on face-to-face lending, there was no remote lending capability in place. While the switch to remote collections took place within a few weeks, the development of a robust remote lending process took a little longer and was delivered in a series of stages. As a result, the net loan book shrank rapidly between April and the end of June 2020, impacting both revenue and operating profit that reduced to £3.0m (2019: £4.3m).

Despite the threat of a second wave of infection, since the end of June, lending has continued to increase month on month and the net loan book has returned to growth. Collections have also remained robust, reaching 89% of pre-COVID levels in September.

Redress for certain customers of Guarantor Loans Division

The Group announced on 5 August 2020 that following its multi-firm review of the guarantor loans sector, the FCA had raised some concerns regarding certain processes and procedures at GLD and a programme of redress would be required for those customers deemed to have suffered harm as a result.

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

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

Net assets, going concern and solvency

The combined impact of the challenging trading environment, as well as the provision for customer redress on the Group's financial performance, net loan book and balance sheet, has placed the Group under significant financial strain and expanded the breadth and potential impact of the principal risks now facing the Group (see 'Principal risks' below). While the Group has significant cash balances and is continuing to operate within its financial covenants, it is in discussions with its lenders regarding possible future covenant waivers and with Alchemy, the Group's largest shareholder, who remains supportive of a substantial equity issue. As soon as agreement is reached with the FCA regarding the methodology for customer redress, the Board will re-engage with its major shareholders on the terms of such an issue.

As part of its going concern assessment, the Directors reviewed both the Group's access to liquidity and its future balance sheet solvency. The Group therefore refreshed its two scenarios since year end: (i) the most likely (or 'base case') scenario; and (ii) the 'downside' scenario which applies stresses in relation to the key risks identified in the base case. Both scenarios assume that no additional equity is raised by the Group.

As a result of the expected cost of customer redress, under the base case, the Group is expected to breach covenants in the future and solvency will be dependent upon: the ultimate cost of the proposed redress programme being equal or less than the provision being made (refer to note 6 to the financial statements); the cost of any waivers granted from lenders; and any mitigating actions which could be implemented to offset any adverse movement from the base case. In addition, the Group may have to further restrict lending activities and/or exercise further financial levers around costs in order to maintain solvency.

Due to the uncertainty regarding the full impact of COVID-19, particularly if there is a sustained and significant second wave of infection, together with the final cost of the proposed redress programme on its forecasts and the cost of any waivers granted by lenders, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Further details are set out in note 2 to the financial statements.

However, having considered the matter carefully and taking all of the above factors into account, the Board has adopted the going concern basis of accounting in its preparation of the 2020 half year results whilst recognising that there exist a number of material uncertainties which could impact the Group's status as a going concern. In arriving at this conclusion, the assumption of lender and shareholder support for covenant breaches and solvency forms a significant judgement of the Directors in the context of approving the Group's going concern status.

Other regulatory developments

In addition to the outcome of the multi-firm review into the guarantor loans sector, the following regulatory developments in 2020 have been particularly relevant to the Group's business:

- ***Support for consumers affected by COVID-19 -*** On 9 April 2020, the FCA published guidance setting out its expectation that firms should provide, for a temporary period only, exceptional and immediate support to consumers facing payment difficulties due to circumstances arising out of COVID-19. This was updated on 1 July 2020 and supplemented with additional guidance on 16 September 2020. Affected consumers are entitled to opt for an initial three-month payment deferral that can be extended by a further three months up to and including 31 October 2020. The Group is continuing to offer a range of support options to those customers affected by the pandemic.

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- ***FCA draft guidance and feedback statement on the fair treatment of vulnerable customers -*** Building on its previous work in this area, the latest guidance from the FCA was published in July 2020 and, *inter alia,* seeks to provide examples of best practice for firms that can assist in the protection of vulnerable customers. Having already integrated the FCA's previous guidance on this area into the Group's business operations, the latest guidance is not expected to have a material impact on the Group.

- ***Kerrigan v Elevate Credit International Ltd. -*** The High Court handed down its decision in the payday lending test case on 5 August 2020. Among other issues, the judgment includes a detailed assessment of the affordability and creditworthiness procedures that Elevate (trading as Sunny) had in place including the assessment of the customer's level of repeat borrowing that is a particular area of focus in payday lending. The Group is continuing to assess how the judgment may affect the Group including the demand for and supply of non-standard credit in the UK and the wider implications for the sector and the UK economy.

- ***FCA multi-firm review of repeat lending by high cost lenders -*** The FCA published its review findings in August 2020 and has required firms to ensure that relending does not cause harm. The Group has reviewed its lending processes and procedures and, following some minor amendments, is confident that each of its business divisions meets the expectations of the regulator.

- ***Breathing space -*** The Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020 were laid before the House of Lords on 9 September 2020 and approved on 6 October 2020. The regulations, *inter alia,* will afford two types of moratorium for borrowers: (i) a breathing space moratorium lasts for 60 days and is open to anyone who engages with debt advice and meets certain eligibility criteria; and (ii) a mental health crisis moratorium, available where a person is in mental health crisis treatment and extends the breathing space protections for as long as that treatment lasts, plus 30 days. The regulations are planned to become effective in May 2021.

- ***Financial Services Future Regulatory Framework Review -*** HM Treasury launched phase II of its consultation in October 2020 with a view to ensuring, *inter alia*, that: the framework meets the needs of its stakeholders once the UK leaves the EU; there is a clear allocation of responsibilities between Parliament, HM Treasury and financial regulators; regulators are accountable for their actions and stakeholders are fully engaged in the policy-making process; and that there is greater cooperation and coordination between HM Treasury and financial services regulators.

We remain focused on delivering good customer outcomes and continue to monitor all regulatory developments closely so that we can anticipate and, if necessary, engage with the relevant authorities, either directly or through industry associations.

Debt funding

The Group's debt facilities currently include a £285m term loan facility (the 'Term Loan'), provided by a group of institutional investors. The Term Loan, which is not repayable until August 2023, bears an interest rate of LIBOR plus 7.25% per year with interest payable every six months. In addition, the Group has a £45m revolving credit facility provided by Royal Bank of Scotland at an interest rate of LIBOR plus 3.5% per year. Both facilities are fully drawn and while the Group has continued to operate within the financial covenants on both facilities, in the light of the material uncertainties outlined above, it is in active discussions with its lenders regarding possible future covenant waivers.

The Group also has a £200m securitisation facility that was put in place with an initial drawdown of £15m during April 2020. Whilst the onset of the pandemic resulted in the Group breaching certain performance triggers on the facility during the first half of 2020, the drawn amount was repaid on 26 August 2020, removing the outstanding breach. While the facility remains available for potential future use, current cash balances mean that there is no requirement for further borrowing at the present time and the prevailing covenants and the requirement for lender consent mean that the facility would likely remain unavailable in the absence of a further capital raise. Given the material uncertainty around going concern and the Group's ability to access the securitisation facility in the future, there is a possibility that the capitalised fees associated with the securitisation facility which totalled £6.0m at 30 June 2020, will be written-off.

As at 30 June 2020 the Group had cash at bank of £75.7m (31 December 2019: £14.2m) and gross borrowings of £345.0m (31 December 2019: £323.2m). Since 30 June 2020, the £15m drawn on the securitisation facility has been repaid and as at 30 September the Group had cash at bank of £69.9m and gross borrowings of £330.0m.

Dividend

As a result of the significant reported losses in 2019 and during the first half of 2020, the Company does not have any distributable reserves and is therefore not in a position to declare a half year dividend (2019: 0.7p per share). As part of any future capital raise, the Board is committed to completing a process, subject to shareholder and Court approval, to create sufficient distributable reserves so that the Company is able to resume the payment of cash dividends to shareholders as soon as it is appropriate to do so.

Current trading and outlook

Since the outbreak of the pandemic, both branch-based lending and home credit have traded ahead of management's previous expectations while the performance at guarantor loans has been below plan as lending has been limited pending the conclusion of the review by the FCA and is likely to remain subdued for the rest of the year. As a result, the Group's financial performance since the end of June 2020 is broadly in line with management's expectations.

We are focused on reaching a conclusion on customer redress as soon as practicable so that we can re-engage with investors regarding a substantial equity raise in order to strengthen the balance sheet and enable the Group to return to growth.

Whilst the current three tier system of lockdowns and the threat of a second wave of infection is once again presenting considerable operational challenges for all three businesses, our staff are showing significant resolve to overcome these hurdles as they continue to address the genuine needs of our customers in these unprecedented times.

John de Blocq van Kuffeler
Group Chief Executive

30 October 2020

Financial review

Fair value adjustments and amortisation of acquired intangibles in 2020 include amounts relating to the acquisition of George Banco. Fair value adjustments and amortisation of acquired intangibles in 2019 include amounts relating to the acquisitions of Everyday Loans (including TrustTwo) and George Banco.

6 months to 30 June	2020 Normalised[5] £'000	2020 Fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	2020 Reported £'000
Revenue	**92,223**	**(971)**	**91,252**
Other operating income	888	-	888
Modification loss	(696)	-	(696)
Derecognition gain	686	-	686
Impairments	(39,247)	-	(39,247)
Admin expenses	(48,838)	(599)	(49,437)
Operating profit (loss)	**5,016**	**(1,570)**	**3,446**
Exceptional items[6]	-	(91,283)	**(91,283)**
Profit before interest and tax	**5,016**	**(92,853)**	**(87,837)**
Finance cost	(14,912)	-	(14,912)
Profit (loss) before tax	**(9,896)**	**(92,853)**	**(102,749)**
Taxation	1,944	(1,569)	375
Profit (loss) after tax	**(7,952)**	**(94,422)**	**(102,374)**
Loss per share	**(2.55)**		**(32.77)**
Dividend per share	**-**		**-**

6 months to 30 June - restated	2019 Normalised[5] £'000	2019 Fair value adjustments, amortisation of acquired intangibles and exceptional items £'000	2019 Reported £'000
Revenue	**88,287**	**(1,184)**	**87,103**
Other operating income	221	-	221
Modification loss	(505)	-	(505)
Derecognition gain	1,669	-	1,669
Impairments	(22,536)	-	(22,536)
Admin expenses	(47,340)	(2,607)	(49,947)
Operating profit (loss)	**19,796**	**(3,791)**	**16,005**
Exceptional items[6]	-	(25,274)	**(25,274)**
Profit before interest and tax	**19,796**	**(29,065)**	**(9,269)**
Finance cost	(13,178)	-	(13,178)
Profit (loss) before tax	**6,618**	**(29,065)**	**(22,447)**
Taxation	(1,256)	745	(511)
Profit (loss) after tax	**5,362**	**(28,320)**	**(22,958)**
Loss per share	**1.72p**		**(7.36)p**
Dividend per share	**0.70p**		**0.70p**

[5] *Normalised figures, adjusted to exclude fair value adjustments, amortisation of acquired intangibles and exceptional items*
[6] *Refer to note 6 in the notes to the financial statements for further detail*

COVID-19 had a severe impact on the Group's financial performance in the first half of 2020. Normalised revenue was up slightly at £92.2m (2019: £88.3m) but less than was expected reflecting the significant reduction in lending that took place following the outbreak of the pandemic in March 2020. Whilst lending recommenced in earnest during May 2020, volumes remained well below that achieved in April, May and June the previous year. At the same time, impairments increased significantly, reflecting the increase in credit risk as a direct result of the pandemic. While collections across all three divisions have held up reasonably well given the challenges faced, a meaningful proportion of the Group's customers elected to take an 'emergency payment freeze' which reduced the absolute level of collections received. Both the deteriorating outlook, as well as the Group's decision during the second half of 2019 to increase its severe downside macroeconomic risk weighting, contributed to the increase in impairment that rose by 74% to £39.2m (2019 restated: £22.5m).

The majority of the Group's costs are fixed in nature rather than variable and so on a normalised basis, despite lower lending volumes, administration costs increased by 3% to £48.8m (2019 restated: £47.3m). Whilst the cost:income ratio over the 12 months to 30 June fell to 51.8% (2019 restated: 52.5%) the impact of more modest revenue growth and increased impairments meant that normalised operating profit fell by 75% to £5.0m (2019 restated: £19.8m). Finance costs increased to £14.9m (2019: £13.2m), driven by the continued growth in the loan book up to late March 2020 and the decision to draw down from the new securitisation facility in April 2020. With revenue broadly flat but with a marked increase in impairment, the Group delivered a normalised loss before tax of £9.9m (2019 restated: profit before tax of £6.6m). An exceptional provision for customer redress together with the write-down of certain intangible assets and all remaining goodwill assets were recorded as an exceptional charge totalling £91.3m (2019: £25.3m) and meant that the reported loss before tax was £102.7m (2019 restated: loss before tax of £22.4m). Normalised loss per share was 2.55p (2019 restated: earning per share of 1.72p), while exceptional items, fair value and other accounting adjustments meant that the Group's reported loss per share was 32.77p (2019 restated: loss per share of 7.36p).

Divisional review

Branch-based lending

Face-to-face lending remains central to the branch-based lending model, a channel in which Everyday Loans is the market leader, providing unsecured loans to UK adults that are credit-impaired through a national network of 73 branches. Such a lending approach, whilst unusual in the internet age, has over the years proven to be popular with customers and capable of generating attractive levels of return.

