NewDay

Helping people move *forward with credit*

NewDay Annual Report and Financial Statements 2022

Contents

Cautionary statement

Please see the inside back cover of this report for a description of: (i) the basis of preparation of the financial information contained in this report; (ii) the governance and risk frameworks described in this report; (iii) the use of certain non-IFRS financial measures and forward-looking statements; and (iv) certain other important information. You should review this in full prior to reading this report.

We are a leading provider of *consumer credit in the UK*

A **scale** D2C and B2B2C[1] credit provider operating in the UK.

Responsible lender with proven **through-the-cycle** credit risk management expertise across a range of regulated products. In-house data capabilities that drive **underwriting and operational excellence**.

Highly scalable, brand-agnostic, **state-of-the-art** technology platform.

Purpose-led customer-centric focus, guided by our manifesto. We are one of the UK's most **inclusive lenders**, responsibly saying "yes" to a wider spectrum of people.

Predictable business model with embedded profitability and strong cash generation.

Established and **diversified funding programme** enabling growth with significant facility headroom.

1 Direct-to-consumer and business-to-business-to-consumer.

Our purpose and manifesto

We help people move forward with credit

Our purpose

At NewDay, our business is focused on a single, clear and defining purpose:

To help people move forward with credit.

Who we move forward

Consumers

We create more convenient ways to access and manage credit with simple tools to help our customers improve credit scores and earn rewards. All of this is underpinned by seamless customer journeys.

Partners

Our products enable our partners to offer a range of financing options to their customers, improving engagement and helping move their businesses forward.

Our manifesto

Everyone wants to move forward. To progress their lives.

We believe in credit as a force for good. Because responsible and accessible credit expands possibilities. It powers up life and business.

We know that credit itself should move forward too. People want the right credit for them – credit that supports, rewards and adapts to life's changes. We make this happen through expert insight, data and technology.

People want to shop with the brands they love. We help businesses offer experiences through seamless credit and loyalty.

Credit helps us move forward.

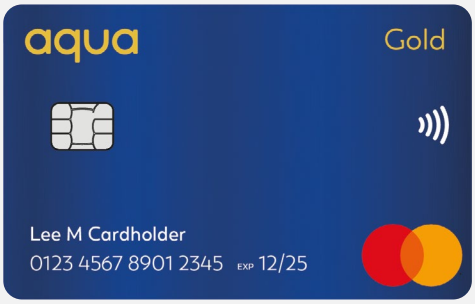
Moving our customers *forward in 2022*

1.3M
customers we responsibly said “yes” to

4.9M
total closing customer accounts

2.1M
customers with improved credit scores

0.6M
customers welcomed from our new partnership with John Lewis & Partners



Launched *Aqua Gold*, a credit card rewarding customers for good credit management

Launch of in-app carbon footprint tracker allowing customers to understand the carbon impact of their spending behaviour

NewDay in numbers

We continue to grow our business

In 2022, we reported continued growth. Interest and similar income increased to £887m and profitability grew with statutory profit before tax of £110m and underlying profit before tax of £203m, representing 40% and 18% growth respectively. Gross receivables increased by 29% to end the year at £4.3bn. This was powered by customer spend, which increased by 52% to £9.1bn, and 1.3m new accounts. As at the year end, we had 4.9m customer accounts on our platform.

Our customers both demand and deserve an outstanding digital experience. We leverage our leading-edge technologies to provide frictionless, best-in-class customer journeys. As at the year end, 94% of active customers were registered for e-servicing and our Net Promoter Score (NPS) remained high at +64. We launched a partnership with John Lewis & Partners in August 2022 and, as at the year end, this partnership welcomed 0.6m new accounts and reported £0.7bn of new gross receivables. The onboarding adversely impacted our NPS but we listened to and acted on feedback.

Although we deliberately slowed growth through the second half of 2022 in response to the uncertain economic outlook, our sophisticated underwriting models allowed us to confidently write new business and remain a credit provider of choice. Approximately one in five[1] of all credit cards issued in the UK in 2022 were issued by NewDay.

Our focus on running a business that is 'digital by default' resulted in a lower underlying cost-income ratio of 29.1%, whilst delivering growth.

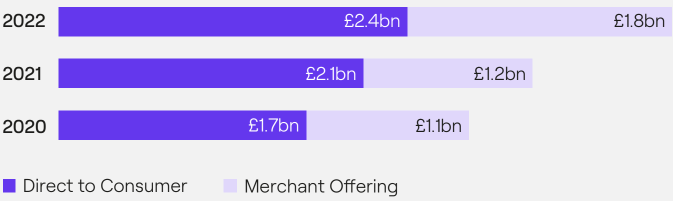
Our business generates cash. We reported £152m of free cash flow available for Senior Secured Debt servicing. As at the year end, our cash balance was £382m. We raised £2.1bn of funding including the completion of an Exchange Offer which reduced the outstanding Senior Secured Notes to £299m, of which £238m have an extended maturity until December 2026.

£4.3BN

Group gross receivables

↑ 29%

(2021: £3.3bn)



£887M

interest and similar income

↑ 26%

(2021: £706m)

£9.1BN

customer spend through our products

↑ 52%

(2021: £6.0bn)

£2.1BN

of funding raised in the year and £3.4bn proceeds from debt issued and other borrowed funds

1 Estimated based on eBenchmarkers data and inclusive of *Newpay* volumes.
2 Our underlying performance excludes certain items included within the statutory result. A reconciliation between our underlying and statutory result is shown on page 29. Where relevant, and unless stated otherwise, prior period comparatives throughout this report exclude the result of our discontinued operation to facilitate comparability.

£110M

statutory profit before tax[2]

↑ 40%

(2021: £79m)

£203M

underlying profit before tax[2]

↑ 18%

(2021: £172m)

94%

of active customers registered for e-servicing

↑ 3ppts

(2021: 91%)

+64

transactional NPS
(average customer feedback score when rating their experience on an interaction with us)

↓ 6

(2021: +70)

29.1%

underlying cost-income ratio

↓ 2.7ppts

(2021: 31.8%)

£152M

free cash flow available for Senior Secured Debt servicing

↑ 27%

(2021: £119m)

Market overview

We have a well-established and leading presence in our core segment, with a 16% share[1] that has been growing.

We operate in a £74bn[2] market, which includes credit cards and digital point-of-sale credit.

Our powerful digital platform is capable of servicing the broader £200bn[2] UK unsecured consumer credit market (our UK total addressable market) and the platform is capable of being deployed internationally.

£4.3bn gross receivables

NewDay product opportunity

Our core segment for customer acquisition

- D2C cards (near-prime)
- B2B2C merchant cards (prime and near-prime)
- Digital point-of-sale credit (including buy now pay later (BNPL))

UK cards and digital point-of-sale credit

- Post-acquisition, some of our customers migrate from near-prime into prime
- We do not operate within the sub-prime sector

NewDay platform opportunity

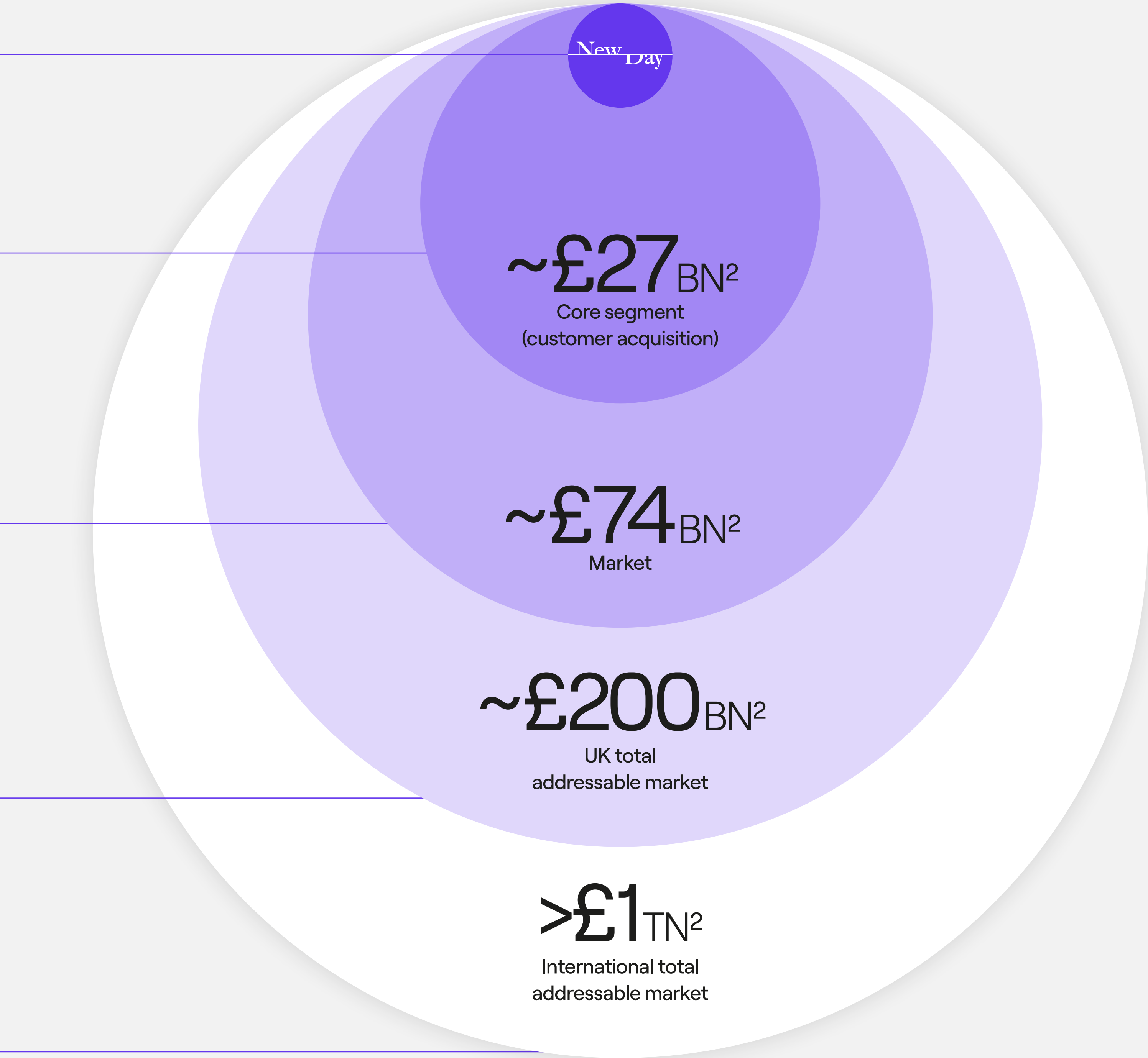
UK unsecured credit

- Includes personal loans, car loans and other unsecured credit, which our platform has the capability to serve
- In 2022, we launched an unsecured personal loan origination business in partnership with a third party funder with limited volumes at the year end

All European unsecured credit

- Our platform and service capabilities have the potential to address the needs of international market participants

1 £4.3bn gross receivables compared to £27bn core segment size.
2 Based on analysis performed in 2021 and sourced from: management analysis; Bank of England; GlobalData (Retail Banking Analytics, Consumer Credit Analytics); Euromonitor; Worldpay Payment Report; and market participant interviews.


~£27BN[2]
Core segment
(customer acquisition)
~£74BN[2]
Market
~£200BN[2]
UK total
addressable market
>£1TN[2]
International total
addressable market

Our product offering

We are a UK consumer credit provider, with products offered directly to consumers and through merchant partners. We are powered by a digital and highly flexible technology platform.

Our business has three growth engines:

1. Direct to Consumer

Our revolving credit offering, D2C.

2. Merchant Offering

Innovative e-commerce and digital in-store offering, B2B2C.

3. Platform Services

White-labelled technology platform solution.

Note: Our Direct to Consumer business also has a closed *Opus*-branded portfolio. Our Merchant Offering business also has closed portfolios from previous merchant partnerships.

1. Direct to Consumer

Credit building

aqua

Financial control

marbles

Prime bridge

fluid

Digital cardless credit

bip.

£2.4BN
Gross receivables

2.0M
Customer accounts

2. Merchant Offering

White-labelled product

ao newpay

Co-branded card

JOHN LEWIS & PARTNERS   Argos

Multi-product offering

DEKO newpay

Card for customers from ceased partnerships

Pulse

£1.8BN
Gross receivables

2.9M
Customer accounts

3. Platform Services

- White-labelled technology platform which powers NewDay's businesses
- Targeted at banks and lenders within and outside of the UK
- Multi-product offering including cards, BNPL, 0% offers, instalments and revolving credit
- Unsecured personal loan origination product

Our business model

Powered by leading-edge technology and an embedded manifesto

Opportunity

We evolve with our customers and partners to meet changing needs

In an increasingly digital world, consumer credit behaviours continue to evolve and technological advancements lead to new opportunities for e-commerce and data insight. We deploy our specialist, through-the-cycle knowledge in underwriting credit and our agile customer-centric technology platform to carefully pursue brand and product expansion in a digitising and growing UK marketplace. We identify opportunities to help our customers and partners move forward with credit.

Read more on page 06

Enablers

We drive high standards for our customers, our colleagues and our community

Helping customers move forward with credit and the principles of our manifesto are at the heart of what we do. We believe in credit as a force for good. We design better products and better journeys to meet our customers' needs. We empower our colleagues to make this vision a reality through attracting top talent to our growing business.

Read more on page 02

We leverage a leading-edge digital platform to drive innovation

We built a leading-edge, cloud-based, scalable front end digital acquisition and servicing platform for all our credit products. This unlocks significant value for our customers, our colleagues and our partners through engaging experiences and highly relevant products. Building this digital capability with in-house engineering talent enables us to innovate and respond rapidly to the changing needs of our customers, our partners and the wider marketplace.

Read more on page 20

Outcomes

Acquiring new customers and creating long-lasting relationships

Our modern and innovative products allow us to continue to acquire new customers within our risk appetite and to develop our long-standing customer relationships. Our deep understanding of customer behaviour provides a high level of performance predictability.

Read more on page 24

Delivering strong controlled growth and high performance predictability

We reported good growth in 2022. Gross receivables, customer spend and new account volumes reported double-digit growth. In the second half of 2022, we deliberately restricted growth in response to the emerging economic outlook, however our sophisticated underwriting models allowed us to confidently write new business.

Read more on page 28

How we create value

Attractive market proposition
We offer a suite of compelling products that allow us to serve our customers throughout their credit journey. We offer seamless integration with omni-channel retailers in serving the needs of increasingly digital customers. We add power to merchant customer propositions.

Credit and collections expertise
Our proprietary models have been developed specifically for our target customers, enabling us to make better credit decisions. Lending responsibly is our overarching manifesto commitment.

Digital origination
Through direct marketing, aggregators and partnerships we reach an extensive customer base. This reach is increasingly digital and encompasses our partners' most loyal customers as well as those who find access to credit from mainstream lenders less easy.

Leading customer service
We offer omni-channel 24-hour support. We are committed to continuous improvement. We are engaged in ongoing dialogue with customers, with real-time feedback recorded through Net Easy Scores (NES) and transactional NPS. We endeavour to frictionlessly engage with our customers through digital channels.

Market-leading digital platform and technology partners
Together with our customer insight, our in-house technology capabilities and agile operating model enable our data scientists and engineers to rapidly build better solutions and drive increased digitisation in our customer journey and the business more widely. Our platform is built on infrastructure provided by leading technology organisations, including Microsoft and Amazon Web Services. They afford us cloud-based scalability, high performance, lower marginal cost and modern security advantages. Our transaction processing platform is outsourced to Fiserv, who remain an important partner for us.