The onset of the COVID-19 pandemic presented a number of challenges, not least being the introduction of social distancing and the need to pivot swiftly to a home-working model so as to ensure the safety and protection of customers and staff. Having taken the decision to close all branches at the end of March, albeit temporarily, a concerted effort across IT, human resources, finance and compliance meant that within just a few days, the division was once again operational, although our appetite for lending was significantly reduced whilst we sought to embed revised lending and underwriting processes to cater for what had become a very different business environment. The division's strong cultural ethos played a major part in ensuring staff morale remained strong during a particularly challenging period and whilst the planned opening of five further branches during the first half was put on hold, with revised lending protocols and health and safety procedures in place, we reopened all 73 branches and recommenced lending in May 2020.

Being unable to lend face-to-face following the temporary closure of the branch network, the volume of leads and qualifying applications reduced significantly in March and fell to almost zero in April. It was only following the reopening of the network and our decision to restart lending on 11 May that leads and 'applications to branch' began to increase. Having written no loans in April, we wrote 297 in May rising to 1,685 in June and just under 3,000 in July. The net result was that having written approximately £14m of loans in both January and February 2020, lending volumes halved in March and in April fell to almost zero. In June we wrote total volume of £4.8m of which £3.8m was new cash.

Whilst lending reduced rapidly, we maintained a clear focus on collections and although the absolute level of collections reduced from pre-lockdown levels, it remained broadly stable as a percentage of the outstanding loan book. At 30 June 2020, the net loan book was £187.7m (2019 restated: £201.8m) having reached £220.5m at the end of March 2020. The reduced level of lending in the first half meant that the number of active customers also reduced from a peak of approximately 77,000 at the end of March 2020 to 70,700 at the end of June 2020 although this remained some 5% above the previous year (2019: 67,400).

Financial results

6 months to 30 June	2020 Normalised £'000	2020 Fair value adjustments and exceptional items £'000	2020 Reported £'000
Revenue	**47,914**	**-**	**47,914**
Other operating income	888	-	888
Modification loss	(638)	-	(638)
Derecognition gain	192		192
Impairments	(15,593)	-	(15,593)
Revenue less impairment	**32,763**	**-**	**32,763**
Admin expenses	(22,238)	-	(22,238)
Operating profit	**10,525**	**-**	**10,525**
Exceptional items	-	-	-
Profit before interest and tax	**10,525**	**-**	**10,525**
Finance cost	(9,603)	-	(9,603)
Profit before tax	**922**	**-**	**922**
Taxation	(175)	-	(175)
Profit after tax	**747**	**-**	**747**

6 months to 30 June - restated	2019 Normalised £'000	2019 Fair value adjustments and exceptional items £'000	2019 Reported £'000
Revenue	43,756	-	43,756
Other operating income	221	-	221
Modification loss	(433)	-	(433)
Derecognition gain	2,071	-	2,071
Impairments	(10,322)	-	(10,322)
Revenue less impairment	35,293	-	35,293
Admin expenses	(20,558)	-	(20,558)
Operating profit	14,735	-	14,735
Exceptional items	-	-	-
Profit before interest and tax	14,735	-	14,735
Finance cost	(8,399)	-	(8,399)
Profit before tax	6,336	-	6,336
Taxation	(1,203)	-	(1,203)
Profit after tax	5,133	-	5,133

IFRS 9 Key Performance Indicators[7]	**2020**	2019 restated
Number of branches	**73**	72
Period end customer numbers (000)	**70.7**	67.4
Period end loan book (£m)	**187.7**	201.8
Average loan book (£m)	**208.1**	184.7
Revenue yield	**46.7%**	47.0%
Risk adjusted margin	**34.2%**	36.0%
Impairments/revenue	**26.7%**	23.5%
Impairment/average loan book	**12.4%**	11.0%
Cost to income ratio	**45.2%**	45.3%
Operating profit margin	**26.2%**	33.8%
Return on asset	**12.2%**	15.9%

[7] *All definitions are as per glossary.*

As there were no fair value adjustments to revenue or amortisation of acquired intangibles in the period, reported results were the same as normalised results. The restatement of the 2019 results reflected an increase in loan loss provisions following the transition to IFRS 9 and a correction to modification losses (see note 3 to the financial statements).

Despite the impact on lending activity from late March 2020, previous loan book growth meant that revenue grew by 9% to £47.9m (2019: £43.8m). The sale of non-performing loans in the period along with government grants received in relation to furloughed employees produced other operating income of £0.9m (2019: £0.2m). The modification loss on loans that had been substantially deferred in the period was £0.6m (2019 restated: £0.4m) while the derecognition gain on rescheduled loans was £0.2m (2019 restated: £2.1m). The combined effect of the pandemic on collections and the Group's decision in 2019 to increase the severe downside macroeconomic risk weighting meant that overall impairment increased substantially. With revenue growth much reduced, impairment as a percentage of revenue increased to 26.7% on a rolling 12-month basis (2019 restated: 23.5%) and as a percentage of average net receivables it increased from 11.0% to 12.4%. A full period of costs associated with the eight new branches opened in 2019 and increased professional fees were mitigated by cost savings with the result that administrative expenses grew by 8% to £22.2m (2019: £20.6m). The net result was that operating profit fell by 29% to £10.5m (2019 restated: £14.7m).

Finance costs increased by 14% to £9.6m (2019: £8.4m) reflecting the strong annualised loan book growth until March 2020 and the fact that, following the onset of the pandemic, the Group chose to hold higher cash balances rather than repaying outstanding debt so as to ensure maximum flexibility during a heightened period of uncertainty. As a result, and in conjunction with the reduced level of operating profit for the reasons outlined above, the division generated a much reduced pre-tax profit of £0.9m in the first half (2019 restated: £6.3m).

A brief description of the key value drivers for the business (network capacity, lead volumes and quality, productivity and delinquency management) and how these changed during the first half of 2020 is set out below.

Network capacity – Whilst the previous goal had been to open a number of additional branches in 2020, the onset of the pandemic meant that no new branches were opened during the first half of 2020 and so the network remained steady at 73 branches.

Lead volumes and quality – Whilst total lead volumes and applications to branch ('ATBs') in January and February 2020 were up strongly on the previous year (20% and 8% respectively), this went into reverse in March when we reduced lead volumes by 16% and ATBs fell by 41% versus the prior year. With no volume in April and a gradual rebuild during May and into June, in the six months to 30 June 2019, we received a total of 845,600 new borrower applications (2019: 1.2m) of which 154,600 (2019: 234,700) were accepted in principle and sent on for processing by staff in the branch nearest to the applicant (or centrally if no branch is within a reasonable distance). Having been converting around 7% of ATBs into loans booked prior to the onset of the pandemic, changes made to our scorecards and lending process impacted conversion in May 2020 but by the following month this had recovered substantially to over 5%.

Productivity – The reduced level of applications and lower conversion meant that we wrote 13,828 loans in the period which was a 44% reduction on the previous year (2019: 21,958). Anticipating the drop in lending volume, a total of 155 branch staff were temporarily placed on furlough but were topped up to receive 100% of their salary. With no new branch openings and the marked reduction in lending volumes, 48 staff were made redundant in August but all other staff have returned to work and there are currently no branch-based staff on furlough.

Delinquency management – Whilst there was a marked increase in the rates of delinquency amongst those loans initially flagged as being affected by COVID, the delinquency rates have steadily declined since April 2020 and an increasing proportion of those flagged have since returned to full or part payment and by the end of June 2020 there were 8,621 COVID-affected customers, or 12% of the total. Since the end of June, many of those affected have come to the end of their initial emergency payment freeze prompting a further reduction in the proportion of total customers that remain COVID-flagged and by the end of September this had reduced to 6% of the total. Whilst collections overall have remained robust throughout the period, the higher delinquency of COVID-flagged customers, together with a marked increase in the risk weighting of a downside scenario as part of the IFRS 9 provisioning, meant that impairment as a percentage of revenue increased to 26.7% (2019 restated: 23.5%) and against average net receivables it increased to 12.4% (2019 restated: 11.0%).

Plans for the rest of 2020

Our short-term focus is to rebuild the loan book and return it to growth whilst at the same time continuing to bring down the rate of impairment to more normalised levels that the business has delivered previously. Despite the challenges presented by further lockdowns and social distancing, we remain committed to the face-to-face lending model, one that is both popular with customers and capable of generating attractive rates of return.

Since the end of June 2020, lending volumes have continued to recover so that the net loan book has once again started to grow, while rates of delinquency have also improved. The challenging macroeconomic environment means that the demand for our products and services is expected to increase and our appetite to increase geographic coverage with further branches remains undiminished - we continue to see scope for a network of over 100 branches over the medium-term. The pace at which we are able to realise that vision will be dependent upon the Group securing additional equity capital that in turn should unlock access to further, lower cost debt funding.

Guarantor loans

Since being introduced into the UK market in 2006, guarantor loans have proven to be an attractive source of credit for those with a thin or impaired credit file as the presence of a guarantor often means that the borrower is able to secure credit at a much lower rate of interest than would be the case were they to try and borrow on their own. At the same time, by keeping up with their regular repayments, the borrower can repair or rebuild their credit score.

However, of the Group's three divisions, guarantor loans has experienced the greatest impact from the pandemic. As evidenced by the latest unemployment statistics, COVID-19 has had a disproportionate economic impact on younger adults and it is this demographic that makes up the majority of the division's customer base. The result has been that by the end of June 2020 approximately 23% of the division's customers had been affected and this in turn impacted both collections and the rate of impairment with the result that the division delivered a normalised pre-tax loss of £9.2m (2019 restated: normalised pre-tax profit of £0.3m).

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 and so the Group and its advisers have developed a detailed methodology to provide redress to those customers affected (see 'Redress for certain customers of Guarantor Loans Division' above). While the FCA has not yet reviewed the proposed redress methodology, the Directors have included an exceptional provision of £15.8m in the 2020 half year results based on their best estimate of the total costs of the redress programme using the methodology described above. Although the final cost of the redress programme remains subject to the FCAs approval of the methodology used and a review of those customers affected, it is hoped that once the programme is finalised the division can begin its preparations to restart lending in earnest in 2021.

Financial results

Despite the significant slowdown in lending from late March 2020, strong annualised loan book growth up to this point meant that normalised revenue grew by 23% to £17.0m (2019: £13.8m). The unwinding of the fair value uplift associated with the acquisition of George Banco in 2017 meant that reported revenue was almost £1m lower than this at £16.1m (2019: £12.7m). As noted above, the disproportionate impact of the pandemic on the division's customers, coupled with a marked increase in provisions to reflect a more pessimistic macroeconomic backdrop, contributed to a four-fold increase in the absolute value of impairment to £15.7m (2019 restated: £3.4m). This in turn fed through into a marked increase in the rate of impairment as a percentage of both revenue and average net receivables. Despite a reduction in headcount versus the year end, administration costs increased by 15% to £7.1m (2019: £6.2m) driven by an increase in professional fees and redundancy costs. The net result was that the division produced a normalised operating loss of £5.4m (2019 restated: operating profit of £3.8m). While the marked slowdown in loan book growth from March 2020 generated positive cashflow in the period, as increased cash balances were not used to pay down the Group's drawn facilities, finance costs increased by 12% and the normalised loss before tax was £9.2m (2019 restated: profit before tax of £0.3m).

As noted above, an exceptional provision for customer redress due to certain customer of the Group's guarantor loans division totalling £15.8m (2019: £nil) was made in the period. The provision represents the Directors' best estimate of the total costs of redress based on a detailed methodology developed in conjunction with the Group's advisers. As the FCA has not yet reviewed the proposed redress methodology and associated analyses, it is possible that the eventual outcome may differ materially from the current estimate and that this could materially impact the financial statements. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation as well as the fact that the FCA has yet to confirm its agreement to the methodology proposed.

6 months to 30 June	2020 Normalised[8]	2020 Fair value adjustments	2020 Reported
	£'000	£'000	£'000
Revenue	**17,032**	**(971)**	**16,061**
Other income	-	-	-
Modification loss	(58)	-	(58)
Derecognition gain	494	-	494
Impairments	(15,727)	-	(15,727)
Revenue less impairment	**1,741**	**(971)**	**770**
Admin expenses	(7,114)		(7,114)
Operating loss	**(5,373)**	**(971)**	**(6,344)**
Exceptional items	-	(15,753)	(15,753)
Loss before interest and tax	**(5,373)**	**(16,724)**	**(22,097)**
Net finance cost	(3,871)	-	(3,871)
Loss before tax	**(9,244)**	**(16,724)**	**(25,968)**
Taxation	1,756	185	1,941
Loss after tax	**(7,488)**	**(16,539)**	**(24,027)**

6 months to 30 June - restated	2019 Normalised[8]	2019 Fair value adjustments	2019 Reported
	£'000	£'000	£'000
Revenue	**13,840**	**(1,184)**	12,656
Other income	-	-	-
Modification loss	(72)	-	(72)
Derecognition gain	(402)	-	(402)
Impairments	(3,386)	-	(3,386)
Revenue less impairment	9,980	**(1,184)**	8,796
Admin expenses	(6,212)	-	(6,212)
Operating profit	3,768	**(1,184)**	2,584
Exceptional items	-	-	-
Profit before interest and tax	3,768	**(1,184)**	2,584
Net finance cost	(3,453)	-	(3,453)
Profit/(loss) before tax	315	**(1,184)**	(869)
Taxation	(59)	225	166
Profit/(loss) after tax	256	**(959)**	(703)

[8] *Normalised figures, adjusted to exclude fair value adjustments and amortisation of acquired intangibles*

IFRS 9 Key Performance Indicators[9]	2020	2019 restated
Period end customer numbers (000)	**31.5**	28.5
Period end loan book (£m)	**87.6**	95.3
Average loan book (£m)	**102.1**	80.5
Revenue yield	**32.3%**	31.7%
Risk adjusted margin	**12.4%**	23.9%
Impairment/revenue	**61.6%**	24.5%
Impairment/average loan book	**19.9%**	7.8%
Cost to income ratio	**41.8%**	45.5%
Operating profit margin	**(1.1)%**	28.2%
Return on asset	**(0.4)%**	8.9%

[9] *All definitions are as per glossary.*

A summary of the key business drivers during the first half of 2020 is set out below:

Lead volumes and quality – Whilst lead volumes were up strongly in both January and February 2020, inbound volumes fell significantly at the end of March and were minimal throughout April when lending reduced to almost zero. The lead volume in May recovered to c.36% of the average for January and February 2020 and in June it had reached almost 50%. While financial brokers sought to recalibrate their business models to reflect our own revised selection criteria for the new business environment, price comparison websites proved to be the most resilient channel, recovering relatively quickly and representing approximately 19% of the albeit reduced lending volume during the first half (2019: 12%).

Productivity – With almost no volume in April, the changes to our scorecards and lending process necessarily impacted conversion in both May and June which meant that whilst the value of new lending had started to recover, it remained low and was still at less than 20% of pre-lockdown levels in June 2020. The net result was that we wrote 4,228 loans which was a 57% reduction versus the prior year (2019: 9,840 loans) and this fed through into a 60% drop in the value of loans booked to £15.1m (2019: £37.3m). The consolidation of all operations in Trowbridge meant that the average number of operational staff during the first half fell by 18% to 99 (2019: 118) and in June 2020 there were a total of 85 operational staff (2019: 129) and 19 support staff (2019: 20).

Delinquency management – As noted above, the majority of the division's customer base are under 40 years old and it is this demographic that has been one of the hardest it by the pandemic with the result that approximately 30% of the loan book was 'COVID-flagged' at the end of June 2020 which is significantly higher than for the other two divisions. However, of those flagged, approximately 50% are now making full payments with 10% making part payments while 20% have asked for a second emergency payment freeze and 20% are currently making no payment. The increased risk weighting of a macroeconomic downside scenario that was adopted in 2019 and an inability to approach guarantors of those customers that had opted for an emergency payment freeze meant that impairment as a percentage of revenue increased to 61.6% (2019 restated: 24.5%) and impairment as a percentage of average net loan book increased to 19.9% (2019 restated: 7.8%).

Plans for the rest of 2020

Concluding on the proposed methodology for customer redress and then starting to execute the programme as well as embedding a series of enhanced lending procedures are the key priorities for the rest of 2020. We continue to believe that the guarantor lending model provides a valuable source of credit for thousands of borrowers and for most of them at a much more affordable rate of interest than if they were to apply for credit on their own. That said, we recognise the increasing regulatory demands and are therefore reviewing all aspects of our business model in order to ensure that we can meet the needs of consumers whilst also delivering attractive and sustainable returns for shareholders. Once complete, we intend to restart lending in earnest during 2021. In the meantime, we are continuing to focus on delivering good customer outcomes through careful management of our existing customers and through an effective collections process.

Home credit

Our home credit business has been founded upon ensuring that our self-employed agents build and maintain strong face-to-face relationships with their customers. Maintaining regular personal contact with customers at the lower end of the credit spectrum helps the agent to stay up-to-date with the customer's personal circumstances and also allows them to collect the regular weekly payment, normally in cash. Our experience is that this delivers consistently better customer outcomes than pure remote lending where there is little or no face-to-face contact.

The onset of the pandemic and the requirements for social distancing required a complete shift in our business model, albeit temporarily, to one that could continue to operate on a remote-only basis. Having entered the pandemic with approximately 28% of collections being conducted remotely (through continuous payment authority, debit card payment and other remote channels), we adjusted our agent commission structure and through careful customer communications, within a few weeks the vast majority of our previously cash-paying customers had switched to using one of the remote channels available so that by the end of March close to 100% of all collections were made remotely. Whilst a proportion of our customers did not switch, either because they were unable or unwilling to make the change, these customers were then COVID-flagged, ensuring that their credit record was not impacted by temporary non-payment simply because they wanted to pay in cash.

Whilst our commitment to face-to-face lending is undiminished, the social distancing rules required that we develop a remote lending capability, one that both customers and agents were comfortable using and that also met the highest standards of security and management oversight. Having stopped all agent visits to the home at the end of March 2020, lending reduced to almost zero in April while our in-house tech team developed a tailored solution that was then rolled out in a number of stages. Stage one included the launch of a temporary and more basic solution that allowed agents to lend to existing customers and disburse funds electronically. This was later followed by a more comprehensive package that meant agents could execute a loan for all applicants through the existing lending app and using online income verification and data capture.

As social distancing rules were gradually relaxed, agents were permitted to return to their preferred face-to-face model for customers who could not take advantage of the remote options available, albeit with enhanced safety measures and in line with government guidelines. In the current circumstances, our preference is that agents use remote options where possible, coupled with home visits where appropriate, a combination that has resulted in a healthy recovery in collections. The absence of any meaningful lending during April and most of May whilst collections held up reasonably well meant that the rate of loan book decline accelerated in April and May but then started to slow down in June with the result that by 30 June 2020 the net loan book was down 32% at £24.3m (2019 restated: £35.5m).

Financial results

As noted above, the pandemic had a sudden and severe impact on the home credit business both operationally and financially. The significant reduction in new lending meant that the natural decline in customer numbers as loans are repaid accelerated and by 30 June 2020 the number of active customers had fallen by 16% to 77,200 (2019: 91,600). Adapting to the new business environment prompted some changes both to our scorecard and underwriting criteria and we also focused any new lending on our shorter-term products, specifically 33-week and 24-week loans.

Whilst the pattern of lending changed from April 2020, lower lending volumes meant that the impact on the shape of the overall loan book was less pronounced. However, thanks to a concerted effort in recent years to shorten the division's loan book, average yield increased to 169.7% (2019: 165.5%) although with the significant reduction in loan issuance following the pandemic and the impact on the size of the outstanding loan book, overall revenue was down 11% to £27.3m (2019: £30.7m). Whilst the absolute level of collections was impacted due to reduced levels of lending, overall collections as a percentage of book remained robust and the rate of impairment as a percentage of revenue declined from 31.9% to 27.1% for the twelve month period to 30 June 2020.

Despite the decision to increase the rate of agent commission in order to incentivise the switch to remote collections, cost savings elsewhere (people-related costs, IT and travel) meant that administration costs fell to £16.4m (2019: £17.6m) although with lower revenue, the rolling 12-month cost:income ratio increased to 59.4% (2019: 56.3%). The net result was that normalised operating profit fell to £3.0m (2019: £4.3m). With a much reduced level of new lending, the business generated substantial positive cashflow in the period with the result that finance costs fell to £0.8m (2019: £1.1m) and pre-tax profit reduced to £2.2m (2019: £3.2m).

6 months to 30 June	**2020**	**2020**	**2020**
	Normalised[10]	**Exceptional items[11]**	**Reported**
	£'000	**£'000**	**£'000**
Revenue	**27,277**	**-**	**27,277**
Impairments	(7,927)	-	(7,927)
Revenue less impairments	**19,350**	**-**	**19,350**
Admin expenses	(16,382)	-	(16,382)
Operating profit	**2,968**	**-**	**2,968**
Exceptional items	**-**	**-**	**-**
Profit before interest and tax	**2,968**	**-**	**2,968**
Finance cost	(774)	-	(774)
Profit before tax	**2,194**	**-**	**2,194**
Taxation	(417)	-	(417)
Profit after tax	**1,777**	**-**	**1,777**

6 months to 30 June	2019 Normalised[10] £'000	2019 Exceptional items[11] £'000	2019 Reported £'000
Revenue	**30,691**	-	**30,691**
Impairments	(8,828)	-	(8,828)
Revenue less impairments	**21,863**		**21,863**
Admin expenses	(17,560)	-	(17,560)
Operating profit	**4,303**	-	**4,303**
Exceptional items	-	(129)	(129)
Profit before interest and tax	**4,303**	**(129)**	**4,174**
Finance cost	(1,108)	-	(1,108)
Profit before tax	**3,195**	**(129)**	**3,066**
Taxation	(607)	24	(583)
Profit after tax	**2,588**	**(105)**	**2,483**

IFRS 9 Key Performance Indicators[12]	2020	2019
Period end agent numbers	887	892
Period end number of offices	65	67
Period end customer numbers (000)	77.2	91.6
Period end loan book (£m)	24.3	35.5
Average loan book (£m)	33.8	37.9
Revenue yield	169.7%	165.5%
Risk adjusted margin	123.8%	112.7%
Impairments/revenue	27.1%	31.9%
Impairment/average loan book	45.9%	52.8%
Cost to income ratio	59.4%	56.3%
Operating profit margin	13.5%	11.8%
Return on asset	23.0%	19.5%

[10] *Normalised figures are before exceptional items.*
[11] *Refer to note 6 in the notes to the financial statements for further detail*
[12] *All definitions are as per glossary and above.*

Plans for the rest of 2020

As is the case for our other business divisions, the clear focus for the balance of 2020 is on stabilising and then rebuilding the loan book and active customer base. Having achieved modest loan book growth in August, we were pleased that this continued in September. While regional restrictions on social distancing and the threat of a second wave of infection present some challenges for agents, with the rollout of our latest remote lending capability now complete, we are confident that we can continue to make progress and are looking forward to the important seasonal lending period in November and December.

Central costs

6 months to 30 June	2020 Normalised[13] £000	2020 Amortisation of acquired intangibles and exceptional items £000	2020 Reported £000
Revenue	**-**	**-**	**-**
Admin expenses	(3,104)	(599)	(3,703)
Operating loss	**(3,104)**	**(599)**	**(3,703)**
Exceptional items[14]	-	(75,530)	(75,530)
Loss before interest and tax	(3,104)	(76,129)	(79,233)
Net finance (cost)/income	(664)	-	(664)
Loss before tax	**(3,768)**	**(76,129)**	**(79,897)**
Taxation	780	(1,754)	(974)
Loss after tax	**(2,988)**	**(77,883)**	**(80,871)**

6 months to 30 June	2019 Normalised[13] £000	2019 Amortisation of acquired intangibles and exceptional items £000	2019 Reported £000
Revenue	**-**	**-**	**-**
Admin expenses	(3,010)	(2,607)	(5,617)
Exceptional items[14]	-	(25,145)	(25,145)
Operating loss	**(3,010)**	**(27,752)**	**(30,762)**
Net finance (cost)/income	(218)	-	(218)
Loss before tax	**(3,228)**	**(27,752)**	**(30,980)**
Taxation	613	495	1,108
Loss after tax	**(2,615)**	**(27,257)**	**(29,872)**

[13] *Adjusted to exclude exceptional items (refer to notes to the financial statements note 6), as well as the amortisation of acquired intangibles related to the acquisition of George Banco.*

[14] *Refer to note 6 in the notes to the financial statements for further detail*

Despite a reduction in employee costs, normalised administrative expenses for the period increased by 3% to £3.1m (2019: £3.0m) reflecting higher professional fees. In addition, the Group incurred a charge of £0.6m relating to the amortisation of intangible assets recognised on the acquisition of Everyday Loans and George Banco (2019: £2.6m).

As identified at the time of the 2019 full year results, the decline in the valuations of non-standard lenders and the impact of COVID-19 on the profitability of each of the Group's divisions might require that the Group write down all of the remaining goodwill assets on its balance sheet to nil. This has now taken place and resulted in an exceptional non-cash charge of £75.5m in the first half of 2020 (2019: £25.1m).

The exceptional charges in the prior year related to £12.7m of advisory fees and other costs associated with the offer to acquire Provident Financial plc on the terms set out in an offer document published on 9 March 2019, as well as the related proposal to demerge Loans at Home, a £12.5m impairment loss on the Loans at Home goodwill asset (see note 11) and £0.1m of restructuring costs at Loans at Home that took place in January 2019.