Operating efficiently
Our continued focus on being digital by default allows us to operate at a lower underlying cost-income ratio and our in-house digital platform offers us true scalability and great flexibility.

Funding
Through our established, diversified funding base and securitisation technology, we have a stable funding capacity and an efficient funding structure.

Our competitive strengths

Trusted brands built on our manifesto
We are quick to market with our product innovations and provide seamless customer journeys. The strength of our portfolio of brands gives customers and partners confidence in what we stand for.

Long-term strategic relationships with merchant partners
We are a trusted partner with some of the largest retail brands in the UK. We offer leading-edge digital products, large-scale loyalty programmes and data insights to build long-term relationships that support their customers' credit journeys and help retailers profitably grow their business. We also work through Deko, a sister company, to build an ecosystem of merchants served by *Newpay*.

End-to-end digital product solutions
Our products offer instant access to credit and optionality through more ways to pay, including instalment plans, BNPL and other promotional options. We integrate seamlessly, at lower cost and at speed with our retail partners to increase online conversations, average basket size and customer engagement.

Understanding and engagement with our customers
Strong and long-term relationships, powered by a deep understanding of customer behaviour underpinned by our in-house data platform, result in embedded portfolio value and predictable financial growth.

Credit and collection capabilities
Our credit risk and collections expertise has been developed and honed over 20 years with the management team's experience proven through economic cycles.

Access to diversified funding
A stable and diversified funding base with trusted funding partners offers us flexibility and a solid basis for continued growth and the ability to weather market conditions. Our broad base of international funding partners includes many of the world's leading financial institutions. We regularly access securitisation markets in both the UK and US wholesale markets to support our receivables growth.

Skilled, experienced colleagues
The relentless dedication of our workforce powers the delivery of our customer and retail propositions as well as our continued product and digital innovation.

Our strategy
2022 delivery and future priorities

Our performance in 2022 helps to maintain NewDay as a leading at scale consumer credit provider. We operate in an attractive market and we have an ever-evolving digital capability that allows us to drive our growth agenda and deliver against our strategic priorities.

Opportunity

We evolve with our customers and partners to meet changing needs

2022 highlights:

- 1.3m new customer accounts
- 29% gross receivables growth to £4.3bn
- Launched a partnership with John Lewis & Partners
- Launched our loan origination business in partnership with a third party funder
- Launched *Aqua Gold*, a credit card rewarding customers for good credit management
- Signed an agreement with a fast-growing online retailer
- Signed first platform-as-a-service client
- Signed-up numerous *Newpay 1:Many* merchants including launching several brands from The Hut Group (THG)

Future priorities:

- Continuing to expand the business and growing market share sustainably and responsibly whilst continuing to offer innovative and varied products
- Growing *Newpay* and its *Newpay 1:Many* ecosystem of merchants
- Balancing growth, profitability and cash generation
- Expanding our Platform Services business by deploying our core platform-as-a-service to other financial institutions

Enablers

We drive high standards for our customers, our colleagues and our community

2022 highlights:

- Transactional NPS of +64
- Listened to customer feedback to enhance our processes and journeys
- Supported 2.1m customers to improve their credit score
- 532k customers registered for the Group's financial education tool *Aqua Coach* as at the year end
- Extended *Aqua Coach* support to certain applicants who were declined or ineligible
- 166k payment holiday support plans offered
- Colleague engagement score of 78%
- Donated £342k to Family Action, our charity partner

Future priorities:

- Keeping our manifesto at the heart of everything we do and the decisions we make
- Becoming a destination employer for top talent
- Seeking new ways to further improve our customer experience

We leverage a leading-edge digital platform to drive innovation

2022 highlights:

- 94% of active customers registered for e-servicing
- 188m app logins
- 216m transactions processed
- 453k customers on a cardless product
- 1.1m customers registered for a digital wallet
- Built a capability to originate loans in partnership with a third party funder, which subsequently launched before the year end

Future priorities:

- Driving cost-efficiencies through further digital transformation
- Monetising our highly scalable, in-house digital platform
- Growing our platform-as-a-service offering

Outcomes

Acquiring new customers and creating long-lasting relationships

2022 highlights:

- Acquired 1.3m new customer accounts
- Credit provider of choice, approximately one in five[1] of all credit cards issued in the UK were issued by NewDay
- Migrated 236k customers from terminated Amazon partnership to our *Pulse* card to extend relationships
- Existing customers generated £315m of underlying profit before tax

Future priorities:

- Maintaining our position as a leading issuer of credit within the credit card and digital point-of-sale segments of the UK consumer credit market
- Further expanding *Newpay* with large retailers and, through *Newpay 1:Many*, smaller merchants
- Developing and broadening retail partnerships

Delivering strong controlled growth and high performance predictability

2022 highlights:

- Statutory profit before tax of £110m
- Underlying profit before tax of £203m
- 52% growth in customer spend
- Hedged exposure to variable funding rates
- Improvement in underlying cost-income ratio
- £152m of free cash flow available for Senior Secured Debt servicing
- £382m closing cash balance
- £1.4bn of funding facility headroom as at the year end to fund future growth

Future priorities:

- Ensuring the business is well-positioned to mitigate the risks arising from the ongoing economic uncertainty and cost-of-living pressures
- Maintaining our strong, diversified capital base and liquidity profile
- Continuing to deliver strong shareholder returns through controlled growth

1 Estimated based on eBenchmarkers data and inclusive of *Newpay* volumes.

Chairman's statement

"2022 was another strong year for our business. Against a backdrop of economic uncertainty, we continued to support our customers and deliver good returns for our shareholders."

Sir Michael Rake
Chairman and Non-Executive Director

I continue to be impressed by how much our business can deliver in the space of just one year. After navigating the pandemic and returning to controlled growth in 2021, I am pleased to report that the business has delivered another strong year in 2022 whilst supporting our customers to navigate these difficult times. We have advanced our strategic agenda against a backdrop of economic uncertainty created by the geopolitical tension, a war in Ukraine, UK political turmoil, rising inflation and higher interest rates. The strength of our underwriting models, our commitment to providing responsible access to credit, the reach and diversity of our funding sources and the power afforded by our underlying technology platform allowed the team to confidently write new business and support customers through a challenging year, whilst at the same time delivering good returns for our shareholders.

Living our purpose

We are a mission-led, customer-centric business with a clear purpose. We believe in credit as a force for good and that responsible access to credit helps people move forward in their lives.

We partner with like-minded retailers to offer a range of financing options to their customers, with the aim of improving engagement and helping move their business forward.

We provide credit to a broad spectrum of customers and responsibly say "yes" to as many customers as we can, including those who cannot easily access credit from mainstream lenders. We are driven by this and I am proud to see us welcome 1.3m new customer accounts in the year (2021: 0.9m), with 0.6m of these through our new partnership with John Lewis & Partners.

Credit is a force for good when it is used responsibly and financial education is key in supporting this. *Aqua Coach* is our financial education tool and provides our customers with free access to their credit score alongside credit management tools to help them use credit responsibly. Across our entire business we helped 2.1m customers improve their credit score over the year (2021: 2.2m[1]).

Our purpose is to help people move forward with credit and this reaches beyond our immediate customers. In 2022, we extended *Aqua Coach* support to certain applicants who were declined or ineligible. These people now benefit from credit building advice services and support that focuses on educating them about the importance of credit scores and helps us play an active part in widening financial inclusion.

We continuously listen to feedback from our customers. They told us they wanted to be rewarded and recognised for good credit management and brand loyalty. An example of how we responded is the launch of the *Aqua Gold* card. *Aqua Gold* rewards customers with cashback and other exciting benefits when they have had their card for at least two years, managed credit well and improved their credit score.

1 In 2022, we revised the definition of this metric to include accounts that closed in the year. This had the impact of increasing the 2021 comparative by 0.4m.

Cost-of-living pressures and economic uncertainty

The UK economic outlook continues to be uncertain and we understand the angst this causes our customers. Our affordability solutions used in our decision-making are based on sophisticated modelling that allow us to monitor disposable incomes and assess cost-of-living impacts across our customer base on a real-time basis.

Our contact centre colleagues are highly skilled and we have access to detailed customer insight to be able to identify and intervene to assist potentially vulnerable customers.

We have an evolving suite of interventions available for customers that provide appropriate and tailored support to help them through challenging times. In 2022, we also signed-up to The Support Hub run by Experian. This is an industry-wide initiative that enables consumers to provide details of their difficulties only once to multiple lenders and to reduce the stress of these interactions as they seek support and solutions.

Our colleagues

We are a dynamic business with an ambitious change agenda. We ask a lot from our colleagues. We continue to invest significantly in nurturing an inclusive and diverse working environment where each individual can bring the best version of themselves to work every day. We seek constant feedback from our colleagues including through our annual employee survey. I am pleased to report that our inclusion and diversity index was 82% (2021: 83%) and our overall engagement remained high at 78% (2021: 80%).

Since NewDay continues to grow and evolve, the opportunities for career development are ever-present. In 2022, we accelerated the roll-out of our leader100 programme. This programme provides tailored leadership development to our top 100 leaders, ensuring that they have the necessary skills to both drive our business and take on new and larger opportunities as they arise.

I continue to feel great pride when I see our colleagues' efforts being recognised externally. 2022 was a great year in this respect. *Bip* received particularly strong recognition winning multiple awards including 'Innovation of the Year' at the Consumer Credit Awards and 'Best Credit Card Provider' at the British Bank Awards. *Aqua* won 'Best Credit Building Product Provider' also at the Consumer Credit Awards and we received two silver awards at the Transform Awards Europe 2022.

Sustainable growth

Our ESG strategy is designed to ensure all our activities are performed sustainably and in the best interests of our customers, the communities we serve and the environment. In 2022, we issued our first standalone Sustainability Report highlighting the efforts we have made in this area over recent years. I am also delighted to report that we achieved carbon neutrality in our own operations during the year and committed to achieving Net Zero by 2040.

To help customers understand the carbon impact of their spending behaviour, in 2022 we launched an in-app carbon footprint tracker on certain brands. This enhancement was colleague-driven and arose from our annual Hackathon. In partnership with Cogo, the carbon management experts, customers can now see the carbon footprint of each transaction they make on their account.

At NewDay we are constantly revising our own standards. We successfully achieved ISO 27001 information security certification. Cyber security has never been higher on the Board's agenda and this certification reinforces our commitment to managing information safely and securely for our customers and partners.

We continue to proudly support Family Action to assist them in providing practical, emotional and financial support to those who are experiencing poverty, disadvantage and social isolation. In the year, our colleagues were involved in several activities including Family Action's FOOD (Food on our Doorstep) club and annual Christmas Toy Appeal. We have an important role to play in supporting the communities we serve and our continued commitment to this is central to our manifesto. Everyone wants to move forward, to progress their lives.

Regulatory developments

We believe credit is a force for good and that strong regulation reinforces this. We actively engage with regulatory bodies to stay abreast of and involved in shaping potential developments.

In the year, we began our preparations for the FCA's Consumer Duty and welcomed the guidance issued by the FCA aimed at helping customers experiencing financial difficulties prompted by the rising cost of living, including the continued application of Tailored Support Guidance. We offered 166k payment holiday support plans in the year (2021: 109k).

Where next?

2022 was a challenging year for everyone but it was a year in which our business performed well. We enter 2023 recognising that the uncertain economic backdrop will likely present several challenges for some of our customers and partners, but also recognising that NewDay is well prepared to navigate the waters ahead. We have a highly sophisticated, data-led approach to underwriting and supporting our customers and we expect to drive more controlled growth in 2023. We will continue to be guided by our purpose to help people move forward with credit and I am optimistic that further positive strategic advances will be made.

I would like to personally thank all colleagues across the business for their relentless commitment to our customers and our purpose. Our growth is underpinned by their hard work and passion to innovate and constantly develop new state-of-the-art technologies to drive our business forward.

Sir Michael Rake
Chairman and Non-Executive Director

Credit as a *force for good*

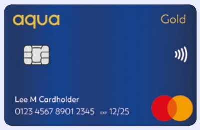
NewDay is driven by helping people move forward with credit. Acting responsibly and sustainably means we can look after our customers, protect the environment and help support our communities. By developing a comprehensive sustainability strategy with clear targets we aim to create change, deliver sustainable development and build a better future for our stakeholders.

Read more on page 38 and in our Sustainability Report available on our website, newday.co.uk

Removing barriers to credit and rewarding good credit management

2.1M

customers supported to improve their credit score
(2021: 2.2m)



Launched *Aqua Gold*, a credit card rewarding customers for good credit management

Net Zero by 2040

Awarded EcoVadis Gold medal sustainability rating

Achieved carbon neutral own operations across Scope 1 and 2 CO_2 emissions

Financial education for customers and colleague development

532K

customers registered for *Aqua Coach*, our financial education tool
(2021: 336k)

78%

employee engagement
(2021: 80%)

Future priorities

- Roll-out of *Aqua Coach* to other brands and introduce *Aqua Coach Steps* to enhance financial education and support with improving credit scores
- Monitor customer engagement with our in-app carbon footprint tracker to inform future strategy
- Expand and progress diversity metrics and increase proportion of females in Senior Management roles to 40% by 2026
- Introduce supplier performance tracking against sustainability metrics to ensure our suppliers' activities are aligned with our ESG ambitions
- Achieve Net Zero by 2040
- Provide further support to Family Action and Demos and enhance wider community initiatives

Read more in our Sustainability Report available on our website, newday.co.uk

Chief Executive Officer's review

"Our business continues to grow. We launched new digital capabilities, new products and new partners. We are constantly evolving to create a better version of our business and deliver meaningful value to our customers and shareholders."

John Hourican
Chief Executive Officer

Against a challenging economic backdrop we had another good year. Our drive for digital innovation meant we built a better business with better technology, more customers and more retail partners. We are well-positioned to capitalise on future opportunity within the attractive markets in which we operate.

Our customers

Our customers continue to be at the heart of our business and now, more than ever, we are here to support them through these challenging times. Everything we do is aimed at helping them move forward with credit. Our customers expect the best. They expect the best products and best customer journeys, all seamlessly integrated into their daily lives without friction and through the channels they choose. Our technologies facilitate this. With one in five[1] of all credit cards issued in the UK in 2022 being a NewDay card we remain a leading provider in this space.

I am proud of the broad stable of products we offer. We cater for the full spectrum[2] of consumer credit quality and all of our products have constantly evolving digital capabilities. In 2022, we onboarded 1.3m new customers (2021: 0.9m), including 0.3m under the *Aqua* brand (2021: 0.3m) and 0.6m from the new John Lewis & Partners programme.

At NewDay we obsessively measure the satisfaction levels of our customers and how they experience each of the brands we offer. Throughout 2022, the vast majority of our customers gave strong positive feedback on their experiences. However, despite the fact that we had generally excellent engagement with our incoming John Lewis & Partners customers, there was a group of those customers who expressed some dissatisfaction with the journey to NewDay, whether because we declined to offer credit facilities or for other reasons. We have taken this feedback very seriously and, where appropriate, made process amendments to ensure future interactions are positive and reinforcing of the long-term partnership we are building with John Lewis & Partners.