Principal risks

Since the publication of the Group's 2019 full year results on 25 June 2020, a number of developments have prompted an update to the principal risks now facing the Group which are as follows:

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

  In its recent paper on relending[1] the FCA has said that it expects firms to consider waiving any right to Early Settlement Charges under the Consumer Credit (Early Settlement) Regulations 2004 on loans that are refinanced. Such charges totalled approximately £2.3m in 2019 and if such charges were waived and no mitigating actions were taken, then this would reduce revenue and the future profitability of the Group;

- **Going concern and solvency -** As a result of the provision to fund redress to certain of the Group's guarantor loans customers, the impact of COVID-19 on the Group's business performance in the first half of 2020 (see below) and the associated write-down of goodwill and certain other assets, the Group had net assets of £22.0 million as at 30 June 2020. Given the prevailing uncertainties regarding the macroeconomic outlook, the future trading performance of the Group and the level of customer redress that will ultimately become payable, there remains a material uncertainty as to the Group's ability to remain as a going concern and to continue to operate within its financial covenants. The Group is in active discussions with its lenders regarding possible covenant waivers in the future and with Alchemy, the Group's largest shareholder, who remains supportive of a substantial equity issue. In the event that sufficient further capital cannot be raised in a timely manner then there would be a significantly increased risk that the Group would no longer remain a going concern and could become insolvent;

- **Liquidity** – the Group had cash balances at 30 June 2020 of £75.7 million. Since then it has repaid £15m drawn on its £200 million securitisation facility and met other operating expenses so that as at 30 September 2020 it had cash at bank of £69.9 million. The payment of redress due to affected guarantor loans customers outlined above will reduce the Group's cash balances significantly and while the securitisation facility remains undrawn, it is unlikely that this would be available in the absence of a further capital raise due to covenant constraints and the required consent of the provider which may be influenced by other factors such as the prevailing macroeconomic and regulatory environments. As a result, while the Group is in active discussions regarding a possible capital raise to strengthen its balance sheet and help fund the redress programme, in the absence of such a raise there is a significant risk that the Group will require waivers from its lenders in order to meet its future obligations. In addition, while no repayments are due on any of the Group's facilities until August 2022, the current uncertainty regarding the Group's financial position means that there is a risk that the Group may be unable to secure sufficient finance in the future to execute its long-term business strategy;

- **COVID-19 -** the pandemic and the associated restrictions on face-to-face contact by HM Government, caused significant disruption to the Group's operational and financial performance during 2020. In the absence of any mitigating actions or circumstances, continued macroeconomic uncertainty and any sustained period where current and/or additional restrictions are in place could result in the Group suffering additional and significant financial loss due to the consequential impact upon the Group's customers, its staff, self-employed agents and/or business operations;

- **Conduct** – risk of poor outcomes for our customers or other key stakeholders as a result of the Group's actions that may in turn result in financial claims being made against the Group;

- **Credit** – risk of loss through poor underwriting or a diminution in the credit quality of the Group's customers (also see COVID-19 above);

- **Business strategy** – risk that the Group's strategy fails to deliver the outcomes expected; and

[1] *"Relending by High Cost Lenders" - FCA, 6 August 2020*

- **Business risks:**

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

– **reputational** – a failure to manage one or more of the Group's principal risks may damage the reputation of the Group or any of its subsidiaries which in turn may materially impact the future operational and/or financial performance of the Group; and

– **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.

On behalf of the Board of Directors

Jono Gillespie
Chief Financial Officer

30 October 2020

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge, the unaudited condensed interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- An indication of important events that have occurred during the first six months of the financial year and their impact on the unaudited condensed interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- Material related party transactions that have occurred in the first six months of the financial year and any material changes in the related party transactions described in the last annual report and financial statements.

The current directors of Non-Standard Finance plc are listed in the 2019 Annual Report & Financial Statements. A list of current directors is also maintained on the Non-Standard Finance website: www.nsfgroupplc.com.

The maintenance and integrity of the Non-Standard Finance website is the responsibility of the Directors.

Legislation in the United Kingdom governing the preparation and dissemination of unaudited condensed interim financial statements may differ from legislation in other jurisdictions.

On behalf of the Board of Directors

Jono Gillespie
Chief Financial Officer

30 October 2020

Financial Statements

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2020

	Note	Before fair value adjustments, amortisation of acquired intangibles and exceptional items £000	Fair value adjustments, amortisation of acquired intangibles and exceptional items £000	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 as restated[1] £000
Revenue		**92,223**	**(971)**	**91,252**	87,103
Other operating income	13	888	-	888	221
Modification gain/(loss)		(696)	-	(696)	(505)
Derecognition gain		686	-	686	1,669
Impairment		(39,247)	-	(39,247)	(22,536)
Administrative expenses		(48,838)	(599)	(49,437)	(49,947)
Operating profit	5	**5,016**	**(1,570)**	**3,446**	16,005
Exceptional items	6	-	(91,283)	(91,283)	(25,274)
Profit/(loss) on ordinary activities before interest and tax		**5,016**	**(92,853)**	**(87,837)**	(9,269)
Finance cost		(14,912)	-	(14,912)	(13,178)
Profit/(loss) on ordinary activities before tax		**(9,896)**	**(92,853)**	**(102,749)**	(22,447)
Tax on profit/(loss) on ordinary activities	8	1,944	(1,569)	375	(511)
Profit/(loss) for the period		**(7,952)**	**(94,422)**	**(102,374)**	(22,958)
Total comprehensive loss for the year				**(102,374)**	(22,958)
Loss attributable to:					
– Owners of the parent				**(102,374)**	(22,958)
– Non-controlling interests					-

Loss per share

	Note	Six months ended 30 June 2020 Pence	Six months ended 30 June 2019 Restated[1] Pence
Basic and diluted	7	**(32.77)**	(7.36)

[1] 2019 statement of comprehensive income has been restated, refer note 3 to the financial statements for further detail.

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

Condensed consolidated statement of financial position as at 30 June 2020

	Note	30 June 2020 £000	31 December 2019 £000
ASSETS			
Non-current assets			
Goodwill	11	**-**	74,832
Intangible assets		**7,936**	8,572
Derivative asset		**1**	1
Deferred tax asset		**-**	1,677
Right of use asset		**9,698**	10,560
Property, plant and equipment		**6,523**	6,556
Amounts receivable from customers	10	**150,270**	185,269
		174,428	287,467
Current assets			
Amounts receivable from customers	10	**149,757**	176,379
Trade and other receivables		**11,428**	2,643
Cash and cash equivalents		**75,704**	14,192
		236,889	193,214
Total assets		**411,317**	480,681
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		**20,727**	26,909
Provisions	16	**17,650**	1,466
Lease liability		**1,560**	1,830
Total current liabilities		**39,937**	30,205
Non-current liabilities			
Lease liability		**8,848**	9,275
Bank loans		**340,500**	317,590
Total non-current liabilities		**349,348**	326,865
Equity			
Share capital		**15,621**	15,621
Share premium		**180,019**	180,019
Other reserves		**2,733**	2,152
Retained loss		**(176,341)**	(74,181)
		22,032	123,611
Total equity		**22,032**	123,611
Total equity and liabilities		**411,317**	480,681

Condensed consolidated statement of changes in equity for the six months ended 30 June 2020

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained loss £000	Non-controlling interest £000	Total £000
At 31 December 2018		15,852	254,995	(2,011)	(61,635)	255	207,456
Total comprehensive loss for the year		-	-	-	(76,308)	-	(76,308)
IFRS 16 transition opening balance adjustment		-	-	-	(295)	-	(295)
Transaction with owners, recorded directly in equity:							
Dividends paid	9	-	-	-	(8,425)	-	(8,425)
Capital reduction	15		(75,000)		75,000	-	-
Credit to equity for equity-settled share-based payments		-	-	1,183	-	-	1,183
Transfer of share-based payments on vesting of share awards		-	-	(734)	734	-	-
Issue of shares		23	24	-	(47)	-	-
Equity for founder shares[1]		-	-	255	-	(255)	-
Cancellation of shares		(254)	-	3,459	(3,205)	-	-
At 31 December 2019		15,621	180,019	2,152	(74,181)	-	123,611
Total comprehensive loss for the period		**-**	**-**	**-**	**(102,374)**	**-**	**(102,374)**
Transactions with owners, recorded directly in equity:							
Dividends paid	9	**-**	**-**	**-**	**-**	**-**	**-**
Credit to equity for equity-settled share-based payments		**-**	**-**	**795**	**214**	**-**	**1,009**
Transfer of share-based payment reserve on vesting of share awards		**-**	**-**	**(214)**	**-**	**-**	**(214)**
At 30 June 2020		**15,621**	**180,019**	**2,733**	**(176,341)**	**-**	**22,032**

[1] In 2019, £255,000 relating to Founder Shares has been re-presented as equity rather than non-controlling interest because it reflects other reserves for the Group

Condensed consolidated statement of cash flows for the six months ended 30 June 2020

	Note	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000
Net cash used in operating activities	12	**49,314**	(10,633)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,793)**	(4,061)
Proceeds from sale of property, plant and equipment		**-**	37
Net cash used in investing activities		**(2,793)**	(4,024)
Cash flows from financing activities			
Finance cost		**(6,809)**	(5,316)
Debt raising		**21,800**	29,680
Dividends paid		**-**	(6,240)
Net cash from financing activities		**14,991**	18,124
Net increase in cash and cash equivalents		**61,512**	3,467
Cash and cash equivalents at beginning of year		**14,192**	13,894
Cash and cash equivalents at end of year		**75,704**	17,361

As at 30 June 2020 the Group had cash of £75.7m (30 June 2019: £17.4m) with gross debt of £345.0m (30 June 2019: £302.7m).

Notes to the preliminary announcement

1. General information

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

The unaudited condensed interim financial statements do not constitute the statutory financial statements of the Group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2019 were approved by the Board of Directors on 25 June 2020 and have been delivered to the Registrar of Companies. The report of the auditor was unqualified and did not contain a statement under s498(2) or (3) of the Companies Act 2006, but did include a section highlighting a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern given the possible impact of the COVID-19 pandemic. The Group notes this material uncertainty continues to exist as at 30 June 2020 as a result of potential reduced levels of collections and lending on the Group's financial performance, the potential impact of the guarantor loan redress programme on the liquidity and solvency position of the Group, along with compliance with existing financial covenants and whether waivers will be granted by lenders (and under what terms) in the event of a covenant breach.

The condensed interim financial statements for the six months ended 30 June 2020 have not been reviewed or audited by the independent auditor of the Group.

2. Basis of preparation

The unaudited condensed interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The unaudited condensed interim financial statements should be read in conjunction with the statutory financial statements for the year ended 31 December 2019 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Going concern

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

The impact of COVID-19 meant that at the date of signing the accounts for the year ended 31 December 2019, the Group had breached certain portfolio performance covenants relating to the Group's securitisation facility, thereby preventing further drawdowns from this facility. On 26 August 2020 the Group repaid the amount previously drawn in full, thereby resolving the covenant breach and the Group has agreed with the provider that, subject to their consent and the satisfaction of standard covenants for a facility of this type, the facility will remain open for future use.

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

(i) Base case scenario

Liquidity

The base case forecasts assume no additional equity is raised and reflect a business plan of slower loan book growth across the Group in order to mitigate the risk of possible covenant breaches. In this forecast, we have taken into account:

- recent government initiatives to support borrowers affected by the outbreak of COVID-19, such as the FCAs 'emergency payment freeze' which remains available until 31 October 2020;
- the proportion of customers who are expected to return to normal payments, are rescheduled and/or deferred and those who will ultimately not return to normal payments based on detailed analysis of past and present customer behaviours;
- recent Government guidance around social distancing and localised restrictions;
- a more severe macroeconomic impact on loan loss provisions since the year end as explained in the notes to the financial statements. This has involved an increase in the macroeconomic weightings and worsening of macroeconomic variables which are used to calculate expected credit losses (ECL);
- a slower rate of growth in lending over the forecast period;
- no dividends are assumed to be paid over the forecast period;
- a lower cost base than was forecast before COVID-19, which would be achieved through increased efficiencies and cost saving initiatives, consistent with the aforementioned slower growth path of the Group;
- the requirement to pay HMRC-related taxes which were deferred from May-August 2020 in line with the time-to-pay arrangement agreed with HMRC.
- the potential costs of obtaining covenant waivers from lenders in the event of a covenant breach.

- that the Group has recognised a provision for customer redress and associated costs and this has been incorporated into the base case (see note 16 to the financial statements). The quantum of provision for redress represents the Directors' best estimate of the ultimate cost of the redress as at the reporting date. The ultimate redress amount will be subject to a number of factors including the FCAs approval of the redress methodology used and a case-by-case review of those customers affected.

As noted in the 2019 Annual Report and Accounts, since the onset of COVID-19, the Group has implemented a number of initiatives in order to conserve cash including:

- A reduction in staff numbers; and
- A 70% reduction in the bonus potential for Executive Directors in 2020.

Under the base case, which incorporates the impact of COVID-19 and the provision for customer redress to certain GLD customers, and in the absence of mitigating actions, is it is forecast the Group will breach its financial covenants within the next 12 months. There is a material uncertainty regarding the assumptions and outcome of the base case in the following areas:

- the impact of current COVID-19 affected customers on trading performance; including the impact of a second and possible subsequent waves;
- the potential future impact of COVID-19 on the macroeconomic environment;
- the ultimate cost of the GLD redress programme;
- the outcome of discussions with lenders; and
- the ability to raise capital.

The Group is continuing to discuss the forecast impact of the customer redress provision on covenants with its lenders as well as a possible capital raise with its major shareholder in order to both strengthen the Group's balance sheet and help fund the redress programme. While it is expected that waivers could be granted by the Group's lenders at a cost, this remains uncertain. No capital raise is assumed in the base case. The challenge in predicting the trajectory of the pandemic and its impact on the Group's business means that there is also a material uncertainty around the timing of a return to profitability.

As at 30 September 2020, the Group had a total cash balance of £69.9m which, when combined with the Group's ability to conserve cash through a reduction in future lending, means the Group expects to be able to fund operating expenses and interest payments for at least the next 12 months should the quantum of the customer redress be at or below the value of the provision disclosed.

Solvency

Under the base case, the Group would remain solvent from a balance sheet perspective; however the headroom is tight and solvency is dependent upon the above assumptions not varying materially, and any mitigating actions which could be implemented to offset any adverse movement from the base case. In addition, the Group may have to further restrict lending activities and/or exercise further financial levers around costs in order to maintain solvency.

Due to the uncertainty regarding the full current and future impact of COVID-19 and the customer redress programme on its forecasts, the Group notes that the movement in any one or a number of these assumptions creates a material uncertainty in the liquidity and/or solvency position of the Group.

Key risks to the assumptions made include:

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

(i) Downside scenario

Liquidity

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

Under this scenario we have assumed:

- The reimplementation of social restrictions across the UK and more frequent local lockdowns in an effort to curb the recent rise in COVID-19 cases, therefore leading to lower lending than expected.
- The coronavirus jobs retention scheme comes to an end on 31 October 2020 (offset by the effects of the Job Support Scheme that has already been implemented) which may place employees at risk of losing their jobs therefore leading to higher delinquency than expected.
- The actual cost of the GLD customer redress is higher than the provision which has been included in the half year results (refer to note 16to the financial statements)

Under this scenario, it is expected that the Group would breach certain borrowing covenants during the next 12 months, would not be able to access further funding over the period of breach and would require waivers from its lenders in order to remain viable as well as being required to raise additional equity. The waivers required under this scenario are beyond the range discussed in previous negotiations with lenders.

Solvency

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

As at 30 September 2020, the Group had a total cash balance of £69.9m which combined with the Group's ability to conserve cash through a reduction in lending, means that the Group expects to be able to fund operating expenses and interest payments for at least the next 12 months should the actual amount of customer redress paid be in line with the downside provision assumed. However, as noted above, as the amount remains subject to FCA approval there is a risk that the amount ultimately due could be higher than our downside assumptions and therefore impact negatively our forecast cash position.

Assessment

On the basis of the above analysis, the Directors note that a material uncertainty exists regarding the current and future impacts of COVID-19 and the extent of the redress to be paid to certain GLD customers. The impact on liquidity and solvency under both the base case and downside scenarios therefore may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

The Directors felt that the range of assumptions made in both the base case and downside scenario were such that given the uncertainties around the impact of COVID-19 and the customer redress programme, there remains a material uncertainty as to the likelihood of a waiver being granted by the lenders and the level and timing of support which might be provided by shareholders.

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

The assumption of lender and shareholder support for covenant breaches and solvency forms a significant judgement of the Directors in the context of approving the Group's going concern status.

The Directors acknowledge the considerable challenges presented by the outbreak of COVID-19, the impact of the FCA's review into guarantor loans and the material uncertainty which may cast significant doubt on the ability of both the Group and the Company to continue to adopt the going concern basis of accounting. However, despite these challenges, it is the Directors' reasonable expectation that the Group and Company will 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 Directors will continue to monitor the Group and Company's risk management, access to liquidity, balance sheet and internal control systems.

3. Accounting policies

The accounting policies used in these condensed consolidated interim financial statements are consistent with those used in the Non-Standard Finance Plc Annual Report 2019, with the exception of:

Other operating income

Other operating income relates to amounts received as a result of debt sales made and Government grants received in relation to the Coronavirus job retention scheme. The debt sales made relate only to those amounts receivable from customers which have fallen into arrears and have subsequently been charged off. Therefore, as the Group makes every effort to collect on receivables and has no intention of selling loans when originated, the Group's business model remains consistent with the definition of to hold and collect (further detail under Financial Assets). The accounting policy in relation to CJRS income is detailed below.

Coronavirus Job Retention Scheme (CJRS)

Under the CJRS employers receive compensation from the government for part of the wages, associated national insurance contributions (NIC) and employer pension contributions of employees who have been placed on furlough. The grant receipts have been measured at the fair value of the assets receivable and have been recognised under the performance model.

Under the performance model, grants shall be recognised:

- when received, where the grant does not impose future performance-related conditions on the recipient; or
- when performance-related conditions are met, where the grant imposes such conditions on the recipient.

Under the CJRS grant, the Company deems all performance related conditions to have been met when the claim was submitted, therefore income is recognised when received and no contingent liability has been recognised in the accounts for future liabilities in relation to this grant.

The amount received as part of the CJRS has been included within other operating income for the six months ended 30 June 2020 (refer note 13 for further detail).

Exceptional items

Exceptional items of £91.3m have been incurred in the six months ended 30 June 2020 (2019: £25.3m). These are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results. Refer to note 6 for further detail.

Prior year restatement

The Group transitioned to IFRS 9 on 1 January 2018. IFRS 9 introduced a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information and replaced the IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss has already been incurred and measures the loss at the most probable outcome. Through the review of the 2019 financial statements, it was determined that an error in the data used to calculate the post model adjustments had resulted in an underestimation of the level of loan loss provision required at 1 January 2018 by £3.2m. The input data did not adequately capture all relevant elements of the underlying loan population required by the model to calculate an accurate impairment provision. As a result, the level of loan loss provisions remained below that required at the time of transition and thereafter with the provision £4.0m lower than that required at 31 December 2018. A prior year adjustment to 31 December 2018 amounts receivable from customers was made to the loan loss provision of both branch-based lending and guarantor loans of £3.6m and £0.4m respectively in the 2019 Annual Report and Accounts and the full effect of this adjustment on the Group is summarised in the statutory financial statements for the year ended 31 December 2019.

As part of the reporting for the year ended 31 December 2019 Annual Report and Accounts, it was determined that the accounting for modification gains/losses on amounts receivable from customers did not adequately capture the impact of modification gains/losses in relation to non-substantial modifications to the contractual cash flows of the financial assets. In addition, it was determined that for substantially modified loans that resulted in derecognition and that subsequently met the significant increase in credit risk criteria, lifetime expected credit losses were not recognised. Whilst this was identified and corrected for in the 31 December 2019 Annual Report and Accounts, as this was not identified at the time of reporting for the six months ended 30 June 2019, a prior year adjustment to 30 June 2019 amounts receivable from customers has been made to both the branch-based lending and guarantor loans division of £0.9m and £0.1m respectively.

The impact of this adjustment on the Group's profit or loss for the six months ended 30 June 2019 is summarised below. In line with the 2019 Annual Report and Accounts, in the restated statement of comprehensive income, the portion of the derecognition gain/(loss) relating to substantial modifications during 2019 has been re-presented from modification loss to derecognition gain/(loss), and the impact of the prior year adjustment on the derecognition gain/loss has also been reflected in the restated amounts below:

Six months ended 30 June 2019 impact:

	Six months ended 30 Jun 2019 Reported £000	Adjustment to branch-based lending £000	Adjustment to guarantor loans £000	Restated Six months ended 30 Jun 2019 Reported £000
Revenue	87,103	-	-	87,103
Other operating income	221	-	-	221
Modification loss	(287)	(187)	(31)	(505)
Derecognition gain (loss)	-	2,071	(402)	1,669
Impairments	(21,404)	(987)	(145)	(22,536)
Administration expenses	(49,947)	-	-	(49,947)
Operating profit	15,686	897	(578)	16,005
Exceptional items	(25,274)	-	-	(25,274)
Profit before interest and tax	(9,588)	897	(578)	(9,269)
Finance cost	(13,178)	-	-	(13,178)
Profit/(loss) before tax	(22,766)	897	(578)	(22,447)
Taxation	(451)	(170)	110	(511)
Profit/(loss) after tax	(23,217)	727	(468)	(22,958)
Earnings (loss) per share	(7.44)			(7.36)

4. Critical accounting assumptions and key sources of estimation uncertainty

The critical accounting assumptions exercised by management and key sources of estimation uncertainty in the interim financial statements are consistent with those adopted in the statutory financial statements for the year ended 31 December 2019, with the exception of the impact of COVID-19 and the recognition of complaints provisions and a provision for the guarantor loan redress programme for the Group.

Amounts receivable from customers

As disclosed in the 2019 Annual Report and Accounts, the valuation of amounts receivable from customers continues to be a significant accounting estimate, dependent on the Group's measurement of the Expected Credit Losses (ECL), equal to the 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. The onset of COVID-19 has required the Group to alter its macroeconomic data and to also estimate the impact on ECL of emergency payment freezes taken by customers. The changes to key estimates in relation to amounts receivable from customers are outlined below for each division:

Macroeconomic data

Branch-based lending and guarantor loans

As noted in the 2019 Annual Financial Statements, the branch-based lending and guarantor loans divisions incorporate macroeconomic data in order to form an assessment of whether the credit risk of a financial asset has increased significantly since initial recognition, as well as in its measure of ECL. This is achieved through the development of several potential economic scenarios and modelling ECL for each scenario. The outputs from each scenario are combined using the estimated likelihood of each scenario occurring to derive a probability weighted ECL. The Group recognises that, whilst the severity of the impact of the COVID-19 pandemic on the economy remains uncertain, risks to rising unemployment and falling GDP have heightened since 31 December 2019, warranting an increase in the severe downside weightings used to model the ECL. 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. As a result, for the unaudited interim consolidated financial statements, the Group has increased its macroeconomic weightings, in the form of an increase to the severe downside weighting, and a reduction in the downside weighting, as reflected below:

Scenarios	30 June 2020	31 Dec 2019
Base	**50%**	50%
Downside	**15%**	30%
Severe downside	**30%**	15%
Positive	**5%**	5%

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. The macroeconomic variables which are modelled include the Bank of England (BoE) base rate, GDP, CPI, HPI and the unemployment rate.

The base scenario represents the most likely economic forecast and is based largely upon the Bank of England's ('BOE') base scenario. However, unemployment and GDP forecasts have been based on recent Office for Budget Responsibility ('OBR') base trend information applied to Office for National Statistics (ONS) and consideration has also been given to KPMG's Economic Outlook (September 2020). Under this scenario, base rate remains low, HPI grows steadily in line with past trends, and CPI increases only gradually. The downside scenario is slightly more severe than the 2008 financial crisis, where GDP and HPI fall substantially, whilst CPI increases further. Unemployment is anticipated to peak in the second half of 2020 and then gradually decrease thereafter. In 2008, base rate fell to 0.25% and stayed at that level for a considerable period, however this downside scenario assumes a more prudent minimum base rate of 0.5%. In addition, unemployment and GDP forecasts are based on recent OBR trend information calculated at an average of the OBR base and OBR downside scenarios and therefore have been adjusted to reflect a more stressed position than under the base scenario. The severe downside scenario is based upon the BOE's own stress scenario and OBR downside forecasts. This represents, for each individual variable, a severe downside with sharp falls in GDP and HPI, combined with sharp increases in unemployment, CPI, and base rate. Management have adjusted the base rate in this scenario to near zero. Consistent with the other scenarios, unemployment and GDP forecasts are derived from recent OBR base and downside data, combined with the BOE stress scenarios such that it reflects a position more severe than that under the downside scenario. The positive scenario is constructed in-house using PwC's Economic Outlook and OBR data, which is updated annually. For the positive scenario management use a low, stable base rate of interest and low levels of unemployment, estimates that are based on PwC's UK Economic Outlook, and OBR data.

Home credit

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

Emergency payment freeze overlays

On 9 April 2020, the FCA published guidance setting out its expectation that firms should provide, for a temporary period only, exceptional and immediate support to consumers facing payment difficulties due to circumstances arising out of COVID-19. This was updated on 1 July 2020 and supplemented with additional guidance on 16 September 2020. Affected consumers are entitled to opt for an initial three-month payment deferral that can be extended by a further three months up to and including 31 October 2020. In response to this the Group has been and is continuing to offer a range of support options, including an emergency payment freeze, to those affected.

The support provided in the form of an emergency payment freeze for affected customers has therefore had an impact on the ECL recognised across all divisions in the six months ended 30 June 2020. In order to determine the impact of this, the Group has reviewed the behaviour of customers who have opted for an emergency payment freeze and/or have notified us as being affected by COVID-19 ('COVID-19 flagged') and have used this data to inform updates to the PD, LGD and staging profile of those affected receivables. The Group recognises that, in line with IASB guidance, the activation of an emergency payment freeze by a customer is not automatically deemed a significant increase in credit risk (SICR).

Branch-based lending and guarantor loans

As disclosed in the 2019 Annual Report and Accounts, customer accounts in the branch-based lending and the guarantor loans divisions have been categorised into the three stages as defined by IFRS 9 with reference to the following criteria:

- Loans in stage 1 comprise all amounts receivable from customers which do not fall into stages 2 and 3.
- Loans in stage 2 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 ultimate 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 comprise amounts receivable from customers in default (in line with IFRS 9, the definition of default is over 90 days in arrears) as well as those accounts identified as insolvent

The branch-based lending and the guarantor loans divisions use historical data and risk models to determine the PD, LGD and the EAD. ECL are then predicted by multiplying these three forward-looking parameters and the result is discounted at the original EIR.