Building an even better business

We have a great business and are constantly searching to find the next innovation to make our business even better. We have made significant investment in recent years to bring many of our key operational processes in-house so that we can respond faster to the rapidly evolving consumer landscape. This in-housing of complexity will continue.

In 2022, we launched our most significant partnership to date with John Lewis & Partners. They recognised rapidly evolving consumer credit behaviours and wanted a partner that could support their growth ambitions and provide innovative credit solutions to match their customers' needs. NewDay is a good fit. In the second half of 2022, the programme welcomed over 0.6m customers with total spend of £2.2bn (including balance transfers through the supported application process from the incumbent credit card provider). It is a tremendous achievement to successfully launch a programme at such scale and speed with minimal interruption to our operational performance. Whilst, as I said, we did experience an uplift in complaints following the launch, 96% of customers were approved through the supported application process and 83% of customers were offered the same or a better credit limit.

1 Estimated based on eBenchmarkers data and inclusive of *Newpay* volumes.
2 Excluding sub-prime.
3 Our underlying performance excludes certain items included within the statutory result. A reconciliation between our underlying and statutory result is shown on page 29.

Shortly after the initial launch, we started a new customer acquisition programme to broaden the offering and I am excited by the strategies we have planned for 2023 to drive success in this partnership.

We regularly assess our retail partnerships to ensure they align with our strategic ambitions. Following the conclusion of commercial discussions between both parties, we issued a notice of termination in relation to our co-branded credit card partnership with Amazon. Consequently, we ceased originating new customers in June 2022 and the partnership concluded in January 2023. We retained the originated customer accounts associated with the partnership and new *Pulse*-branded cards have been issued to certain customers to extend the NewDay relationship with them. The cessation of the partnership has not had a significant impact on our financial performance.

Our Direct to Consumer business continues to perform strongly. Against a backdrop of economic uncertainty and a rising cost of living we have implemented tighter credit underwriting, but also welcomed 0.5m new customer accounts (2021: 0.5m). Our near-prime products span a broad range of customers and typically target people who find access to credit less easy. These customers want to progress their lives and should be rewarded for displaying positive credit behaviours. This is why we launched our *Aqua Gold* product which offers cashback on qualifying spend when customers manage their accounts in a responsible way over time.

Leveraging our technology

We challenge ourselves to disrupt norms and drive change. Our technology allows us to do this. We processed 216m transactions (2021: 146m) in the year. Our front end platform is highly configurable, scalable and integrates seamlessly with retailers and third partners to provide end-to-end market-leading credit solutions. I am excited by our strong client pipeline of potential platform-as-a-service customers in the UK and internationally.

In 2022, we also built capability to originate unsecured personal loans in partnership with third parties. This is a capital-light income stream which launched in December with Antelope Loans.

Strong financial performance

In 2022, we carried on from where we left off in 2021. We grew the business. Gross receivables reached £4.3bn at the year end (2021: £3.3bn), representing 29% growth. This was powered by 52% spend growth and 47% growth in new customer accounts. We reported statutory profit before tax of £110m (2021: £79m) and underlying profit before tax of £203m[3] (2021: £172m).

Our impairment charge was controlled within acceptable levels. This was facilitated by our advanced credit scoring models, which leverage machine-learning technology, and detailed customer insights to make more accurate lending decisions. We continue to harvest efficiency gains from our digital-first business. Our underlying cost-income ratio improved to 29.1% (2021: 31.8%).

We continue to turn our profits into cash. Our profitability resulted in £152m of free cash flow available for Senior Secured Debt servicing (2021: £119m).

I am also pleased that we successfully raised £2.1bn of funding in the year, including an Exchange Offer on our Senior Secured Notes which exchanged £238m of notes maturing in February 2024 for new notes with a December 2026 maturity and settled £26m of existing notes in cash. Additionally, we refinanced or repaid all maturing asset-backed securities in 2022 and finished the year with £1.4bn (2021: £1.3bn) of headroom on our funding facilities for future growth.

Protecting our business

We are alert to the continuing economic uncertainty. Like our customers and retail partners, we are taking the necessary actions to ensure we are best placed to travel through this uncertainty. Household incomes will continue to come under increased pressure. Making sure our lending decisions take dynamic account of this and that our lending remains affordable is key to ensuring that we help people move forward with credit. We will continue to review our underwriting criteria and the expected impact of the rising cost of living to ensure our business is tuned to minimise its impact.

Our securitisation funding is linked to the SONIA and SOFR (reflecting the Bank of England base rate). In most instances, we have the contractual right to pass on base rate changes to customers. In 2022, we took out interest rate swaps on the residual exposure where we cannot pass on such changes and fixed the interest rate on £756m of notional debt.

We keep our cost base under constant review and we have negotiated contractual caps with significant suppliers where possible. Our underlying cost-income ratio remains low and improved during 2022.

Where next?

We are a leading digital player in the UK unsecured consumer credit market. Our technologies, our data and our colleagues present us with opportunities to create an ever progressive business. In 2023, we intend to continue expansion of our Direct to Consumer and Merchant Offering businesses, albeit at a more modest rate than in the past. This will allow us to navigate uncertain times whilst driving progressive profits. Our platform offering has developed significantly in 2022 and is positioned to generate further value from our digital capabilities.

Our core purpose has never been more important. The economic uncertainty in recent years is expected to persist into 2023 and potentially beyond. It is our responsibility to be there for our customers when they need us most, helping people move forward with credit. We continue to listen to the needs of our customers and respond by refining our products and processes.

It goes without saying that we could not achieve such a good performance in 2022 and deliver on our strategy without our greatest asset, our colleagues. I would like to personally thank all my colleagues for making NewDay a great business, pushing the boundaries of what is possible and delivering for all our customers and partners.

John Hourican
Chief Executive Officer

Leveraging a leading *digital platform*

Our state-of-the-art platform

Our platform is fully cloud-based and developed by our in-house engineering team. This enables the rapid launch of new products and to innovate and respond rapidly to changing customer and retail partner needs.

Our digital platform is designed to easily support multiple brands, partners and products through a white-label approach where components can be customised to enable seamless and efficient integration. The platform is built on serverless technology, giving scale and cost advantage, and includes tokenisation capability to protect highly sensitive customer and card data.

The platform holds a growing database of transactional information which is used to create data assets and value-driving predictive models.

Enhancements in 2022

Continued improvements to API integration with key aggregators to offer guaranteed pricing

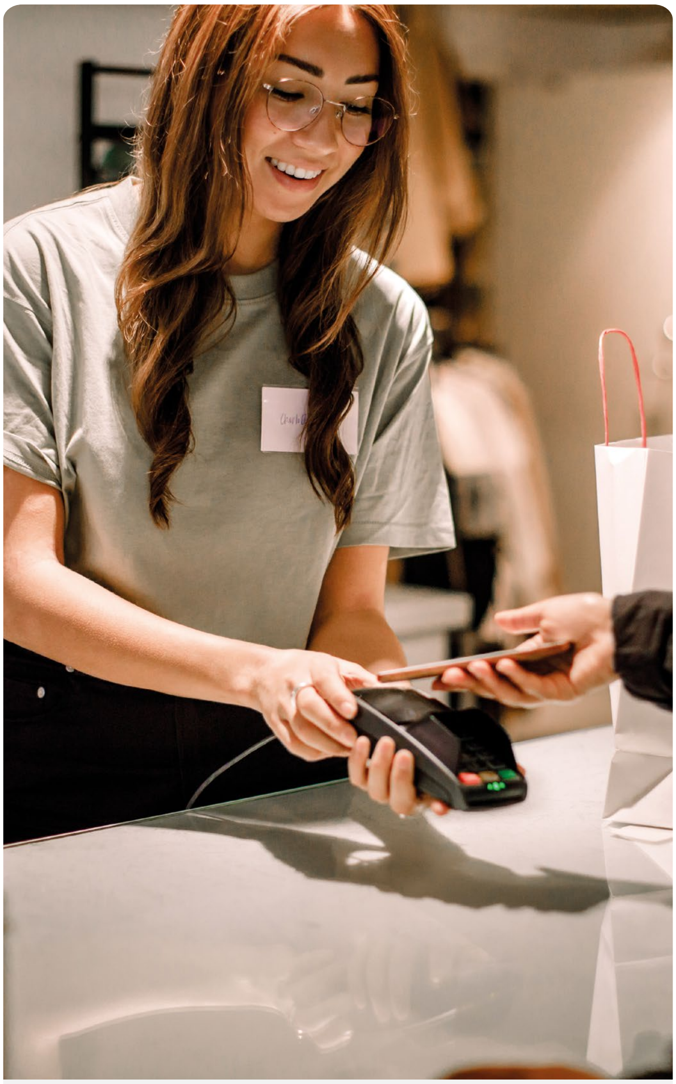
Improvements to persistent debt-related journeys, offering enhanced payment options

Launch of platform to originate unsecured personal loans in partnership with a third party funder

Launch of in-app carbon footprint tracker allowing customers to understand the carbon impact of their spending behaviour

Full credit report, credit score simulations and history available seamlessly through *Aqua Coach*

Successful launch of major new merchant partnership, with digital loyalty solution



2023 pipeline

- Launch multiple *Newpay* partnerships
- Enhanced in-house collections and complaints platforms
- Improved fraud detection capability
- Open Banking for existing customer management and account acquisition

Case study

JOHN LEWIS
& PARTNERS

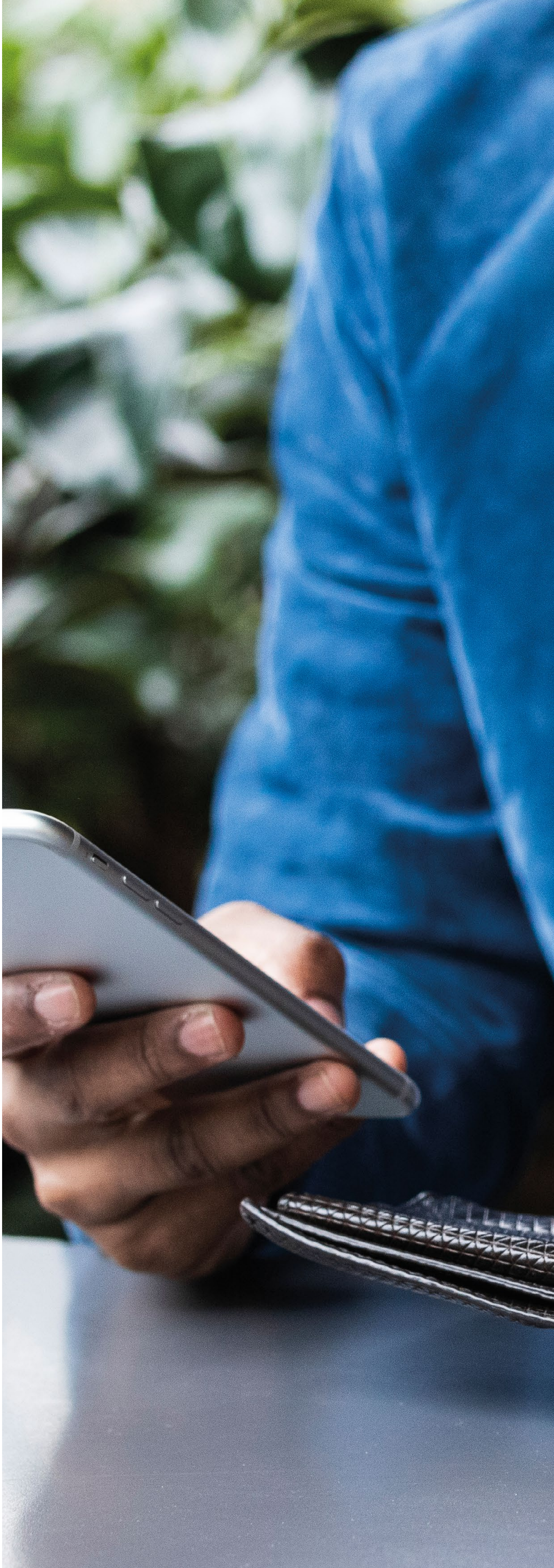
In August 2022, we launched our partnership with one of the UK's most loved brands, John Lewis & Partners. Recognising the changing nature of their customers' credit needs, John Lewis & Partners wanted to partner with a company that could support their growth ambitions and provide innovative credit solutions to match their customers' needs. They chose NewDay.

Our launch proposition

The launch of this collaboration and the seamless integration with John Lewis & Partners was underpinned by two key strategies.

1. Providing an easy and simple customer journey to support existing Partnership Card customers transitioning to our new Partnership Card. 96% of customers applying for our card were accepted and 83% of customers received a credit limit equal to or higher than what they previously had.

2. A widespread marketing campaign to distribute through multiple channels to new customers. This included real-time optimisation of marketing campaigns and aggregator integration.



0.6M
customer accounts opened in 2022

£2.2BN
customer spend in 2022

Where next?

- Leverage our suite of products to broaden the credit solutions offered through the partnership
- Widen credit access for customers in a responsible manner, in line with John Lewis & Partners' evolving customer base
- Continue to innovate, drive digital engagement and develop customer insight to build brand loyalty and grow the partnership

Acquiring new customers that *create long-lasting relationships*

We invest significantly to acquire new customers and build long-lasting mutually beneficial relationships on their journey moving forward with credit. There is significant profitability embedded in the receivables portfolio.

Investment in acquiring new customers

Acquiring new customers

We generally aim to deploy a consistent level of investment in acquiring new customers and opening new accounts across our business. By investing in onboarding new customers we can consistently grow our business. In the second half of 2022, we deliberately slowed growth in response to the challenging economic outlook, however our sophisticated underwriting models allowed us to confidently write new business.

Creating long-lasting relationships

We are committed to developing long-term, trusted relationships with our customers. As new customers mature, we gain a better understanding of their behaviours and lower levels of servicing and marketing contact is required. These customer relationships generally generate predictable revenue streams.

Profitable and cash generative long-lasting relationships

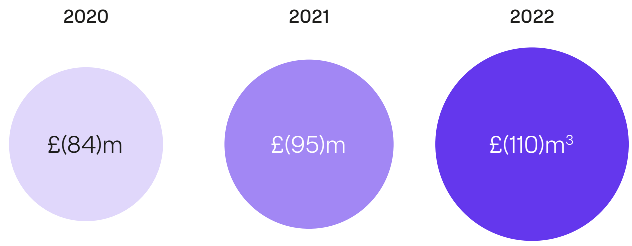
We are investing today to grow our balance sheet and deliver long-term profitability. The continuous investment in acquiring new customers aims to deliver sustainable year-on-year increases in gross receivables and returns for our business.

Acquiring new customers

In 2022, we onboarded 1.3m new customer accounts with 0.6m arising from the new John Lewis & Partners programme. These new customers generated an accounting result of £110m of underlying loss before tax.

	2020	2021	**2022**
New customer accounts[2]	0.9m	0.9m	**1.3m**
Gross receivables	£284m	£479m	**£1,147m**

Underlying loss before tax[1]

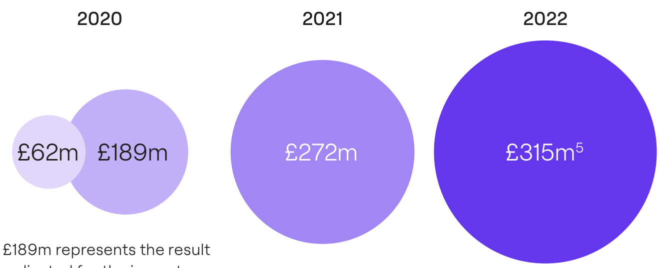


Long-lasting relationships

Our pre-existing customers continue to generate strong returns with underlying profit before tax increasing by 16% to £315m in the year. The Amazon contract termination led to a reduction in customer numbers, however this impact was offset by gross receivables growth across the rest of the business.