As a result of the impact of COVID-19, the Group has adjusted ECL for these divisions after undertaking detailed reviews of their respective COVID-19 flagged accounts. Customers were analysed with respect to:

- Customers who have paid in excess of their repayment schedule
- Customers who have paid according to their repayment schedule
- Customers who have made part payments
- Customers who have halted repayments

Furthermore, the COVID-19 flagged accounts were further sub-categorised as temporarily or permanently impacted by COVID-19.

These categories were reviewed alongside past and expected customer behaviour in order to establish the appropriate level of impairment provisions which need to be held against the COVID-19 flagged accounts.

As a result of this review, the Group has recognised that whilst a customer who has activated an emergency payment freeze does not necessarily in itself represent a SICR, a higher PD and LGD exists for COVID-19 flagged accounts within the branch-based lending and guarantor loans division where an emergency payment freeze has been activated and there is an expectation that customer performance will not improve and/or the customer will continue to not repay at the end of the emergency payment freeze. Therefore, an overlay has been applied to reflect the increased likelihood of these customers not recovering. In coming to this view, the Group has determined estimates which reflect the expectation of the proportion of customers who are likely to recover to full payments, those who are likely to be cured (either by way of rescheduling or loan deferrals), those no longer affected and the remaining proportion of customers likely to go into write-off. In addition, as future changes in macroeconomic variables such as unemployment have the potential to impact repayment behaviours of the branch-based lending and guarantor loans customer base, in applying management's overlay, consideration has also been given to the changes in macroeconomic variables (as detailed earlier) and their impact on the PD and LGD of COVID-19 flagged customers.

As the activation of an emergency payment freeze does not necessarily represent a SICR in line with IASB guidance, for the branch-based lending and guarantor loans divisions, a customer who is not in arrears at the time of activating an emergency payment freeze will remain in stage 1, unless:

- The PD of the loan has increased to the extent that, had the future performance been expected, it would not have been written to the customer in the first place; or
- The loan is 30+ days past due; or
- It is a loan requiring curing treatment.

Individual customer behaviour continues to be analysed to understand repayment behaviour on exit of an emergency payment freeze to update the PD's, and stage classification, as necessary.

Home credit

As disclosed in the 2019 Annual Report and Accounts, ECL in home credit is estimated by reference to future cash flows based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. This methodology encapsulates PD, EAD and LGD collectively. Given the short-term nature of lending in the home credit division, the difference between 12-month ECL and lifetime expected losses is minimal.

The provisioning for the home credit division for the six months ended 30 June 2020 follows the same methodology as outlined in the 2019 Annual Report and Accounts. This provision inherently reflects a higher PD for those customers who have activated an emergency payment freeze and are in arrears due to inability to meet repayments, as well as a higher LGD where recoveries from customers may be impacted. In addition, for the current year, as the activation of an emergency payment freeze by a customer does not necessarily mean there has been a SICR (as noted above), consideration has been made to a range of other factors which might impact ECL, including analysis of past and expected customer repayment behaviours. The Group has therefore also applied an overlay to provisions in line with the aforementioned guidance, the determination of which follows a set methodology depending on whether or not the customer has activated an emergency payment freeze.

In the six months ended 30 June 2020, of those customers who have taken an emergency payment freeze and shown worsening loan loss provisions, the Group has made an adjustment in order to reflect the lower collective PD, LGD and EAD for the proportion of customers who are expected to recover in payment performance at the end of the emergency payment freeze. This has been informed by the Group's detailed analysis of past repayment behaviours and expected repayments behaviour across the entire home credit customer base. As not all customers who have been granted an emergency payment freeze will fully recover their payment, the Group does not apply an overlay to the proportion of customers deemed to fall in this category and provisions are held at the levels reflective of missed payments to date resulting from the payment freezes taken.

In addition, the Group has performed further assessments of the home credit division customer base in order to identify certain customers who have been impacted by COVID-19 but did not have an emergency payment freeze applied to their account, either due to the inability to contact the customer remotely to discuss an emergency payment freeze or, because the customer did not apply for an emergency payment freeze . A similar adjustment has therefore also been recognised for these customers, as informed by analysis of past performance and customer repayment behaviour that shows for a certain portion of customers, payment performance will improve when contact can be re-established.

Customer behaviour in all three divisions is monitored closely so that the Group can improve its understanding of repayment behaviour upon the exit of an emergency payment freeze in order to ensure that all relevant inputs into the calculation of the impairment provision (PDs, LGDs, EADs and stage classifications) are up to date with the latest performance data.

Provisions

Provision for customer complaints

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

Judgement is applied to determine whether the criteria for establishing and retaining a provision have been met. Provisions for customer redress are in respect of complaints 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 Group'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; and

- average redress cost – the estimated compensation, inclusive of balance adjustments and cash payments, for upheld complaints included in the provision.

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.

Provision for guarantor loans division redress programme

Part of the provision included in the statement of financial position relates to a provision recognised for the customer redress programme in the guarantor loans division. The provision represents an accounting estimate of the expected future outflows arising using information available as at the date of signing these financial statements.

Identifying whether a present obligation exists and estimating the probability, timing, nature and quantum of the redress payments that may arise from past events requires judgements to be made on the specific facts and circumstances relating to the individual customers.

It is possible that the eventual outcome may differ, perhaps materially from the current estimate and this could impact the financial statements. This is due to the risks and inherent uncertainties surrounding the assumptions used in the provision calculation. Whilst the current estimate represents the Directors' best estimate of the total cost of redress, based upon a detailed methodology and analyses developed in conjunction with its advisers, the FCA has not yet reviewed 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 16 for more detail regarding the customer redress provisions.

Sensitivity Analysis

Amounts receivable from customers - Macroeconomic weightings

Branch-based lending

Assuming a more optimistic macroeconomic weighting of 50% base, 30% downside stress, 15% severe downside stress and 5% positive, results in a £0.105m reduction to ECL.

Assuming a more severe macroeconomic weighting of 50% base, 0% downside stress, 50% severe downside stress and 0% positive, results in a £0.973m increase in ECL.

Guarantor loans

Assuming a more optimistic macroeconomic weighting of 50% base, 30% downside stress, 15% severe downside stress and 5% positive, results in a £0.369m reduction to ECL.

Assuming a more severe macroeconomic weighting of 50% base, 0% downside stress, 50% severe downside stress and 0% positive, results in a £0.614m increase in ECL.

Amounts receivable from customers – Emergency payment freeze overlay

A change in the estimated proportion of customers who are expected to go into write-off by +/-10% would result in a £2.3m decrease/increase in ECL provisions for the Group.

Provisions

Provision for customer complaints

A +/-10% variation in customer complaints volumes would result in a £0.05m increase/decrease in provisions for the Group, a +/-10% variation in average claim redress would result in a £0.05m increase/decrease in provisions for the Group, and a +/-10% variation in upheld rate would result in a £0.05m increase/ decrease in provisions for the Group

5. Segment information

Management has determined the operating segments by considering the financial and operational information that is reported internally to the chief operating decision maker, the Board of Directors, by management. For management purposes, the Group is currently organised into four operating segments: branch-based lending (Everyday Loans), guarantor loans (TrustTwo and George Banco), home credit (Loans at Home) and central (head office activities). The Group's operations are all located in the United Kingdom and all revenue is attributable to customers in the United Kingdom.

	Branch-based lending £000	Guarantor loans[1] £000	Home credit £000	Central £000		2020 Total £000
Six months ended 30 June 2020						
Interest income	47,914	17,032	27,277	-	-	**92,223**
Fair value unwind on acquired loan portfolio		(971)		-	-	**(971)**
Total revenue	47,914	16,061	27,277	-	-	**91,252**
Operating profit/(loss) before amortisation	10,525	(6,344)	2,968	(3,104)	-	**4,045**
Amortisation of intangible assets				(599)	-	**(599)**
Operating profit/(loss) before exceptional items	10,525	(6,344)	2,968	(3,703)	-	**3,446**
Exceptional items[3]	-	(15,753)	-	(75,530)	-	**(91,283)**
Finance cost	(9,603)	(3,871)	(774)	(664)	-	**(14,912)**
Profit/(loss) before taxation	922	(25,968)	2,194	(79,897)	-	**(102,749)**
Taxation	(175)	1,941	(417)	(974)	-	**375**
Profit/(loss) for the period	**747**	**(24,027)**	**1,777**	**(80,871)**	-	**(102,374)**
Capital expenditure	1,622	-	1,171	-	-	**2,793**
Depreciation of plant, property and equipment	752	-	168	19	-	**939**
Depreciation of right of use asset	638	-	314	65	-	**1,017**
Amortisation and impairment of intangible assets	225	-	828	1,309	-	**2,362**

	Branch-based lending £000	Guarantor loans[1] £000	Home credit £000	Central £000	Consolidation adjustments[2] £000	30 June 2020 Total £000
Total assets	254,348	88,511	35,780	430,608	(397,930)	**411,317**
Total liabilities	(304,019)	(15,753)	(11,314)	(332,588)	274,389	**(389,285)**
Net assets	**(49,671)**	**72,758**	**24,466**	**98,020**	**(123,541)**	**22,032**

[1] *Guarantor loans division includes George Banco and TrustTwo. TrustTwo is supported by the infrastructure of Everyday Loans but its results are reported to the Board separately and have therefore been disclosed within the Guarantor Loans Division above.*

[2] *Consolidation adjustments include the acquisition intangibles of £nil (2019: £5.9m), goodwill of £nil (2019: £128.2m), fair value of loan book of £0.5m (2019: £3.1m) and the elimination of intra-Group balances.*

[3] *Refer to note 6 for further details.*

	Branch-based lending £000	Guarantor loans[1] £000	Home credit £000	Central £000		2019 Total £000
Six months ended 30 June 2019 as restated						
Interest income	43,756	13,840	30,691	-	-	88,287
Fair value unwind on acquired loan portfolio	-	(1,184)	-	-	-	(1,184)
Total revenue	43,756	12,656	30,691	-	-	87,103
Operating profit/(loss) before amortisation	14,735	2,584	4,303	(3,010)	-	18,612
Amortisation of intangible assets	-	-	-	(2,607)	-	(2,607)
Operating profit/(loss) before exceptional items	14,735	2,584	4,303	(5,617)	-	16,005
Exceptional items[2]	-	-	(129)	(25,145)	-	(25,274)
Finance cost	(8,399)	(3,453)	(1,108)	(218)	-	(13,178)
Profit/(loss) before taxation	6,336	(869)	3,066	(30,980)	-	(22,447)
Taxation	(1,203)	166	(582)	1,108	-	(511)
Profit/(loss) for the period	5,133	(703)	2,484	(29,872)	-	(22,958)
Capital expenditure	2,810	-	1,238	12	-	**4,060**
Depreciation of plant, property and equipment	860	-	179	35	-	**1,074**
Depreciation of right-of-use-asset	610	-	352	65	-	**1,027**
Amortisation of intangible assets	-	-	665	2,607	-	**3,272**

	Branch-based lending £000	Guarantor loans[1] £000	Home credit £000	Central £000	Consolidation adjustments[2] £000	31 Dec 2019 Total £000
Total assets	244,740	106,960	51,931	633,759	(556,709)	**480,681**
Total liabilities	(302,987)		(29,202)	(332,406)	307,525	**(357,070)**
Net assets	**(58,247)**	**106,960**	**22,729**	**301,353**	**(249,184)**	**123,611**

The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

The carrying value on financial assets and liabilities are not materially different to their fair value, except for amounts receivable from customers.

6. Exceptional items

In the six months ended 30 June 2020, the Group incurred exceptional costs totalling £91.3m (including VAT) (2019: £25.3m). These comprise: an impairment of goodwill assets and other acquired intangible assets; and a provision for redress to certain guarantor loans customers.

The emergence of the COVID-19 pandemic alongside the significant decline in market multiples across the sector resulted in an impairment to the value of the goodwill assets of two of the three divisions in the Group's balance sheet. Whilst non-cash in nature, the impact is summarised as follows: £47.1m of the exceptional items reflect the write-down of the value of goodwill associated with Everyday Loans; £27.7m of the exceptional items reflect the write-down of the value of goodwill associated with Loans at Home; and £0.7m of the exceptional items reflect the write-down of the value of the intangible assets at Everyday Loans. Further details pertaining to the write-down of the value of goodwill are set out in note 11.

In addition, a provision of £15.8m has been made in the half year results based upon the Directors' best estimate of the total redress payable to certain customers of the Group's guarantor loans division which includes: (i) the sum of all redress due to such customers of £16.0m, offset by existing impairment provisions of £1.2m, resulting in a net amount of £14.8 million; and (ii) the associated operational costs amounting to £1.0 million. Refer to note 16 for further detail.

7. Loss per share

	Six months ended 30 June 2020	Six months ended 30 June 2019 restated
Retained loss attributable to Ordinary Shareholders (£000)	**(102,374)**	(22,892)
Weighted average number of Ordinary Shares at year ended 31 December	**312,437,422**	312,049,682
Basic and diluted loss per share (pence)	**(32.77)**	(7.34)

The loss per share was calculated on the basis of net loss attributable to Ordinary Shareholders divided by the weighted average number of Ordinary Shares in issue. The basic and diluted loss per share is the same, as the exercise of share options would reduce the loss per share and is anti-dilutive. At 30 June 2020, nil shares were held in treasury (2019: 5,000,000). 5,000,000 ordinary shares of the Company that were purportedly repurchased by the Company as at 30 June 2019 were cancelled on 30 July 2019.

	Six months ended 30 June 2020	Six months ended 30 June 2019
Weighted average number of potential Ordinary Shares that are not currently dilutive (£000)	**6,895**	9,313

The weighted average number of potential Ordinary Shares that are not currently dilutive includes the Ordinary Shares that the Company may potentially issue relating to its share option schemes and share awards under the Group's long-term incentive plans and Save As You Earn schemes.

8. Taxation

The tax charge for the period has been calculated by applying the Directors' best estimate of the effective tax rate for the financial year of 19% (2019: 19%), to the profit before tax for the period, however in addition, the current year also includes the write off of £1.9m of deferred tax assets in the period.

9. Dividends

As a result of the significant reported losses in 2019, the Company does not have any distributable reserves and is therefore not in a position to declare a half year dividend (2019: 0.7p per share). As part of any future capital raise, the Board is committed to completing a process, subject to shareholder and Court approval, to create sufficient distributable reserves so that, the Company is able to resume the payment of cash dividends to shareholders as soon as it is appropriate to do so.

With no interim dividend being proposed by the Directors in respect of the six months ended 30 June 2020 (interim dividend 2019: 0.7 pence per share), there will be no dividend payment in relation to the current period (2019: £2,184,348).

10. Amounts receivable from customers

	30 June 2020 £000	31 Dec 2019 £000
Gross carrying amount	**362,498**	410,849
Loan loss provision	**(62,471)**	(49,201)
Amounts receivable from customers	**300,027**	361,648

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

	30 June 2020 £000	31 Dec 2019 £000
Unamortised broker commissions	**11,379**	14,311
Total unamortised broker commissions	**11,379**	14,311

Analysis of amounts receivable from customers due within/more than one year:

	30 June 2020 £000	31 Dec 2019 £000
Due within one year	**149,757**	176,379
Due in more than one year	**150,270**	185,269
Amounts receivable from customers	**300,027**	361,648

Analysis of amounts receivable from customers

30 June 2020	**Stage 1 £000**	**Stage 2 £0000**	**Stage 3 £000**	**Total £000**
Branch-based lending	159,768	36,828	10,060	206,656
Guarantor Loans	65,996	30,278	9,329	105,603
Home Credit	19,070	22,896	8,273	50,239
Gross carrying amount	**244,834**	**90,002**	**27,662**	**362,498**
Branch-based lending	(5,427)	(9,134)	(4,390)	(18,951)
Guarantor Loans	(2,507)	(11,162)	(3,889)	(17,558)
Home Credit	(780)	(17,759)	(7,423)	(25,962)
Loan loss provision	**(8,714)**	**(38,055)**	**(15,702)**	**(62,471)**
Branch-based lending	154,341	27,694	5,670	187,705
Guarantor Loans	63,489	19,116	5,440	88,045
Home Credit	18,290	5,137	850	24,277
Net amounts receivable	**236,120**	**51,947**	**11,960**	**300,027**

31 December 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Branch-based lending	196,140	26,839	8,651	231,630
Guarantor Loans	99,449	9,993	3,488	112,930
Home Credit	35,472	16,442	14,375	66,289
Gross carrying amount	**331,061**	**53,274**	**26,514**	**410,849**
Branch-based lending	(8,050)	(5,206)	(3,592)	(16,848)
Guarantor Loans	(2,110)	(2,391)	(1,468)	(5,969)
Home Credit	(1,844)	(11,115)	(13,425)	(26,384)
Loan loss provision	**(12,004)**	**(18,712)**	**(18,485)**	**(49,201)**
Branch-based lending	188,090	21,633	5,059	214,782
Guarantor Loans	97,339	7,602	2,020	106,961
Home Credit	33,628	5,327	950	39,905
Net amounts receivable	**319,057**	**34,562**	**8,029**	**361,648**

During the first half of the year, the COVID-19 pandemic has severely impacted the UK economy. As a result, the Group assessed the sensitivity and increased the probability weighting of a stressed scenario during the first half of the year and furthermore implemented additional overlays to account for the impact of FCA guidance in relation to emergency payment freezes (refer note 4 for details). The Group will continue to monitor the potential impact over the coming months and expects any further impact to be recognised in the second half of this year.

Fair value of amounts receivable from customers

	30 June 2020 £000	31 Dec 2019 £000
Branch-based lending	**284,165**	322,852
Guarantor Loans	**109,989**	127,095
Home Credit	**35,146**	60,668
Amounts receivable from customers	**429,300**	510,615

Fair value has been derived by discounting expected future cash flows (net of collection costs) at the credit risk adjusted discount rate at the balance sheet date. Under IFRS 13, 'Fair value measurement', receivables are classed as Level 3 which defines FV measurements as those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

11. Goodwill

	30 June 2020 £000	31 Dec 2019 £000
Opening balance	74,832	140,668
Impairment of goodwill	(74,832)	(65,836)
At 30 June 2020	**-**	**74,832**

The goodwill recognised represents the difference between the purchase consideration paid and the value of net assets acquired (including intangible assets recognised upon acquisition), less any accumulated impairment.

Under IFRS 13, 'Fair Value Measurement', the fair value used in the goodwill impairment assessment is classified as Level 3.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The assessment of impairment of goodwill as at 30 June 2020 utilised actual price earnings ('PE') multiples of comparable companies as at 30 June 2020 and applied these to forecast earnings for the 12 month period ended 31 December 2020.

Determining whether goodwill is impaired requires an estimation of the recoverable amount of each CGU. The recoverable amount is the higher of its fair value ('FV') less cost to sell or its value in use ('VIU').

Fair value ('FV') less cost to sell

The calculation to determine the fair value less cost to sell for each CGU uses forecasted earnings for the year ended 31 December 2020, multiplied by the 30 June 2020 PE multiple for comparable companies. Earnings represent profit after tax before fair value adjustments, amortisation of intangibles and exceptional items. Disposal costs have been estimated at 2%. As part of this assessment, we have applied PE multiples to forecasted 2020 profit after tax in order to determine management's best estimate of the fair value to be attributed to each of the CGUs.

Value in use

The calculation to determine recoverable amount based on VIU uses the cash flows derived from earnings projections for the years ended 31 December 2020, 2021 and 2022, together with a terminal value based on the cash flow forecast for 2022 at a perpetuity growth rate. The resulting cash flow forecasts are then discounted at a discount rate appropriate to the CGU to produce a VIU to the Group.

Loans at Home goodwill assessment

In the 2019 Annual Report and Accounts, the Group concluded that no further impairments to the Loans at Home goodwill asset were necessary beyond the £12.5m that was recognised and disclosed in the Group's results for the six months ended 30 June 2019.

In the current period, the Group has utilised the actual 30 June 2020 PE multiple of comparable companies, along with 2020 forecasted profit after tax to determine recoverable amount. It is worth highlighting that 2021 is likely to continue to see a recovery phase from COVID-19 before a return to normality in 2022. However, due to the difficulties in reliability of forecasting into 2022 in a COVID-19 impacted environment, and in line with prior year methodologies, this approach has not been used. The result of this is a FV less cost to sell below the carrying value of the CGU.

Management have also run a VIU calculation to determine recoverable value. It is noted that 2020 forecasts and results have been impacted by the COVID-19 pandemic, and therefore VIU is less suited to this scenario where 2021 sees a period of recovery to normality and building back of the loan book and therefore net cash outflows. Nevertheless, assuming a nil growth into perpetuity results in a VIU which, whilst higher than the FV less cost to sell calculated for LAH, remains below the carrying value of the LAH CGU.

The impact of COVID-19 on the profitability of the CGU in the current year along with the significant decline in peer group PE multiples since 31 December 2019 (driven by uncertainties in the economic, market and regulatory environment) has meant that on the basis of the analysis above, the Group has concluded to impair the entire goodwill asset attributable to the LAH CGU as at 30 June 2020 totalling £27.7m. This reduced the Loans at Home goodwill asset to £nil as at 30 June 2020.

Everyday Loans goodwill assessment

As at 30 June 2020, the Group performed a FV less cost to sell for the Everyday Loans CGU using actual PE multiples as at 30 June 2020 and 2020 forecast profits. Given the unique circumstances of COVID-19 on 2020 performance, along with the significant decline in peer group PE multiples since 31 December 2019 driven by uncertainties in the economic, market and regulatory environments, the Group has calculated the FV less costs to sell to be below the carrying value, therefore indicating an impairment to the remaining goodwill value held on the balance sheet for the six months ended 30 June 2020.

As noted in the 2019 Annual Report and Accounts, the use of value in use is less appropriate for use for the branch based lending CGU, and especially in a post COVID-19 environment where management forecasts expect a return to normality during the second half of 2020 and into 2021 that requires investment in lending activities to rebuild the division's loan book, which in turn impacts cash flows. Nevertheless, a VIU base case forecast was conducted to ascertain whether or not the VIU of the CGU was greater or less than the FV less cost to sell. Assuming a nil growth into perpetuity, the VIU of the CGU is below the FV less costs to sell, and therefore it is appropriate to recognise a goodwill impairment of £47.1m for this CGU.

Guarantor Loans goodwill assessment

During the second half of 2019, the value of goodwill for the Guarantor Loans CGU was written down to £nil. The remaining asset component which comprises carrying amount is the value of the net loan book which is assessed for impairment under IFRS 9.

12. Net cash used in operating activities

	Six months ended 30 June 2020	Six months ended 30 June 2019
	£000	£000
Operating profit/(loss)	**(87,837)**	(9,269)
Taxation paid	**-**	(670)
Depreciation	**1,956**	2,101
Share-based payment charge	**795**	597
Amortisation of intangible assets	**1,663**	3,272
Goodwill impairment loss	**74,832**	12,452
Fair value unwind on acquired loan book	**971**	1,184
Intangibles impairment loss	**698**	-
Profit on disposal of property, plant and equipment	**6**	(16)
Decrease in amounts receivable from customers	**60,651**	(25,629)
Decrease/(Increase) in other assets	**-**	98
Decrease/(Increase) in receivables	**(6,734)**	1,014
(Decrease)/increase in payables and provisions	**2,313**	4,233
Cash used in operating activities	**49,314**	(10,633)

13. Government Grants and Support

During the six months ended 30 June 2020 the Company received grants totalling £0.6m under the Coronavirus Job Retention Scheme ('CJRS') which has been presented within 'other operating income' in the statement of comprehensive income (refer accounting policies note 3).

Coronavirus Job Retention Scheme

During March 2020, the Group implemented a series of steps designed to mitigate, as far as possible, the impact of COVID-19 on its business operations. These measures included the furloughing of over 120 employees, and utilisation of government grants offered through the Coronavirus Job Retention Scheme ('CJRS'). The original direction was signed by the Chancellor on 15 April 2020 and further directions were signed on 22 May 2020 and 25 June 2020.

A breakdown of these grants is provided below:

	Six months ended 30 June 2020	Six months ended 30 June 2019
	£000	£000
Salaries	**519**	-
National Insurance contributions	**9**	-
Pension contributions	**24**	-
Total CJRS grant received	**552**	**-**

HMRC have announced that the CJRS grant must be included as income within taxable profits for Corporation Tax purposes, however businesses can also deduct employment costs as normal when calculating taxable profits for Corporation Tax purposes.

Deferred Payroll Taxes

In addition to the steps taken above to mitigate the impact of COVID-19 on business operations, the Group has deferred its payroll taxes due for the months of May and June in the current financial year. The amounts deferred equate to £2.33m excluding interest as at 30 June 2020.The current interest rate as published on HMRC's website is 2.6% per annum as at the 30 June 2020. The Group has subsequently agreed a Time to Pay Arrangement with HMRC.

14. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Two members of key management personnel (Executive Directors of Non-Standard Finance plc and/or senior management) are Trustees of the charity Loan Smart. During the six months ended 30 June 2020, the Company donated £80,500 to Loan Smart (six months ended 30 June 2019: £nil) and has a debtor balance of £nil as at 30 June 2020 for a loan to the charity (2019: £80,500).

One Director is a member of the Non-Standard Finance plc Long-Term Incentive Plan.

During the six month period ended 30 June 2020, the Group put in place a new six-year securitisation facility provided by Ares Management Corporation, of which £15m was drawn at the balance sheet date. The nature of the facility required the setup of a Special Purpose Vehicle (SPV) NSF Funding 2020 Limited, which is consolidated into the Group in line with the requirements of IFRS 10. Over the course of the interim period, the SPV transacted multiple times with Everyday Lending Limited (a subsidiary within the Group) to facilitate the securitisation of loans. As these transactions took place between two or more subsidiaries, they are deemed to be related party transactions, and have been eliminated on consolidation.