	2020	2021	**2022**
Existing customer accounts[4]	3.8m	3.7m	**3.6m**
Gross receivables	£2,561m	£2,807m	**£3,105m**

Underlying profit before tax[1]



£189m represents the result adjusted for the impact on expected credit losses (ECL) of the forecast deterioration in the UK economy prevailing in 2020.

1 The underlying loss/profit before tax for 2021 and 2020 represents continuing operations only. The results of the Platform Services segment have also been excluded from all years.
2 New customer accounts represent accounts opened in the last 12 months.
3 This comprises net revenue of £107m (2021: £74m), impairment of £105m (2021: £83m) and total underlying costs of £112m (2021: £86m).
4 Existing customer accounts represent total accounts less new customer accounts opened in the last 12 months.
5 This comprises net revenue of £718m (2021: £612m), impairment of £278m (2021: £213m) and total underlying costs of £125m (2021: £127m).

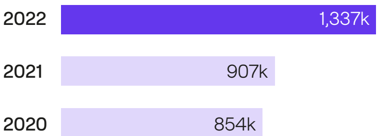
Key performance indicators

We track our progress using a number of financial and non-financial key performance indicators (KPIs).

New customer accounts

1.3M

(2021: 0.9m)



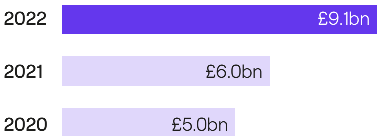
Definition: The number of new customer accounts originated in the period.

Performance: We successfully launched a partnership with John Lewis & Partners which was the main driver of 811k new accounts in our Merchant Offering portfolio (2021: 377k). Our Direct to Consumer portfolio reported strong performance welcoming 526k new customer accounts (2021: 530k).

Customer spend

£9.1BN

(2021: £6.0bn)



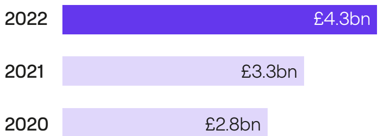
Definition: The amount of customer spend through our products in the period, including balance transfers, money transfers and cash advances.

Performance: Responsibly saying "yes" to more customers and affordable credit limit increases led to a 22% increase in Direct to Consumer spend to £3.9bn (2021: £3.2bn). Merchant Offering spend increased by 86% to £5.2bn (2021: £2.8bn) primarily due to the John Lewis & Partners programme launch.

Closing gross receivables

£4.3BN

(2021: £3.3bn)



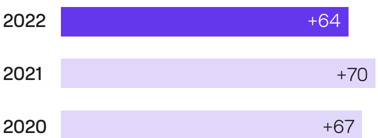
Definition: Gross customer balances outstanding at the year end.

Performance: Gross receivables growth was powered by spend and new account volumes. The John Lewis & Partners portfolio reported £0.7bn of gross receivables and the associated customers in this portfolio, being of higher credit quality on average, have a higher propensity to pay off their balance in full each month.

Transactional Net Promoter Score (NPS)

+64

(2021: +70)



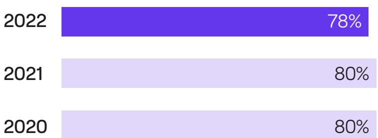
Definition: Average customer feedback score when rating their experience on an interaction with us.

Performance: We continue to focus on delivering our manifesto to drive positive customer outcomes. The reduction in the year results from the launch of the John Lewis & Partners partnership. We learnt from this experience and listened to and acted on customer feedback.

Employee engagement

78%

(2021: 80%)



Definition: Results of our most recent Pulse engagement survey.

Performance: Engagement in 2022 remained high with NewWork flexible working, our purpose, our values and wellbeing receiving particularly positive feedback.

Carbon footprint

0.3 tonnes of CO_2e per average FTE employee

(2021: 0.4 tonnes[1])

Definition: The amount of Scope 1, Scope 2 (purchased electricity) and Scope 3 (own operations employee travel) CO_2 greenhouse gas emissions consumed by the business during the year divided by the average number of full time equivalent (FTE) employees. Our CO_2 emissions do not include CO_2 consumed by our suppliers on services directly related to our business.

Performance: In 2022, we achieved carbon neutral own operations across Scope 1 and 2 CO_2 emissions, and 100% of our energy tariffs are now renewable.

1 Following review of our waste data, 2021 and 2020 emissions data has been updated.

Statutory profit before tax

£110M

(2021: £79m)

2022	£110m
2021	£79m
2020	£(129)m

Definition: Statutory profit (or loss) before tax from continuing operations per the consolidated Group income statement.

Performance: Our good underlying performance translated into an improved statutory profit.

Underlying profit before tax

£203M

(2021: £172m)

2022	£203m
2021	£172m
2020	£(22)m

Definition: Underlying risk-adjusted income (£444m) less underlying costs (£241m).

Performance: Income growth, powered by gross receivables, combined with a focus on credit quality and cost control resulted in higher underlying profit.

Impairment rate

10.6%

(2021: 10.1%)

2022	10.6%
2021	10.1%
2020	16.0%

Definition: Impairment losses on loans and advances to customers (£383m)/average gross receivables (£3,601m).

Performance: Collection performance remains strong and is normalising to pre-pandemic levels. The normalisation and targeted widening of risk in the Merchant Offering business (excluding the John Lewis & Partners portfolio) resulted in a higher impairment rate.

Underlying risk-adjusted margin

12.3%

(2021: 13.3%)

2022	12.3%
2021	13.3%
2020	6.8%

Definition: Underlying risk-adjusted income (net revenue less impairment losses on loans and advances to customers) (£444m)/average gross receivables (£3,601m).

Performance: Our underlying risk-adjusted margin reduced primarily as a result of our impairment charge normalising to pre-pandemic levels.

The margin using statutory risk-adjusted income was 12.4% (2021: 13.1%).

Underlying cost-income ratio

29.1%

(2021: 31.8%)

2022	29.1%
2021	31.8%
2020	33.3%

Definition: Underlying costs (servicing, change, marketing and partner payment costs, collection fees, salaries, benefits and overheads) (£241m)/net revenue (£827m).

Performance: Net revenue growth and a focus on efficiency savings resulted in our underlying cost-income ratio improving.

Free cash flow available for Senior Secured Debt servicing

£152M

(2021: £119m)

2022	£152m
2021	£119m
2020	£129m

Definition: Adjusted EBITDA (£215m) adding back the movement in the ECL allowance during the year (£19m) less changes in working capital, PPI provision payments, capital expenditure, platform development costs and taxes paid (£98m), less cash used in loans and advances to customers growth (£981m), plus net financing cash flows (£997m).

Performance: Our business generates cash. We generated £152m of free cash flow available for Senior Secured Debt servicing from our profits and finished the year with £382m of cash (2021: £304m).

Financial review

“We continue to grow. We increased statutory profit before tax to £110m and underlying profit before tax to £203m in what was another good year for our business.

Gross receivables increased by 29% to £4.3bn, powered by spend and new account volumes. This translated into 14% underlying risk-adjusted income growth. We remained focused on optimising our cost base with our underlying cost-income ratio improving to 29.1%.

We generated £152m of free cash flow available for Senior Secured Debt servicing and finished the year with £1.4bn of facility headroom to fund growth.”

Paul Sheriff
Chief Financial Officer

2022 highlights

40%
growth in statutory profit before tax to £110m
(2021: £79m)

18%
growth in underlying profit before tax to £203m
(2021: £172m)

29%
growth in gross receivables to £4.3bn
(2021: £3.3bn)

52%
growth in customer spend to £9.1bn
(2021: £6.0bn)

1.3M
new customer accounts
(2021: 0.9m)

9.1%
charge-off rate
(2021: 8.5%)

12.3%
underlying risk-adjusted margin
(2021: 13.3%)

29.1%
underlying cost-income ratio
(2021: 31.8%)

£152M
free cash flow available for Senior Secured Debt servicing
(2021: £119m)

£382M
closing cash balance
(2021: £304m)

£264M
refinance of Senior Secured Debt (including £26m early settlement)

£1.4BN
closing facility headroom to fund future growth
(2021: £1.3bn)

2022 was another year of progress for our business. We reported 29% gross receivables growth with closing balances of £4.3bn (2021: £3.3bn). Our customers spent £9.1bn (2021: £6.0bn), an increase of 52% on last year, and we welcomed 1.3m new customers (2021: 0.9m). Statutory profit before tax was £110m (2021: £79m) and underlying profit before tax was £203m (2021: £172m). We reported £152m of free cash flow available for Senior Secured Debt servicing (2021: £119m) and our closing cash balance was £382m (2021: £304m).

As at 31 December 2022, our gross receivables represented 6.6%[1] of UK credit card receivables (2021: 5.5%) and our spend in 2022 represented 3.8%[1] of UK credit card spend (2021: 3.1%). Online spend as a proportion of retail spend was 44% and 51% for Direct to Consumer and Merchant Offering respectively (2021: 47% and 62%), which outperforms the proportion of total UK spend that is online[2]. We have seen no significant adverse change in customer spend trends despite ongoing cost-of-living pressures.

The statutory result before tax includes a number of items, explained below, which are excluded from underlying performance.

	2022 £m	2021 £m
Statutory profit before tax[3]	**109.9**	**78.7**
Senior Secured Debt interest and related costs	30.3	30.6
Fair value unwind	–	(1.1)
Payment protection insurance (PPI)	(1.2)	4.7
Platform development costs	9.3	1.7
Other	0.8	–
Amortisation of intangible assets arising on the Acquisition[4]	54.3	57.4
Underlying profit before tax	**203.4**	**172.0**

Senior Secured Debt interest and related costs include the interest charge and other costs associated with the issuance and servicing of the Senior Secured Notes by NewDay BondCo plc (the Senior Secured Debt) and the Super Senior Revolving Credit Facility (the Revolving Credit Facility). In 2022, we exchanged £238m of existing notes maturing in February 2024 for new notes with a December 2026 maturity and settled £26m of notes in cash. As at the year end, the nominal value of Senior Secured Debt and Revolving Credit Facility totalled £299m (2021: £325m). This debt does not finance the Group's gross receivables and consequently its costs have been excluded from underlying performance.

1 Receivables and spend share metrics calculated as total NewDay volumes (including *Newpay*) as a proportion of Bank of England data credit card volumes.
2 Compared to Office for National Statistics data (internet spend as a proportion of total retail spend).
3 From continuing operations.
4 On 26 January 2017, NewDay Group (Jersey) Limited acquired NewDay Group Holdings S.à r.l. and its subsidiaries (the Acquisition).

Fair value unwind reflects the amortisation of fair value adjustments on the Group's acquired gross receivables. The fair value adjustments were fully unwound at the end of 2021.

PPI reflects revisions to expected PPI remediation expenses including costs incurred from third parties that process customer complaints on our behalf.

Platform development costs are expenses incurred to enhance the capabilities of our in-house operating platform. These costs relate to a one-off project and are excluded from our underlying performance because they do not represent our underlying operational costs.

Amortisation of intangible assets arising on the Acquisition relates to the amortisation of the purchase price that was attributed to intangible assets arising on completion of the Acquisition.

Financial review *continued*

Management basis income statement

£m	2022 Direct to Consumer	2022 Merchant Offering	2022 Platform Services	2022 Group	2021 Direct to Consumer	2021 Merchant Offering	2021 Platform Services	2021 Group
Interest income	640.3	243.8	–	884.1	487.8	212.6	–	700.4
Cost of funds	(78.0)	(46.3)	–	(124.3)	(41.2)	(20.6)	–	(61.8)
Net interest income	**562.3**	**197.5**	**–**	**759.8**	**446.6**	**192.0**	**–**	**638.6**
Fee and commission income	44.3	21.3	1.4	67.0	31.2	15.7	0.6	47.5
Net revenue	**606.6**	**218.8**	**1.4**	**826.8**	**477.8**	**207.7**	**0.6**	**686.1**
Impairment losses on loans and advances to customers	(302.0)	(80.6)	–	(382.6)	(218.3)	(77.9)	–	(296.2)
Underlying risk-adjusted income	**304.6**	**138.2**	**1.4**	**444.2**	**259.5**	**129.8**	**0.6**	**389.9**
Servicing costs	(56.5)	(51.5)	(0.4)	(108.4)	(43.7)	(40.7)	–	(84.4)
Change costs	(23.4)	(16.6)	(3.3)	(43.3)	(22.4)	(15.9)	(5.9)	(44.2)
Marketing and partner payments	(24.2)	(21.1)	(0.2)	(45.5)	(22.3)	(19.5)	–	(41.8)
Collection fees	21.3	8.9	–	30.2	15.4	8.9	–	24.3
Contribution	**221.8**	**57.9**	**(2.5)**	**277.2**	**186.5**	**62.6**	**(5.3)**	**243.8**
Salaries, benefits and overheads				(73.8)				(71.8)
Underlying profit before tax from continuing operations				**203.4**				**172.0**
Add back: depreciation and amortisation				11.6				11.0
Adjusted EBITDA				**215.0**				**183.0**
Senior Secured Debt interest and related costs				(30.3)				(30.6)
Fair value unwind				–				1.1
PPI				1.2				(4.7)
Platform development costs				(9.3)				(1.7)
Other				(0.8)				–
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(65.9)				(68.4)
Profit before tax from continuing operations				**109.9**				**78.7**

For internal management reporting purposes, in preparing the management basis income statement certain items are presented differently to the statutory income statement. A reconciliation to the statutory income statement is detailed in note 3 of the Financial Statements. Additionally, gross receivables disclosed in this section exclude any ECL allowance and effective interest rate adjustments included within loans and advances to customers as shown in the Financial Statements. A reconciliation of gross receivables to loans and advances to customers as presented in the Financial Statements is detailed in note 3 of the Financial Statements.

Group performance

Our financial performance in 2022 was underpinned by growth in both customer spend and gross receivables. This was the main driver of 21% net revenue growth to £827m (2021: £686m). Our advanced credit scoring models and customer data allowed us to extend affordable credit limit increases to customers displaying positive behaviours and provide appropriate support to those that needed it. We also tightened our underwriting criteria in response to cost-of-living pressures. This allowed us to control our impairment charge within acceptable levels leading to an underlying risk-adjusted margin of 12.3% (2021: 13.3%). We are a digital-first business and remained focused on cost control, with our underlying cost-income ratio improving to 29.1% (2021: 31.8%). These factors combined to generate statutory profit before tax of £110m (2021: £79m) and an underlying profit before tax of £203m (2021: £172m).

Interest income increased by 26% to £884m (2021: £700m) and was driven by 29% growth in gross receivables, 52% higher customer spend and 1.3m new customer accounts (2021: 0.9m).

Funding costs doubled to £124m (2021: £62m) driven by higher gross receivables, increased base rates as a result of Bank of England rate increases and higher funding spreads.

Fee and commission income increased by 41% to £67m (2021: £48m) and resulted from increased spend activity year-on-year.

These combined factors resulted in net revenue increasing by 21% to £827m (2021: £686m), with a net revenue margin of 23.0% (2021: 23.4%).

The impairment charge increased by 29% to £383m (2021: £296m) from gross receivables growth and ongoing revisions to the UK economic outlook including cost-of-living pressures. The judgements and estimates used in ECL (including post model adjustments), which impact the Group's performance, are disclosed in note 2.3 of the Financial Statements. Collection performance remained strong with performance metrics normalising post-pandemic. The proportion of Direct to Consumer gross receivables with two missed payments (or more) after six months increased to 5.6% (2021: 4.0%[1]) but remains below pre-pandemic levels of 9.0% in 2019. In Merchant Offering, the rate also increased to 4.1% (2021: 2.7%[1]) which is higher than pre-pandemic, of 3.5% in 2019, reflecting newer partnerships (with the exception of John Lewis & Partners) that target prime and near-prime customers. We have also seen higher payment holidays extended to customers in the second half of 2022 which is partly driven by cost-of-living pressures, although they remain significantly below pandemic levels. The average Delphi score[2] was broadly flat at 1,018 for Direct to Consumer (2021: 1,029) and 1,188 for Merchant Offering (2021: 1,190).

Servicing costs increased by 28% to £108m (2021: £84m) through a higher volume of open accounts, in particular for Direct to Consumer and resulting from the launch of the John Lewis & Partners programme. Our servicing costs margin increased marginally to 3.0% (2021: 2.9%).

Change costs reduced marginally to £43m (2021: £44m) with a focus on strategic projects aimed at broadening the Group's digital capabilities and support for the launch of the John Lewis & Partners programme.

Marketing and partner payment costs increased by 9% to £46m (2021: £42m) with the increase reflecting higher new account volumes and higher partner payments arising from customer spend activity.

Collection fees increased by 24% to £30m (2021: £24m) and was mainly driven by the gross receivables growth.

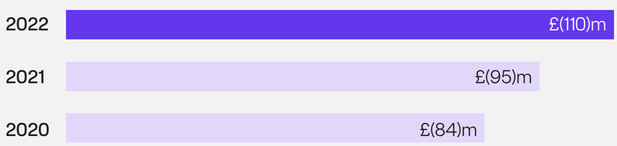
Salaries, benefits and overheads remained broadly unchanged at £74m (2021: £72m).

A focus on cost control and net revenue growth resulted in our underlying cost-income ratio improving to 29.1% (2021: 31.8%). The equivalent statutory cost-income ratio was 40.5% (2021: 44.8%).

As a result of these factors, statutory profit before tax and underlying profit before tax increased by 40% and 18% respectively. Adjusted EBITDA was £215m for the year (2021: £183m[3]).

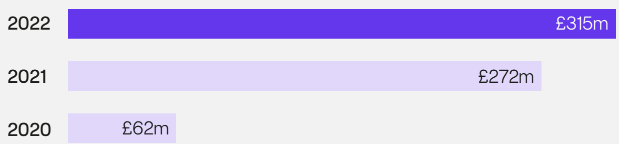
Acquiring new customers that create long-lasting relationships

Underlying loss incurred from acquiring new customers



We incurred a £110m underlying loss before tax in acquiring 1.3m new customer accounts in 2022.

Underlying profit generated from existing customers



Our long-term relationships with existing customers generated £315m of underlying profit before tax in 2022.

Read more on page 24

1 In 2022, the definition of this metric was refined to exclude fraudulent balances and the prior year comparatives have been updated for consistency.
2 Experian Delphi for Customer Management Account and Arrears Management score, which predicts the likelihood of delinquency within the next 12 months with a higher score representing a lower likelihood.
3 Adjusted EBITDA including the result of our discontinued operation (which represents 'Consolidated EBITDA' as defined in the terms of the Senior Secured Debt and Revolving Credit Facility) was £186m for 2021.

Financial review *continued*

Direct to Consumer performance

Closing gross receivables

Our Direct to Consumer segment opened 526k new customer accounts in the year (2021: 530k) and customer accounts totalled 2.0m as at the year end (2021: 1.7m). The portfolio reported 14% growth in gross receivables to £2.4bn (2021: £2.1bn). Spend levels increased by 22% to £3.9bn (2021: £3.2bn).

Net interest income increased by 26% to £562m (2021: £447m), which was driven primarily by gross receivables growth.

Fee and commission income increased by 42% to £44m (2021: £31m) mainly as a result of higher spend activity and related fees.

Impairment increased by 38% to £302m (2021: £218m) principally due to a normalisation to pre-pandemic performance as well as gross receivables growth. Charge-off rates increased to 10.8% (2021: 10.1%) and the proportion of gross receivables entering delinquency increased to 3.7%[1] (2021: 2.8%). As at the year end, the ECL allowance was £475m which represented 19.6% coverage of gross receivables (2021: £461m, or 21.8%). The segment's impairment rate for the period increased to 13.2% (2021: 11.8%) but remains below the pre-pandemic rate of 15.6% in 2019.

Servicing costs increased by 29% to £57m (2021: £44m) primarily due to higher account volumes.

Change costs increased by 4% to £23m (2021: £22m) as a result of continued investment in enhancing digital capabilities.

Marketing costs increased by 9% to £24m (2021: £22m) to drive the new customer account volumes and market *Bip*.

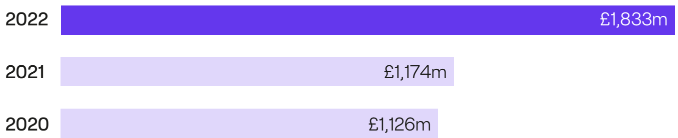
Collection fees increased by 38% to £21m (2021: £15m) and was driven by the gross receivables growth and higher arrears-related collection activity.

The segment reported an increased contribution of 19% to £222m for the year (2021: £187m).

1 This metric shows the proportion of gross receivables that are one payment in arrears as a proportion of up-to-date gross receivables.

Merchant Offering performance

Closing gross receivables



Our Merchant Offering segment added to its portfolio of exciting co-branded products with the launch of a partnership with John Lewis & Partners. We welcomed 811k new customer accounts in the year (2021: 377k) and customer accounts totalled 2.9m as at the year end (2021: 2.9m). The John Lewis & Partners portfolio reported 633k new customer accounts. The portfolio reported 56% growth in gross receivables to £1.8bn (2021: £1.2bn). Spend levels increased by 86% to £5.2bn (2021: £2.8bn), with £2.2bn spend coming through the John Lewis & Partners portfolio.

Following the conclusion of commercial discussions between both parties, we issued a notice of termination to Amazon in relation to our co-branded credit card partnership. Consequently, we ceased originating new customers in June 2022 and the partnership concluded in January 2023. We retained the originated customer accounts associated with the partnership and new *Pulse*-branded cards have been issued to certain customers to extend the NewDay relationship with them. The cessation of the partnership has not had a significant impact on our financial performance.

Our new partnership pipeline remains active. In 2022, we signed a partnership with a fast-growing online retailer. Our *Newpay 1:Many* portfolio continues to broaden its ecosystem of merchants. In 2022, we welcomed numerous merchants including several brands from The Hut Group (THG).

Net interest income increased by 3% to £198m (2021: £192m) from higher gross receivables growth, partly offset by higher funding costs.

Fee and commission income increased by 36% to £21m (2021: £16m) as a result of the higher spend activity.

Impairment increased by 3% to £81m (2021: £78m). Collection performance is starting to normalise post-pandemic with the proportion of gross receivables entering delinquency increasing to 2.0%[1] (2021: 1.7%). The charge-off rate increased to 6.1% (2021: 5.9%) which was expected given the targeted shift to online-originated accounts, which have an associated higher risk compared to store-originated accounts. Following the launch of the John Lewis & Partners programme, we anticipate an improved credit profile for the Merchant Offering segment going forward. The charge-off rate excluding the John Lewis & Partners portfolio was 6.9%. As at the year end, the ECL allowance was £112m which represented a reduction in coverage to 6.1% of gross receivables (2021: £108m, or 9.2%). The lower coverage reflects the launch of the John Lewis & Partners portfolio, which is offsetting increases from the targeted widening risk profile of other parts of the portfolio. The segment's impairment rate for the period reduced to 6.2% (2021: 7.2%) primarily due to the impact of the John Lewis & Partners portfolio. Excluding the impact of the John Lewis & Partners portfolio, the ECL allowance represented 10.0% of gross receivables and the impairment rate was 6.7%.

Servicing costs increased by 27% to £52m (2021: £41m), which was mainly due to higher new account volumes driven by the launch of the John Lewis & Partners programme.

Change costs increased by 4% to £17m (2021: £16m) through continued development of the Group's digital capabilities with the aim of enhancing customer and partner experiences, together with the delivery of the John Lewis & Partners programme.

Marketing and partner payment costs increased by 8% to £21m (2021: £20m) reflecting increased partner payments arising from customer spend activity.

Collection fees were unchanged at £9m (2021: £9m).

As a result of the factors above, Merchant Offering contribution reduced to £58m (2021: £63m).

Platform Services performance

This segment was launched in 2021, providing digital platform solutions for end-to-end servicing of unsecured credit products financed and owned by third parties, together with certain other capital-light activities. The segment continued to invest in change projects required to develop the business and consequently reported negative contribution of £3m (2021: £5m).

Capital and liquidity

Our business generates cash. From our profits we generated £152m of free cash flow available for Senior Secured Debt servicing and finished the year with £382m of cash (2021: £304m). The following table reconciles adjusted EBITDA to the net movement in cash.

	2022 £m	2021 £m
Adjusted EBITDA	215.0	183.0
Change in ECL allowance	18.5	18.8
Adjusted EBITDA excluding change in ECL allowance	**233.5**	**201.8**
Change in working capital	(42.8)	16.8
Platform development and other costs	(10.1)	(1.7)
PPI provision payments	(1.5)	(2.3)
Capital expenditure	(21.9)	(9.1)
Tax paid	(21.7)	(16.9)
Free cash flow available for growth and debt service	**135.5**	**188.6**
Increase in loans and advances to customers	(980.7)	(459.1)
Net financing cash flow (excluding funding overlap and Senior Secured Debt cash flows)	997.4	389.9
Free cash flow available for Senior Secured Debt servicing	**152.2**	**119.4**
Senior Secured Debt interest paid	(31.1)	(27.8)
Senior Secured Debt and Revolving Credit Facility repayment	(264.1)	(130.0)
Senior Secured Debt issuance (net of implied £8m discount to nominal value arising under IFRS)	229.4	–
Return paid on loan from immediate parent company	(18.5)	(10.3)
Cash generated from discontinued operation	–	18.3
Increase/(decrease) in restricted cash	9.9	(5.5)
Increase/(decrease) in cash excluding funding overlap	**77.8**	**(35.9)**
Funding overlap	–	(244.3)
Increase/(decrease) in cash	**77.8**	**(280.2)**
Ratio of net corporate Senior Secured Debt and Revolving Credit Facility to adjusted EBITDA	(0.1)x	0.4x
Ratio of adjusted EBITDA to pro forma cash interest expense	5.9x	7.6x

The movement in working capital is primarily driven by higher net daily settlement volumes resulting from 31 December 2022 falling on a weekend, together with high levels of spend and repayment from the John Lewis & Partners partnership.

Financial review *continued*

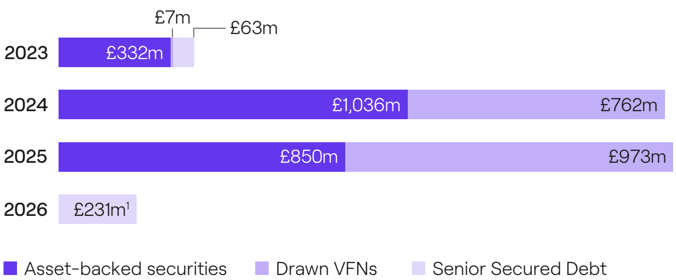
Funding

We proactively monitor our funding requirements to ensure the business remains appropriately positioned to finance its operations. In 2022, we completed several financing transactions including those listed below and raised £2.1bn of funding.

- An Exchange Offer to refinance Senior Secured Notes due to mature in February 2024. This included exchanging £238m of existing notes for new notes and settling £26m of notes in cash. The new notes have a maturity of December 2026 at an interest rate of 13.25% per annum. The remaining £61m of existing notes are currently anticipated to be repaid in cash on or before maturity.
- A £650m variable funding note (VFN) deal signed from the Merchant Offering securitisation programme which is used to fund the gross receivables from the John Lewis & Partners credit card partnership.
- Three separate VFN expansions in the Direct to Consumer securitisation programme totalling £400m.
- Three separate issuances of asset-backed securities, totalling £934m (of which £92m was retained internally) and included $100m raised from US capital markets, from the Direct to Consumer securitisation programme. The $100m was hedged to a fixed interest rate and foreign exchange rate.

Additionally, we executed interest rate swaps to swap variable for fixed interest rates on £680m of asset-backed debt to reduce our exposure to increases in the Bank of England base rate not covered by the ability to pass through base rate increases to customers.

Debt maturity profile (including accrued interest)



As at the year end, we reported funding facility headroom of £1.4bn and only 8% of our borrowings will be due for repayment in less than one year, 44% will be due in one to two years and 48% will be due in over two years. The average maturity of our funding facilities was two years as at the year end. We retain the right to extend the maturity of all our asset-backed debt by one year.

Our gross receivables are funded primarily through debt and our blended advance rate as at 31 December 2022 was 92.0%[2] (2021: 88.6%), being the total asset-backed securities (at hedged exchange rates) and drawn VFNs as a proportion of gross receivables. For Direct to Consumer the rate was 87.8%[2] (2021: 86.5%) and for Merchant Offering it was 97.4% (2021: 92.3%). The increased advance rate for Merchant Offering was primarily due to advanced drawdowns to fund the growth of the John Lewis & Partners portfolio.

Cash flows

As at the year end, we reported a cash balance of £382m (2021: £304m). This included £68m of restricted cash (2021: £58m) relating to ring-fenced cash for credit balances on gross receivables and cash restricted due to covenants in place in accordance with our funding structure. Cash held outside of the securitisation structures was £60m as at the year end (2021: £128m) after investment in gross receivables growth and partial repayment of Senior Secured Debt. The following table summarises our cash flows during the year.

	2022 £m	2021 £m
Net cash used in operating activities	(841.7)	(286.8)
Net cash (used in)/generated from investing activities	(21.9)	58.1
Net cash generated from/(used in) financing activities	941.4	(51.5)
Net increase/(decrease) in cash and cash equivalents	**77.8**	**(280.2)**
Cash and cash equivalents at the start of the year	304.4	584.6
Cash and cash equivalents at the end of the year	**382.2**	**304.4**

Net cash used in operating activities was £842m (2021: £287m) and was primarily driven by investment in gross receivables growth.

Net cash used in investing activities of £22m (2021: £58m generated from) represents investment in intangible assets and property and equipment. The 2021 comparative included £67m of cash received following the sale of receivables from our discontinued UPL business.

Net cash generated from financing activities of £941m (2021: £52m used in) consists of issuances and repayments of asset-backed securities and drawdowns of VFNs to fund gross receivables growth. Additionally, this balance included a £26m repayment of Senior Secured Debt and a £19m cash payment to our immediate parent company.

1 After deduction of the implied £8m discount to nominal value on issuance, arising under IFRS, which is amortised over the life of the debt.
2 At unhedged exchange rates our blended advance rate as at 31 December 2022 was 92.9% (2021: 88.2%) and for Direct to Consumer it was 89.4% (2021: 85.9%).