Subsequent to the 30 June 2020, the Group repaid the £15m (£10.5m net) previously drawn on its £200m securitisation facility. Refer to note 17 for more information in relation to this transaction.

There have been no other changes in the nature of related party transactions as described in note 31 to the 2019 Annual Report & Financial Statements.

15. Distributable Reserves of the Parent Company

At 30 June 2020, the Company had no distributable reserves.

In the prior year it was identified that on account of certain technical infringements regarding historic distributions, in particular a transaction between the Group and certain subsidiary entities which had resulted in a circularity issue between the entities and following an intercompany dividend of £11 million in June 2016, none of the entity's distributions to shareholders since incorporation to 2018 were made out of distributable profits. In order to rectify this issue, on 30 July 2019 the Company effected a capital reduction which consisted of: (i) a cancellation of 5,070,234 ordinary shares in the Company that were purportedly purchased through the Company's share buy-backs made between 2017 and 2019 but which, as a result of certain infringements of the Companies Act 2006, were not validly purchased; and (ii) the reduction of the amount of £75 million standing to the credit of the Company's share premium account.

16. Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated.

	Plevin £000	Complaints £000	Dilapidation £000	Restructuring £000	Guarantor loans redress £000	Total £000
Opening at 31 December 2018	231	-	357	-	-	588
Charge during the year	284	-	845	170	-	1,299
Utilised	(423)	-	-	-	-	(423)
Balance at 31 December 2019	92	-	1,202	170	-	1,464
Charge during the year	**-**	**582**	**-**	**-**	**15,753**	**16,335**
Utilised	**(17)**	**-**	**-**	**(132)**	**-**	**(149)**
Balance at 30 June 2020	**75**	**582**	**1,202**	**38**	**15,753**	**17,650**

In the current year, the Group has recognised additional provisions for complaints and for the guarantor loans redress programme (further detailed below).

Guarantor loans redress programme

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 and so the Group, together with its advisers, has developed a detailed methodology to provide redress to those customers affected. While the FCA has not yet reviewed the proposed redress methodology, the Directors have included an exceptional provision of £15.8m as at 30 June 2020 based on their best estimate of the full and final costs of the redress programme using the methodology described above. The final cost of the redress programme remains subject to the FCAs approval of the methodology used and a case-by-case review of those customers affected. As a result, it is possible that the eventual outcome may differ materially from the current estimate and this could materially impact the financial statements.

The Guarantor Loans Division continues to monitor its policies and processes. The Division will continue to assess both the underlying assumptions in the calculation and the adequacy of this provision periodically using actual experience and other relevant evidence to adjust the provisions where appropriate.

17. Subsequent Events

As at 30 June 2020, the Group held a temporary waiver in regards to certain performance covenant breaches on its securitisation facility. Since 30 June 2020, a permanent solution was reached with the securitisation facility lenders whereby, in addition to agreeing a permanent waiver for the breaches identified, in order to improve the efficiency of its balance sheet and reduce funding costs, the Group repaid the £15m (£10.5m net) previously drawn on its £200m securitisation facility. As a result, the breach of certain performance triggers that arose as a direct result of COVID-19 has now been waived and the Group has agreed with the provider that, subject to their consent and the satisfaction of standard covenants for a facility of this type, the facility will remain open for future use.

As noted in the going concern statement, the impact of COVID-19 and the GLD redress programme on the Group's future profitability, liquidity and solvency is materially uncertain and therefore there exists uncertainty around the Group's ability to access the securitisation facility in the future. As a result it may result in the future impairment of capitalised debt fees associated with the securitisation facility which totalled £6.0m as at 30 June 2020.

On the 24th of July 2020, the Financial Conduct Authority ('FCA') informed the Group that, following a visit to the Group's Guarantor Loans Division in March 2020 as part of a multi-firm review into the sector, and having examined a selection of customer files, it has raised a number of concerns regarding certain aspects of the operating procedures and processes at the Division. NSF continues to work closely with the FCA, to clarify the scope and scale of its concerns and to develop a possible redress methodology. The group is treating this as an adjusting event in line with IAS 10, as it is an event that has occurred after the reporting date that provides evidence of conditions that existed at the end of the reporting period. Refer to note 16 and note 4 for further details.

APPENDIX

Glossary of alternative performance measures ('APMs') and key performance indicators

The Group has developed a series of alternative performance measures that it uses to monitor the financial and operating performance of each of its business divisions and the Group as a whole. These measures seek to adjust reported metrics for the impact of non-cash and other accounting charges (including modification loss) that make it more difficult to see the true underlying performance of the business. These APMs are not defined or specified under the requirements of International Financial Reporting Standards, however we believe these APMs provide readers with important additional information on our business. To support this, we have included a reconciliation of the APMs we use, how they are calculated and why we use them on the following page.

Alternative performance measure	Definition
Net debt	Gross borrowings less cash at bank
Normalised revenue **Normalised operating profit** **Normalised profit before tax** **Normalised earnings per share**	Normalised figures are before fair value adjustments, amortisation of acquired intangibles and exceptional items (refer note 7).

Key performance indicators	Definition
Impairments/revenue	Impairments as a percentage of normalised revenues
Impairments/average loan book	Impairments as a percentage of 12 month average loan book excluding fair value adjustments
Normalised net loan book	Net loan book before fair value adjustments but after deducting any impairment due
Net loan book growth	Annual growth in the net loan book
Operating profit margin	Normalised operating profit as a percentage of normalised revenues
Cost to income ratio	Normalised administrative expenses as a percentage of normalised revenues
Return on asset	Normalised operating profit as a percentage of average loan book excluding fair value adjustments
Revenue yield	Normalised revenue as a percentage of average loan book excluding fair value adjustments
Risk adjusted margin	Normalised revenue less impairments as a percentage of average loan book excluding fair value adjustments

Alternative Performance Measures reconciliation

1. Net debt

	30 Jun 2020 £000	31 Dec 2019 £000
Borrowings	330,000	323,200
Cash at bank and in hand[1]	(70,709)	(13,997)
	259,291	309,203

1 Cash at bank and in hand excludes cash held by Parent Company that sits outside of the security group.

This is deemed useful to show total borrowings if cash available at year end was used to repay borrowing facilities.

2. Normalised revenue

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £000	30 Jun 2019 £000
Reported revenue	97,160	84,883	30,857	22,470	57,421	62,655
Add back fair value adjustments	-	1,979	2,155	3,044	-	-
Normalised revenue	97,160	86,862	33,012	25,514	57,421	62,655

Fair value adjustments have been excluded due to them being non-business-as-usual transactions. They have resulted from the Group making acquisitions and do not reflect the underlying performance of the business. Removing this item is deemed to give a fairer representation of revenue within the financial year.

3. Normalised operating profit

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £0000	30 Jun 2019 £0000	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £0000	30 Jun 2019 £000
Reported operating profit	25,445	24,372	(2,528)	1,547	7,768	6,056
Add back fair value adjustments	-	1,979	2,155	3,044	-	-
Add back amortisation of intangibles	-	3,017	-	2,600	-	1,331
Normalised operating profit	25,445	29,368	(373)	7,191	7,768	7,387

Fair value adjustments have been excluded due to them being non-business-as-usual transactions. They have resulted from the Group making acquisitions and do not reflect the underlying performance of the business. Removing this item is deemed to give a fairer representation of revenue within the financial year.

4. Normalised profit before tax

	30 Jun 2020 £000	30 Jun 2019 £000
Reported loss before tax	(102,749)	(22,447)
Add back fair value adjustments	971	1,184
Add back amortisation and write-off of intangibles	599	2,607
Add back exceptional items	91,283	25,274
Normalised profit before tax	(9,896)	6,618

Fair value adjustments, amortisation of intangibles, and exceptional items have been excluded due to them being non-business-as-usual transactions. The fair value adjustments and amortisation of intangibles have resulted from the Group making acquisitions, whilst the exceptional items are one-off and are not as a result of underlying business-as-usual transactions (refer to note 8 for further detail on exceptional costs in the year) and therefore do not reflect the underlying performance of the business. Hence, removing these items is deemed to give a fairer representation of the underlying profit performance within the financial year.

5. Normalised profit for the year

	Group	
	30 Jun 2020 £000	30 Jun 2019 £000
Reported loss for the year	(102,374)	(22,958)
Add back fair value adjustments	971	1,184
Add back amortisation of intangibles	599	2,607
Add back exceptional items	91,283	25,274
Adjustment for tax relating to above items	1,569	(745)
Normalised loss for the year	(7,952)	5,362
Weighted average shares	312,437,422	312,049,682
Normalised earnings per share (pence)	(2.55)p	1.72p

As noted above, fair value adjustments, amortisation of intangibles and exceptional items have been excluded due to them being non-business-as-usual transactions. The fair value adjustments and amortisation of intangibles have resulted from the Group making acquisitions, whilst the exceptional items are one-off and are not as a result of underlying business-as-usual transactions (refer to note 8 for further detail on exceptional costs in the year) and therefore does not reflect the underlying performance of the business. Hence, removing these items is deemed to give a fairer representation of the underlying earnings per share within the financial year.

6. Impairment as a percentage of revenue

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £000	30 Jun 2019 £000
Normalised revenue	97,160	86,862	33,012	25,514	57,421	62,655
Impairment	25,906	20,394	20,337	6,246	15,534	19,991
Impairment as a percentage revenue	26.7%	23.5%	61.6%	24.5%	27.1%	31.9%

Impairment as a percentage revenue is a key measure for the Group in monitoring risk within the business.

7. Impairment as a percentage loan book

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £000	30 Jun 2019 £000
Reported opening net loan book	201,817	169,064	98,440	69,099	35,534	39,562
Less fair value adjustments	-	(1,979)	(3,126)	(6,170)		-
Normalised opening net loan book	201,817	167,085	95,314	62,929	35,534	39,562
Reported closing net loan book	187,707	201,817	88,043	98,440	24,276	35,534
Less fair value adjustments	-	-	(466)	(3,126)	-	-
Normalised closing net loan book	187,707	201,817	87,577	95,314	24,276	35,534
Normalised opening net loan book	201,817	167,085	95,314	62,929	35,534	39,562
Normalised closing net loan book	187,707	201,817	87,577	95,314	24,276	35,534
Average net loan book	208,092	184,680	102,097	80,540	33,844	37,853
Impairment	25,906	20,394	20,337	6,246	15,534	19,991
Impairment as a percentage loan book	12.4%	11.0%	19.9%	7.8%	45.9%	52.8%

Impairment as a percentage loan book allows review of impairment level movements year on year.

8. Net loan book growth

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £000	30 Jun 2019 £000	30 Jun 2020 £000	30 Jun 2019 £000
Normalised opening net loan book	201,817	167,085	95,314	62,929	35,534	39,562
Normalised closing net loan book	187,707	201,817	87,577	95,314	24,276	35,534
Net loan book growth	(7.0)%	20.8%	(8.1)%	51.5%	(31.7)%	(10.2%)

9. Return on asset

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**
Normalised operating profit	25,445	29,368	(373)	7,191	7,768	7,387
Average net loan book	208,092	184,680	102,097	80,540	33,844	37,853
Return on asset	12.2%	15.9%	(0.4)%	8.9%	23.0%	19.5%

The return on asset measure is used internally to review the return on the Group's primary key assets.

10. Revenue yield

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**
Normalised revenue	97,160	86,862	33,012	25,514	57,421	62,655
Average net loan book	208,092	184,680	102,097	80,540	33,844	37,853
Revenue yield percentage	46.7%	47.0%	32.3%	31.7%	169.7%	165.5%

Revenue yield percentage is deemed useful in assessing the gross return on the Group's loan book.

11. Risk adjusted margin

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**
Normalised revenue	97,160	86,862	33,012	25,514	57,421	62,655
Impairments	(25,906)	(20,394)	(20,337)	(6,246)	(15,534)	(19,991)
Normalised risk adjusted revenue	71,254	66,468	12,675	19,268	41,887	42,644
Average net loan book	208,092	184,680	102,097	80,540	33,844	37,853
Risk adjusted margin percentage	34.2%	36.0%	12.4%	23.9%	123.8%	112.7%

The Group defines normalised risk adjusted revenue as normalised revenue less impairments. Risk adjusted revenue is not a measurement of performance under IFRSs, and you should not consider risk adjusted revenue as an alternative to profit before tax as a measure of the Group's operating performance, as a measure of the Group's ability to meet its cash needs or as any other measure of performance under IFRSs. The risk adjusted margin measure is used internally to review an adjusted return on the Group's primary key assets.

12. Operating profit margin

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**
Normalised operating profit	25,445	29,368	(373)	7,191	7,768	7,387
Normalised revenue	97,160	86,862	33,012	25,514	57,421	62,655
Operating profit margin percentage	26.2%	33.8%	(1.1)%	28.2%	13.5%	11.8%

13. Cost to income ratio

	Branch-based lending		Guarantor loans		Home credit	
	30 Jun 2020 £000	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**	**30 Jun 2020 £000**	**30 Jun 2019 £000**
Normalised revenue	97,160	86,862	33,012	25,514	57,421	62,655
Administration expense	43,915	39,377	13,797	11,602	34,119	35,277
Cost to income ratio	45.2%	45.3%	41.8%	45.5%	59.4%	56.3%

This measure allows review of cost management.