Capital requirements

There is no regulatory capital requirement for any subsidiary other than NewDay Ltd owing to its status as an Authorised Payment Institution. As at 31 December 2022, the levels of capital for NewDay Ltd exceeded the minimum capital requirement with headroom of £20m.

We are subject to various requirements and covenants related to levels of capital and liquidity. We regularly monitor compliance with these requirements and covenants to ensure they are met at all times where necessary.

The number and nominal value of all the parent Company's shares are detailed in note 22.

Paul Sheriff
Chief Financial Officer

Promoting success and *stakeholder engagement*

We are committed to balancing the interests of our different stakeholders in order to maximise the long-term success of our business.

By understanding the differing needs and concerns of our stakeholders through proactive engagement, the Board can then ensure careful consideration of the potential impact of their decision-making on each stakeholder group.

Detailed below are our key stakeholders, their material interests, how we engage with them and key outcomes delivered for each group in 2022.

Stakeholders and their material interests	How we engage	2022 key deliverables
Customers Responsibly saying "yes" to more customers, delivering easy-to-use products and supporting our customers to move forward with credit whilst adapting our product offering and providing appropriate financial support throughout their credit journeys.	• Our manifesto is at the heart of our decision-making • Feedback through transactional NPS and NES metrics to track customer satisfaction • Customer issue resolution programmes using customer and colleague feedback to improve processes • Collections toolkit to support customers who encounter difficulties • Credit education tools to support improving credit scores • Servicing messages and alerts • Customer KPIs in monthly Board reporting • Customer focus groups	• Transactional NPS of +64 and NES of +67. Listened to and acted on customer feedback from the John Lewis & Partners launch • Listened to customer feedback and launched *Aqua Gold*, a credit card rewarding customers for good credit management • 166k payment holiday support plans offered • 592k customers registered for *Aqua Coach* and *Credit Score* at the year end • Supported 2.1m customers to improve their credit score • Introduced carbon footprint tracking and insights for our *Aqua* and *Bip* customers
Colleagues Providing an engaging and highly motivated environment, attractive career paths and empowerment to make an individual contribution to delivering on our vision.	• Our purpose and values are at the heart of employee engagement • Bi-annual employee surveys with follow-up actions • Programme of activities throughout the year covering inclusion and diversity, mental health and wellbeing • Continuous all-colleague communication programme, including town halls • Online learning and development tool • Independent whistleblowing helpline	• Engagement score of 78% • Inclusion and diversity index score of 82% • Inspirational Speaker Series of events and promoted discussions of important emerging matters • Progressed our leader100 programme, tailored coaching to our top 100 managers • Cost of living award provided to all colleagues earning £50k or less, supporting them through the current economic environment • Provided colleagues with a care package and benefits to support health and wellbeing
Retail partners Seamless integration into our partners' customer experiences. Using our data analytics to generate in-depth customer insights, supporting brand loyalty to drive higher sales, increased basket size and repeat business.	• Responsibly saying "yes" and rewarding their customers is core to partner engagement • Regular performance meetings with our partners • Provision of data insight and performance analytics • Working with our partners to develop marketing strategies and offers	• Launched a partnership with John Lewis & Partners • Listened to and acted on customer and partner feedback to enhance customer journeys • £0.9bn of Merchant Offering spend directly with our partners • Introduced digital loyalty programmes

Stakeholders and their material interests	How we engage	2022 key deliverables
Shareholders Building a sustainable, ethical, strong, customer-centric and valuable business. Lending responsibly alongside leveraging our technology platform and credit expertise to deliver predictable, sustainable and attractive returns.	• Well-informed Board meetings and strategy days • Ongoing investor dialogue through their Board representatives' investor meetings • Monthly performance reporting – both financial and non-financial	• Strong profitability with statutory profit before tax of £110m and underlying profit before tax of £203m • 29% gross receivables growth and 52% spend growth • Committed to Net Zero Greenhouse Gas emissions by 2040 • Generated £152m of free cash flow available for Senior Secured Debt servicing • Completed an Exchange Offer reducing the outstanding Senior Secured Notes to £299m of which £238m will not mature until December 2026
Investors ***(asset-backed securities and high yield bond (HYB))*** Delivering sustainable and safe returns on their financial investments.	• Monthly securitisation investor reporting • Quarterly HYB investor reporting and presentations • Investor roadshows and open investor relations dialogue	• Generated £152m of free cash flow available for Senior Secured Debt servicing • Refinanced all maturing debt • Executed hedges to reduce our exposure to base rate increases • Completed an Exchange Offer in relation to the Senior Secured Notes providing investors with the opportunity to exchange their notes for new notes maturing in 2026 together with cash consideration
Regulators Active engagement and alignment of our approach to meet regulatory requirements and delivering on our manifesto.	• We believe credit is a force for good and we believe good regulation reinforces this • Member of industry bodies to ensure active engagement in industry-wide discussions • Open and transparent reporting • Proactive engagement and collaborative approach with regulators and Government	• Commenced our preparations for the implementation of the FCA's Consumer Duty • Continued application of the FCA's Tailored Support Guidance aimed at helping customers experiencing financial difficulties • Reviewed regulatory publications and consultation papers, responding where appropriate
Community Socially responsible management including promoting financial inclusion and good credit behaviours. Delivering environmentally friendly practices.	• Attendance at industry-wide meetings • Long-term support of Family Action, our charity partner, and continuation of support for Demos • ESG KPIs in Board reporting • Member of environmental organisations to share best practice	• Awarded a Gold medal from EcoVadis for sustainability • Issued our first Sustainability Report • Extended *Aqua Coach* support to certain applicants who were declined or ineligible • Donated £342k in our ongoing partnership with Family Action, our charity partner • Our colleagues donated over 2,350 toys to Family Action for their Christmas Toy Appeal • Ongoing support of Demos' Good Credit Index • Net Zero by 2040 target set

2022 decision-making: unsecured personal loans

Our Board and its committees consider the needs and concerns of our stakeholders regularly. An example of a decision taken and how the interests of our stakeholders were considered is the launch of our unsecured personal loans origination business in partnership with Antelope Loans. We identified an opportunity to deploy our lending expertise and bring a compelling consumer loans product to market which is intended to drive additional, capital-light revenues designed to provide additional returns for our shareholders as well as increasing cash flows to service our Senior Secured Debt. This new business line provides a fresh and exciting challenge for our colleagues. At the same time, we have been cognisant to ensure this does not detract from our ability to continue to service our existing customers and ensure regulatory compliance.

Operating responsibly

"NewDay exists to help people move forward with credit. This is underpinned by our ESG strategy which guides us to ensure all our activities are performed sustainably and with the interests of our customers, our colleagues and the environment front of mind. We believe in credit as a force for good."

Sir Michael Rake
Chairman and Non-Executive Director

We are a purpose-led business. Our ESG strategy has three pillars aligned to our purpose. Each pillar is underpinned by our belief that credit is a force for good.

Our ESG strategy

- **Being a responsible lender**
- **Minimising our impact on the environment**
- **Being an inclusive and diverse workplace**

Read our Sustainability Report available on our website, newday.co.uk, for more information on our ESG strategy, the progress we have made during the year and our future ambitions

Being a responsible lender

Responsible and accessible credit expands possibilities, it powers up life and business. This focus ensures we continue to strive to provide excellent customer service and develop products and services that evolve in line with our customers' rapidly changing needs. This helps us build long-term relationships.

By understanding the varying needs of our customers, building long-lasting relationships and rewarding those customers for responsibly managing their credit, we continue to be one of the most inclusive lenders in the UK. We lend responsibly through the deployment of our 'low and grow' strategy, offering our near-prime customers a low initial credit limit until they demonstrate that they can actively manage and afford further credit in a responsible and sustainable manner. This is powered by sophisticated machine-learning technology embedded within our proprietary scorecards. These scorecards allow us to offer customers access to credit throughout the full credit risk cycle, and especially when our customers need it the most.

We are committed to giving customers the ability to actively control their financial profile. We provide *Aqua Coach*, our in-app credit building tool, to *Aqua* customers giving them direct access to their credit score alongside tips and indicators of their progress towards improving it. As at the year end, 532k (2021: 336k) customers had registered for this functionality. In total, we supported 2.1m customers to improve their credit scores in the year (2021: 2.2m). Furthermore, in 2022, we extended *Aqua Coach* support to certain applicants who were declined or ineligible. Such individuals now benefit from two co-branded services with LOQBOX, a credit building advice service, and TransUnion designed to help them move forward on their journey towards accessing credit. This support is focused on tips, simulations, monitoring and education on credit scores and also provides regular, refundable, savings that are reported as loan repayments to credit rating agencies to help build credit scores.

We understand that people suffer from 'bumps in the road'. Being there for customers who need extra support when times are challenging is what we do - without hesitation. We understand that 2022 remained challenging and continuing cost-of-living pressures are a significant concern for our customers heading into 2023. We offer payment holiday interventions which suspend repayments, interest and fees for a period of up to three months, to those customers who require temporary support. In 2022, we offered 166k payment holiday support plans (2021: 109k).

2.1M

customers supported to improve their credit scores
(2021: 2.2m)

166K

payment holiday support plans offered
(2021: 109k)

We continuously listen to feedback from our customers. They told us they wanted to be rewarded and recognised for good credit management and brand loyalty. We responded by launching our *Aqua Gold* card. *Aqua Gold* rewards customers who have had their card for at least two years, managed credit well and improved their credit score. It offers cashback on qualifying spend and a 0% foreign exchange conversion fee.

We regularly report a suite of KPIs to our Board to ensure appropriate focus is given to being a responsible lender. Our transactional NPS score of +64 (2021: +70) evidences that customers value the experience they receive from us. The reduction in the year arises from the launch of our John Lewis & Partners programme. Despite the fact that we had generally excellent engagement with our incoming John Lewis & Partners customers, there was a group of those customers who expressed some dissatisfaction with the journey to NewDay, whether because we declined to offer credit facilities or for other reasons. We have taken this feedback very seriously and, where appropriate, made process amendments to ensure future interactions are positive and reinforcing of the long-term partnership we are building with John Lewis & Partners.

Operating responsibly *continued*

Minimising our impact on the environment

Minimising our impact on the environment is important to us which is why we are proud to have achieved carbon neutral own operations this year, an important step in our journey towards Net Zero by 2040.

We are committed to conserving energy and giving preference to renewable sources of energy wherever reasonably practicable. As a digitally oriented financial services business, our carbon footprint from our own operations is low. In 2022, we consumed 0.3 tonnes of CO_2 emissions per average FTE employee (2021: 0.4 tonnes of CO_2 emissions per average FTE employee) across Scope 1, 2 and 3 emissions within our own operations. Owing to the nature of our business, our Scope 1 emissions are low so we focus on managing general energy consumption across our Leeds and London sites (Scope 2 emissions). Effective from the end of 2022, we transitioned to 100% renewable energy tariffs (2021: 53%), further reducing our emissions. For our residual emissions we have purchased Verra approved carbon offsets covering both 2021 and 2022 Scope 1 and 2 emissions to achieve carbon neutral own operations.

0.3

tonnes of CO_2e per average FTE employee
(2021: 0.4 tonnes)

We recognise that our carbon footprint is wider than our Scope 1 and 2 impact. Following completion of our Greenhouse Gas inventory across our value chain, we assessed our longer-term carbon reduction strategy and have set a commitment to Net Zero, including Scope 3 emissions, by 2040. As third parties contribute the significant proportion of our carbon footprint we recognise that it is crucial to engage with our supply chain in order to deliver our Net Zero ambitions. We are working with our suppliers to understand their current status and commitments to reducing emissions and for new suppliers our onboarding process requests details of their environmental credentials.

Our progression in our ESG strategy and activity has been recognised by EcoVadis who accredited us with their Gold medal sustainability rating in 2022 (2021: Silver). The EcoVadis assessment includes consideration of our environmental and sustainable procurement policies, practices and performance. In addition to our sustainability rating, EcoVadis also assessed our carbon management practices for which we were rated Intermediate on their carbon scorecard.

We have reviewed their proposed areas for improvement as we strive for Advanced and, where appropriate, are incorporating these into our strategy.

Colleague engagement

Our colleagues engage with our environmental strategy through the Green forum, a multi-site colleague-led forum which provides a platform for colleagues to educate colleagues, raise ideas and concerns and promote recycling, reuse and repurpose across the business. In 2022, five colleagues were trained to become qualified beekeepers allowing us to introduce two hives in our Leeds office to support biodiversity for which we won a bronze International Green Apple Environment award and were promoted to Green World Ambassadors. The forum continued to support a back-to-school campaign to tackle the issue of textile waste. Working with our charity partner, Family Action, colleagues donated school uniforms that they no longer required and passed these on to families across the country who were unable to afford new uniforms. In total, over 1,300 families were supported through the initiative.

Customer action

As well as taking our own environmental action, we encourage our customers to do the same. We continue to encourage our customers to manage their account online, with 94% of active customers now registered (2021: 91%). In 2021, we introduced *Bip*, the UK's first fully digital credit card, reducing both plastic and paper usage as well as the environmental impact of transporting credit cards, pins and statements to customers. 453k customers were on a cardless product as at the year end (2021: 338k), and we intend this to grow in future years.

Launched in 2022 in partnership with Cogo, the carbon management experts, we are proud to also be one of the first credit providers to offer carbon footprint insights on selected brands. Cogo's carbon footprint feature shows customers the impact of their spending to help build carbon literacy and in turn, create positive change. We continue to consider the impact on the environment as part of our new product launches. When developing the new John Lewis & Partners proposition, we agreed that the plastic card issued to customers should be recyclable to reduce waste at the end of the card's life.

Governance in our supply chain

In 2022, we updated our Supplier Code of Conduct which outlines all the areas we expect our suppliers to adhere to across all aspects of ESG, including protecting the environment. Suppliers are required to actively reduce their carbon emissions and other negative environmental impacts and provide updates on progress toward this requirement. All suppliers must encourage the use of technologies and practices with reduced environmental impact. In addition, suppliers must engage in proactive environmental management by developing environmental policies, setting environmental objectives and targets that, as a minimum, include commitments to identify, measure and reduce significant environmental impacts. Our Supplier Code of Conduct, found on our website at **newday.co.uk**, positions our due diligence and contractual requirements in this regard.

Our Modern Slavery and Human Trafficking Statement is also available on our website at newday.co.uk

Case study

In-app carbon tracking

In 2022, we launched an in-app carbon footprint tracker on certain brands.

- This enhancement was colleague-driven and arose from our annual Hackathon
- In partnership with Cogo, the carbon management experts, customers can now see the carbon footprint of each transaction they make on their account
- We provide customers with email and in-app prompts that provides information on carbon footprint misconceptions and advice on how to lower their carbon footprint
- We plan to monitor customer engagement and reaction to this feature which will inform our strategy throughout 2023

Operating responsibly *continued*

Being an inclusive and diverse workplace

We have a strong culture which is guided by our purpose to help people move forward with credit.

Whilst we are guided by our purpose, we are powered by our people and driven by our values: 'do the right thing', 'pull together', 'aspire to extraordinary' and 'create tomorrow'. We believe that we can create exceptional experiences for our customers, our partners and our colleagues.

Our colleagues take the opportunity to give feedback on our culture in our engagement surveys. Engagement in 2022 remained high at 78% (2021: 80%), with NewWork flexible working, our purpose, our values and wellbeing being particular bright spots.

Staying flexible

We listen to our colleagues as we navigate a world that is changing constantly. Our flexible approach to office and remote working, NewWork, is well received with 93% (2021: 90%) of colleagues saying that they value the work-life balance that it helps them to create.

We believe that our office space sparks the collaboration and networking that powers our business. We offer every colleague in our offices complimentary healthy food and throughout the day our breakout areas hum with activity and conversation as colleagues take the opportunity to connect and work together.

Staying well and healthy

88% (2021: 88%) of our colleagues agree that we support each other well through change, a sign of a strong, healthy and resilient culture.

We know that open and regular communication about mental and physical health is critical when people are dealing with change. In 2022, we provided neurodiversity awareness training for managers. We also added new benefits including Bupa dental cover and health booths in both our London and Leeds offices. Every colleague continues to have unlimited access to the Calm meditation and wellness app.

We run regular events and campaigns to explore and support mental and physical health, making it easy for colleagues to take part in on-site health checks, flu vaccinations and massages – as well as getting access to a 24/7 virtual GP service and a wide-ranging Employee Assistance Programme. Wellbeing is now an established conversation in our business, and we regularly invite expert speakers to talk about tools and perspectives that can offer support. Additionally, on World Mental Health Day our mental health first aiders took part in a panel discussion to raise awareness of mental wellbeing and to encourage colleagues to contact them if they need to.

We monitor the wellbeing of our colleagues in our bi-annual surveys, with 82% (2021: 83%) agreeing that their manager checks in on their wellbeing and health, and 83% (2021: 83%) saying that NewDay supports their wellbeing and health.

> "In my experience at NewDay there are always people supporting you, no matter what the challenge is."
>
> *Dave Mann*
> Senior Marketing Manager

> "I told NewDay about my disability as soon as I joined. I'd like everyone to find it easy to disclose a need. I feel very welcome here."
>
> *Suman Roy*
> Senior Android Developer

Inclusion powers our performance
Belonging is important for wellbeing and performance. We want to create a company where everyone at NewDay is valued, feels that they belong and can contribute.

Inclusion is measured through our inclusion and diversity (I&D) index, which reached 82% in 2022 (2021: 83%). This positive score is a testament to the energy and commitment to creating an inclusive culture at NewDay. In 2022, our I&D agenda focused on the topics that are important to our colleagues. Our Inspirational Speaker Series tackled a number of themes head on, with a focus on accessibility, gender balance, disability and black history.

As at 31 December 2022, the proportion of our 1,397 colleagues (2021: 1,183) that identified as female was as follows:

	2022 females	2021 Females
Colleagues	**47%**	48%
Management Committee, Directors and Heads of functions	**27%**	30%
Management Committee	**13%**	13%
Board	**17%**	18%

Our Gender Pay Gap report is published on our website at **newday.co.uk**.

Investing in talent
We support colleagues to develop themselves and direct their own learning and growth, with the support of their manager, at whatever career stage they are starting from.

Our approach is to deliver learning experiences through an in-house team of learning experts, increasingly through innovative e-learning, as well as leveraging external subject matter expertise as we partner with business teams to develop specialist technical subject matter skills.

In 2022, we accelerated the roll-out of our leader100 programme. This programme provides tailored leadership development to our top 100 leaders ensuring that they have the necessary skills to both drive our business and take on new and larger opportunities as they arise.

We are proud that 30% of colleagues moved into a new role in NewDay over the course of the year. Our ability to retain and develop key talent is a competitive advantage that helps us to keep moving our business forward.

"My manager is very open to ideas from the team. We started talking about progression into a data science role, based on my development goals and the skills that NewDay was investing in. Support like this really helps when you're stretching yourself to grow."

Alina Podkovkina
Data Scientist

Managing our risk

"Effective risk management has enabled us to successfully navigate through recent increasing economic uncertainty and positions our business well for any further volatility in 2023 and beyond.

Our embedded risk management framework is focused on oversight, challenge and control. This enables us to responsibly say "yes" to more customers and help people move forward with credit."

Mark Eyre
Chief Risk Officer

Our business is a fast-paced environment and our risk strategy needs to be agile to support the business in responsibly saying "yes" to more customers. Our principle-led risk strategy enables us to remain dynamic and responsive to the needs of the business and our customers, and has been a key enabler to effective risk management.

We remain alert to the constantly evolving environment in which we operate. Economic uncertainty is expected to continue into 2023 and our customers are expected to come under increasing affordability pressures. Our aim is to ensure our risk management processes adapt accordingly to the prevailing economic environment so that we can build strong foundations which will allow us to provide the necessary support to our customers to help see them through these uncertain times.

In 2022, we continued to enhance our risk processes. One area of focus was operational resilience. This enabled us to identify and assess risks within our operating model to facilitate more effective risk management. As we continue to build and enhance our digital capability, there becomes more complexity in our internal and third party services. Effective operational resilience helps us maintain excellent levels of service and is key to ensuring we continue to deliver for our customers and our retail partners.

We also remain especially alert to the threat that comes with our digital-first operating model, particularly with respect to critical third parties who provide industry-wide support and also the risk arising from state-supported cyber threats on technology infrastructure.

Our risk management framework

We manage our risks using our risk management framework which has been developed in line with the evolving complexity of the business and is scalable for future growth. It is delivered through our three lines operating model which ensures:

- appropriate ownership within the business (first line of defence);
- independent oversight and assurance provided to the Executive Committee and the Board by the Enterprise Risk team (second line of defence); and
- additional assurance provided to the Board by internal audit (third line of defence).

Our risk management framework is embedded within our corporate governance structure and has a strong emphasis on effective oversight, challenge and control. There are five sub-frameworks underpinning the overarching frameworks for credit risk, conduct risk, operational risk, financial risk and liquidity, funding and cash management.

Risk management framework

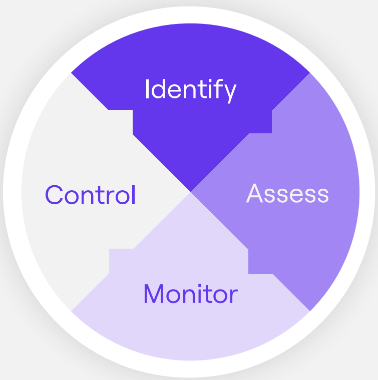
Culture and risk strategy

Risk appetite

Governance and accountability

Risk process and methodologies

Risk management



- Risk assessment framework factor
- Quantitative modelling
- Change management (including new products and channels)
- Risk aggregation
- Risk reporting

Risk data and systems

External risk factors

Validation

Managing our risk *continued*

Our risk management strategy is principle-based

Our strategy for managing risk is developed and informed by considering several key aspects. Our purpose, values and manifesto significantly shape our approach to risk. We set risk appetite thresholds to ensure that the business' strategy is delivered in a sustainable and responsible way. Our risk strategy is articulated in the following five guiding principles.

Simple

It is important to execute the basics of the discipline to a high standard and meet all statutory requirements, whilst recognising that in a company of our size, scale and complexity keeping the approach simple and effective is key (seeking only to add sophistication and depth where there is incremental value in doing so).

Proportionate

The risk management approach enables the organisation to recognise and understand the risks it faces and then prioritise and manage the risks it wants to take in pursuit of commercial goals.

Embedded

Managing risk is important in delivering against our purpose, values and meeting our business objectives. It is considered an integral part of business planning, service delivery, key decision-making processes, and project and partnership governance.

Enabling

We seek to have the right skills and resources in place in order to fulfil the requirements of approved policies, frameworks and standards.

Dynamic

We anticipate and respond to emerging risks; cognisant of both internal and external influences. We are dynamic in our approach and mentality so that we can be effective at optimising risk in a changing operating environment.

Our risk governance structure provides clear accountability

Our Board is accountable for the overall risk management and ensures the risk management framework is aligned to our risk appetite and strategy.

The Board delegates responsibility for risk management oversight to the Board Risk Committee, who are informed by risk and controls reporting and use quantitative and qualitative measures to monitor and challenge performance.

Our risk appetite

We use our four risk pillars to underpin the delivery of our strategic objectives and to define our risk appetite statements.

Our risk appetite statements are reviewed annually and approved by the Board and they are the link between business strategy and the management of risk through the risk management framework. The statements are cascaded down into and applied to their component parts, including risk appetite objectives, metrics and triggers. This enables the risk appetite to inform day-to-day decision-making.

Risk appetite measures are monitored monthly by the relevant risk committees and in totality by the Enterprise Risk Management Committee and the Board Risk Committee, with appropriate actions being taken where agreed thresholds have been breached. Risk appetite thresholds are reviewed at least annually to ensure the business strategy is delivered in a sustainable and responsible way. Risk appetite is also considered as part of the business planning process and reflects our latest commercial, economic and regulatory thinking.

Board governance

Board

Board Risk Committee[1]

Our committees provide ongoing governance

Management Committee

Day-to-day management of the business is the responsibility of the Management Committee, chaired by our Chief Executive Officer. The Management Committee has delegated authority from the Board to make decisions on risk matters within the agreed risk management framework. The Chief Executive Officer also implements the decisions made and policies approved by the Board and deals with matters arising within the ordinary course of business.

Enterprise Risk Management Committee

This committee is responsible for reviewing and reporting on key internal and external risks faced by NewDay, and when necessary, make recommendations to Board Risk Committee for ratification. Reporting to the Chief Executive Officer and Board Risk Committee, the Chief Risk Officer leads the Enterprise Risk function and chairs the Enterprise Risk Management Committee.

Business Committees

Business level risk committees provide management with a structure to ensure appropriate focus is applied to the oversight and management of specific risk types: macroeconomic risk; credit risk; regulatory risk; operational risk; conduct risk; financial risk; and market risk. Strategic risk is managed by the Management Committee.

Our four risk pillars underpin the delivery of our strategic objectives

Credit risk

Our credit appetite ensures we originate and manage customer receivables with a risk and reward balance in line with the Group's financial and strategic objectives, whilst also ensuring an appropriate expected credit loss allowance is recorded.

Financial strength

We maintain a strong financial position by managing profitability and cash generation. This is achieved by ensuring that financial strength and liquidity are maintained at levels that reflect our desired financial profile, whilst complying with funding covenants and regulatory requirements. This will apply for planned growth in normal conditions and navigating stressed environments.

Operational performance (includes operational risk)

We fulfil our business commitments through systems and processes that are appropriately controlled, scalable, cost-effective and comply with applicable external and internal rules, laws and regulations. This includes having the right number of skilled, motivated people in place and developing and retaining talent. We seek to have appropriate oversight, challenge and governance in place over planned changes.

Business conduct (includes legal, regulatory and conduct risk)

We treat our customers fairly and to ensure that they remain at the heart of everything we do. We work to ensure that our customers do not suffer detrimental outcomes as a result of our product design or sales or post-sales processes, correcting identified errors. Our customer-focused ethos is embedded within the governance and culture of the organisation.

1 The Board Audit Committee and Board Remuneration and Nomination Committee also form part of the risk governance structure in relation to specific risks within their remit as defined in their terms of reference.

Our principal risks

Our principal risks have been under regular review by the Board and the Board Risk Committee throughout 2022. These risks can influence how we achieve our strategic objectives. We focus on those risks that pose the greatest threats to our business and the achievement of our objectives.

Principal risk | **Link to our values** | **2022 performance**

Strategic risk

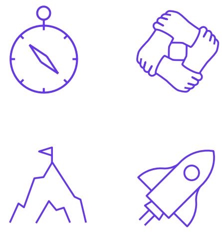
(Responsibility: Chief Executive Officer)

Adverse impacts because of a sub-optimal business strategy or business model.

Example

- A sub-optimal strategy or model could give rise to financial loss, reputational damage or failure to meet internal and/or public policy objectives.

Link to our values



2022 performance

- John Lewis & Partners programmed launched.
- Signed first platform-as-a-service client.
- Growth of *Newpay 1:Many*, including launch with The Hut Group.
- Migration of customers to *Pulse* from terminated Amazon partnership.
- Product upgrades launched, including *Aqua Gold*.
- Launched our loan origination business in partnership with a third party funder.
- First standalone Sustainability Report published and ESG strategy and policies developed.

Macroeconomic risk

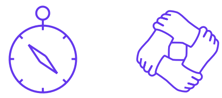
(Responsibility: Chief Credit and Collections Officer)

Adverse movements in economic trends in the UK cause detrimental effects on the anticipated returns and business strategy of the Group.

Examples

- An economic downturn may lead to higher unemployment or a retail partner insolvency which may impact future financial returns and/or interrupt growth strategies.
- A significant increase in the impairment charge may result from a macroeconomic downturn.
- Cost-of-living pressures may impact customers' disposable income and lead to credit loss.

Link to our values



2022 performance

- Monthly tracking of macroeconomic dashboards including portfolio specific dashboards tracked monthly in our committees.
- Credit, affordability and growth strategies influenced by the macroeconomic forecasts and the rising cost of living.
- Quarterly macroeconomic panel meetings augmented with intra-quarter reviews.
- Regular engagement with external economists to review the macroeconomic environment.

Our values

Do the right thing

Pull together

Aspire to extraordinary

Create tomorrow

How we are mitigating this risk	Where next?
• Management Committee overseeing strategic risks. • Continuing pursuit of business development strategy and diversification through new partners. • Diversifying through online partners. • Working with partners to expand our presence online. • Business strategy and annual/dynamic review process. • Group budgets defined, allocated and monitored to align with strategic objectives. • Aligning risk appetite with strategic objectives and business planning. • Monitoring publicly available information and other gathered information with regard to trading performance of retail partners.	• Expand new capabilities across the Direct to Customer portfolio and expand our Merchant Offering business by signing and launching new retail partners. • Continue to pursue clients and develop opportunities for our platform-as-a-service business. • Enhance our customer-facing web and mobile app capabilities as well as in-house agent servicing functionality. • Further develop our ESG agenda, with increased focus on sustainable procurement.
• Tightening of credit and affordability appetite for new originations and for existing customer credit limit increases in response to the challenging economic environment. • Performing regular impact assessments and stress scenarios with predetermined mitigating actions. • Macroeconomic panel meeting on a quarterly basis to review and agree stress scenarios, and consider the latest economic forecasts to inform business planning in response. • Business strategy and annual review process aligns risk appetite to the budgeting process and strategic objectives. • Macroeconomic dashboards monitoring and refined in response to cost-of-living impacts. • Diversification of Merchant Offering partners and product offerings. • Ability to deploy multiple levers from new business growth, customer credit limit management and cost controls.	• Continue to refine our approaches where needed and continue to monitor the external environment closely, with particular attention to the ongoing cost-of-living impact and government assistance. • Invest strategically in Open Banking solutions to further enhance our affordability decisions for new and existing customer lending.

Our principal risks *continued*

Principal risk | **Link to our values** | **2022 performance**

Credit risk

(Responsibility: Chief Credit and Collections Officer)

Unexpected losses as a result of customers failing to meet their obligations to repay.

Examples

Credit risk losses deviating from expectations because of:

- ineffective models or scorecards;
- forecasting models not in line with business processes;
- poorly designed decisioning strategies;
- collections strategies not working as intended;
- failure to resource collections effectively and/or weak collections processes;
- lower prices within the debt sale market; and
- increase in fraud losses due to third party fraudulent attacks.

2022 performance

- Underlying credit performance has remained strong across all portfolios with metrics starting to normalise to pre-pandemic levels.
- Group ECL allowance coverage of gross receivables decreased to 13.8% (2021: 17.3%).
- New customer management models implemented in 2022.
- Improved management and customer outcomes delivered for vulnerable customers.
- Additional early interventions implemented for customers at risk of financial difficulty.
- Customer outcomes of payment deferrals have remained stable, with continued low breakage rates and encouraging voice of customer feedback.

Regulatory risk

(Responsibility: Chief Commercial Officer)

Change in laws or regulations governing the Group and/or failure to comply with legal or regulatory requirements.

Examples

- Significant alterations to the business model because of changes in the law or regulations may have a material impact on the performance and profitability of the business.
- Non-compliance with laws or regulation could lead to reputational damage, enforcement action and/or financial loss.
- Litigation and other adversarial actions in the ordinary course of business.

2022 performance

- PSD2 eCommerce, eServicing and contactless card requirements delivered.
- Delivered enhanced Persistent Debt strategy ensuring consumers have choice over their repayment options.
- Self-evaluation against Consumer Duty expectations and developed implementation plans.
- Reviewed regulatory publications and consultation papers, including Diversity in Financial Services, Appointed Representatives, Hybrid Working, Borrowers in Financial Difficulty, Statutory Debt Repayment Plan, CIMS Interim Report and Operational Resilience.
- Extended Tailored Support Guidance to support customers affected by the rising cost of living.

How we are mitigating this risk	Where next?
• Tightening of credit and affordability appetite for new originations and for existing customer credit limit increases in response to the challenging economic environment. • Macroeconomic environment and risk appetite monitoring by the Credit Risk Committee, Management Committee and Board. • Investing significantly in data science capabilities with new origination and customer management models deployed which leverage leading-edge credit reference agency data. • Regularly monitoring impairment performance with constant reviews of reported ECL allowances. • Regularly enhancing application fraud systems, new customer authentication processes and fraud prevention strategies. • Daily performance monitoring of credit and collections strategies. • The ability to test multiple challenger strategies, and validate outcomes, at short notice. • Focusing on collections operations performance to ensure customers' needs are met and the right outcomes are being achieved. • Credit Risk Committee overseeing the execution of the credit risk management framework. • Regularly reviewing the effectiveness of credit risk strategies, policies and procedures.	• Continue to mature the credit risk management framework, enhancing our capability to deliver improvements to our models and credit decisioning strategies. • Follow our NewGen model roadmap to develop further new generation models across our entire lending cycle, including a new AI-based robot in collections that will self-learn how to optimise our contact strategy. • Consider new strategic solutions for fraud management including machine-learning capability and behavioural biometric solutions. • Redevelop our agent-based collections platform, NewResolve, as part of our collections transformation strategy and continue to invest in providing digital, self-serve journeys for customers to access the support they need online if that is their channel preference. • Improve outcomes for our customers and engagement strategies for customers in financial difficulties, as well as enhance our early intervention strategies to help customers who might be at risk of financial difficulty. • Further improve the identification and management of vulnerable customers, including the launch of a new vulnerable customer support service. • Enhance our IFRS 9 ECL model. • Invest strategically in Open Banking solutions to further enhance our affordability decisions for new and existing customer lending.
• Enterprise Risk Management Committee monitoring the impacts and costs of regulatory change and ability to enact and respond to them. • Monitoring of regulatory radar for upcoming regulatory developments and external horizon scanning cascaded internally. • Responding to consultation papers both directly to regulators and via trade bodies, engaging with policy makers and industry stakeholders. • Reviewing policies and procedures to remain up to date, compliant and adhered to and to ensure that appropriate processes and controls are in place. • Ongoing monitoring and standardised reporting to FCA on Persistent Debt outcomes.	• Continue to focus on the regulatory and legislative environment, managing change for regulatory and legislative driven initiatives. • Finalise preparations for Consumer Duty. • Conclude delivery of the objectives of the vulnerability working group. • Consider potential impact of regulatory changes in relation to BNPL, CIMS Interim Report, Borrowers in Financial Difficulty, Diversity in Financial Services, Financial Services and Markets Bill and Consumer Credit Act Reform. • Evaluate any changing requirements as a result of the new Data Protection and Digital Information Bill.

Our principal risks *continued*

Principal risk | **Link to our values** | **2022 performance**

Operational risk

(Responsibility: Chief Operating Officer)

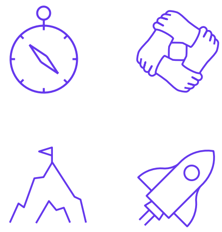
Inadequate or failed internal processes, people and systems, or from external events including internal and first party fraud.

Examples

Reputational damage, regulatory censure and/or financial loss could arise from:

- cyber attacks;
- pandemics;
- loss of customer data;
- inaccurate or incomplete customer data;
- internal and first party fraud;
- work stoppages or strikes from unionised employees;
- human errors in manual processes;
- lack of suitably skilled resources or system failures at third parties; or
- negative attention or news in the industry we operate in.

Link to our values



2022 performance

- Operational resilience self-assessment completed in line with regulatory requirements.
- Operational resilience policy, framework and regular reporting defined.
- Improvements in cyber security, including secure engineering practices, strengthened access management for applications and increasing awareness initiatives.
- Relevant entities in the Group achieved ISO 27001 certification.
- Re-designed supplier onboarding process improving efficiency and proportionate risk management.
- Re-engineered Open Banking platform.
- Implemented inventory to capture and risk assess EUDs (end user developed applications).
- Progressed leader100 development programme and reviewed people acquisition and management operating models, including employee value propositions.

Conduct risk

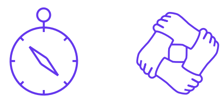
(Responsibility: Chief Commercial Officer)

Customer harm arising from inappropriate culture, products, governance and processes.

Example

- NewDay or its strategic partners experiencing issues with poorly defined and managed controls, culture and/or governance could cause customer detriment and in turn this could lead to financial loss, affect reputation and give rise to regulatory censure.

Link to our values



2022 performance

- Refreshed vulnerable customer policy and training.
- Signed-up to The Support Hub run by Experian and developed vulnerability inclusion playbook.
- Concluded PPI annual statement remediation, receiving CMA confirmation that they were content with the actions taken.
- Implemented an enhanced conduct risk management framework and dashboard.
- Improved training and awareness across the Company.
- Managed incidents and remediated where necessary to avoid any customer detriment.

How we are mitigating this risk	Where next?
• Operational Risk Committee overseeing control frameworks in relation to information security, operational resilience, data governance, people and supplier management. • Operational resilience scenario testing, validating existing resilience capabilities across systems and processes, driving continuous improvement to our key business services. • Investing in a dedicated function to oversee NewDay's response to the Operational Resilience regulation. • IT general controls including physical security, penetration testing and cyber security. • Supplier management framework enables consistent and proportionate management of suppliers based on their risk classification. • Dedicated product teams ensuring effective prioritisation of developments and updates to ensure long-term viability, stability and resilience. • Change governance and dedicated project management resources. • Firm-wide identification and risk assessment of in-house built and/or configured applications and appropriate control alignment. • Recruitment, remuneration and performance management.	• Continue to develop our resilience capability, informed by scenario testing, incidents and risk control self-assessment. We will use the Operational Resilience regulation as an enabler to better understand business services, their component parts and interdependencies. • Continue to monitor and adapt to the ever-changing threat from cyber activity and continue to invest in secure architecture and configuration. • Run a programme to deliver changes for the new PCI Data Security standards. • Continue to enhance our customer digital journeys. • Further strengthen our in-house development capabilities and deliver on business priorities. • Enhance management over our data including mapping data linage, validation of data quality and proactive monitoring of all applications through identification of local and centrally controlled systems together with assigned ownership.
• Conduct and Complaints Risk Committee overseeing our conduct risk management framework. • Our company purpose, helping people move forward with credit. • Our manifesto, values, and investment in colleague training, together with key management communications support Company standards and the customer outcomes we aim to achieve. • New product approval committee. • Retail partner monitoring and relationship management. • Continuing to focus on agent recruitment, retention, training and performance management and reward in light of changing ways of working. • Monitoring the effectiveness of policies and processes for vulnerable customers. • Reviewing responsible lending and affordability across the Group and reviewing past and current affordability processes undertaken in order to determine any systemic issues and/or adversely impacted customers. • Monitoring emerging new sources of complaints from individuals and claims management companies, continuing to enhance processes and management of complaints.	• Maintain our focus on responsible lending and customer outcomes and continue to ensure that our marketing and complaints processes deliver effectively for the customer and are aligned with the expectations of Consumer Duty. • Review regularly affordability. • Look at customers' behaviour patterns and in particular how they access credit and their understanding of how to manage their credit account. • Deliver ongoing enhancements in the support of vulnerable customers. • Introduce further support to customers to help them be better with credit by giving them greater visibility of the impacts of their credit behaviour, including the roll-out of more features in *Aqua Coach* and carbon tracking.

Our principal risks *continued*

Principal risk | **Link to our values** | **2022 performance**

Financial risk

(Responsibility: Chief Financial Officer)

Inaccuracies in financial and management reporting and/or inadequate management of liquidity, funding and cash.

Examples
Reputational damage, financial loss and/or withdrawal of funding could arise from:
- misstatement of external reporting (annual and quarterly reports and financial statements, bank submissions, regulatory reports or securitisation reports);
- misstatement of information for internal decision-making;
- commingling of collections delaying or reducing securitisation funding;
- non-compliance with tax regulations; or
- incorrect payments to third parties.

Operational cash ensures that the Group can implement its business plan under normal conditions and within the Board's agreed cash risk profile. Insufficient cash could impact the Group's ability to meet ongoing financial commitments, invest in new business or pay debt interest. Insufficient funding for receivables would impact the Group's ability to support customer spending and receivables growth.

2022 performance
- £110m statutory profit before tax and £203m underlying profit before tax.
- £152m of free cash flow available for Senior Secured Debt servicing.
- As at the year end, a cash balance of £382m and £60m of cash held outside of the securitisation structures.
- Refinanced all maturing asset-backed securities.
- Completed an Exchange Offer reducing the outstanding Senior Secured Notes to £299m of which £238m will not mature until December 2026.
- Funding facility headroom of £1.4bn as at the year end to fund receivables growth.

Market risk

(Responsibility: Chief Financial Officer)

Although our business is not exposed to trading risk, we are exposed to market risk naturally through the accessing of financial markets in its sources of funding, and our resultant exposure to markets, currencies and interest rates. Where appropriate we seek to hedge those risks.

Examples
- Interest rate movements expose NewDay to the risk of increased cost of funding.
- Increased funding costs and/or not meeting funding requirements could result in higher than anticipated costs, deleveraging and/or scaling back of business growth.

2022 performance
- 2022 funding strategy executed, achieving further diversification and increasing our securitisation funding.
- Completed an Exchange Offer reducing the outstanding Senior Secured Notes to £299m of which £238m will not mature until December 2026.
- Executed interest swaps to fix the rate on £756m notional debt to protect against further rises in base rates.

How we are mitigating this risk	Where next?
• Executing funding deals and deals extended where appropriate. • Monitoring levels of cash held to ensure the business met its current and future requirements. • Revising forecasts and stress tests prepared taking into account the market and macroeconomic changes. • Annual completion of stress scenario analysis. • Reassessing risk appetite measures and gaining approval of the Board. • Daily cash reports and forecasts of the Group's daily cash balance. • Monitoring of funding triggers to ensure all requirements met. • Contingency funding plan triggers monitoring by the Asset and Liability Committee. • Financial control framework governing processes and procedures across Finance. • First, second and third line of defence governance structure.	• Perform regular reforecasting of financial performance, including funding covenants and cash liquidity. • Continue to develop effective and proportionate scenario stress tests regularly throughout the year. • Enhance our securitisation reporting to improve control and reduce manual input.
• Reducing the direct financial risk by having the ability to pass on base rate changes to customers. • Having the ability to extend the maturity of all asset-backed term debt by one year (where not already executed on specific bonds). • Executing our funding strategy and improving VFN flexibility and capacity. • Having headroom on funding facilities to fund future receivables growth. • Monthly monitoring of hedging-related risks through our Assets and Liabilities Committee.	• Include further diversification in our funding strategy and increase our securitisation funding. • Review the levels of interest rate exposure and take out further swaps if necessary.

Our principal risks *continued*

Emerging risks

Emerging risks are those risks we are thoughtful about which may materialise and have potential to significantly impact the delivery of our strategy. Emerging risks are continually reassessed and reviewed through horizon scanning and are escalated to the Board for consideration alongside our principal risks.

We have identified the following emerging risks moving forward into 2023.

Macroeconomic risk

Turbulent changes in the UK Government have resulted in macroeconomic instability, with a difficult combination of both increasing interest rates and spiralling inflation both forecasted to continue into 2023. Further increases in interest rates are expected and will continue to impact the growing cost of living. Income shocks are likely to occur for both mortgage holders and renters in the private sector due to increased mortgage costs which is likely to impact credit losses.

Regulatory risk

Changes to the regulatory environment continue to pose a risk to NewDay as we ensure timely reaction to any new or amended regulation to ensure lending continues to be undertaken in a compliant and customer-focused manner. Failure to comply could result in the imposition of regulatory fines or the loss of our regulatory permissions to enter into new lending. The FCA is required under the Financial Services Act 2021 to introduce a Consumer Duty; a new duty of care for financial services firms and individuals. This is due to be implemented by July 2023.

Chairman's introduction to corporate governance

"Our business has a strong, embedded governance framework that is designed to ensure we are able to take the right decisions across the organisation to navigate the current economic environment in a controlled and compliant manner protecting the interests of our stakeholders."

Sir Michael Rake
Chairman and Non-Executive Director

Whilst the economic environment continues to give rise to considerable uncertainty, our well-established governance framework has ensured that all stakeholder interests have been protected with appropriate oversight at Board level. This is actively endorsed by Cinven, CVC and all members of management.

Whilst no significant changes have been made to our strong governance framework during 2022, the Board continues to monitor governance arrangements to ensure they remain fit for purpose and reflect the size and ambition of the Group.

During the year, the Board took a number of key decisions. The principal governance matters addressed in 2022 are detailed below.

- Closely monitored economic developments to ensure the Group responded appropriately. This included (i) ensuring appropriate support for those customers who may be struggling as a result of cost-of-living pressures, (ii) tightening credit underwriting to carefully manage risk in a more challenging economic environment and (iii) maintaining appropriate levels of funding.
- Reviewed our strategy to ensure it is fit for purpose and the Group is well-positioned for growth in 2023 and beyond.
- Approved the Group's new partnership with John Lewis & Partners and monitored progress to ensure positive customer outcomes.
- Took the decision to proceed with the launch of our unsecured personal loans origination business through our agreement with Antelope Loans.
- Approved the refinancing of the Group's Senior Secured Notes by way of an Exchange Offer as a result of which the total outstanding Senior Secured Notes reduced to £299m of which £238m will not mature until December 2026.
- Continued to invest in our strategic technology journey to ensure we are well-positioned to deliver our vision to be the leading digitally enabled UK consumer finance provider.
- Monitored the launch of our *Pulse* Mastercard and the migration of certain customers from the associated portfolios.
- Regularly reviewed customer outcomes and progress against our manifesto.
- Reviewed the results from our bi-annual employee surveys to understand views from colleagues and ensure they are engaged and motivated.
- Closely monitored regulatory developments (in particular, the FCA's Consumer Duty) to ensure we are aware of matters on the regulatory horizon and are adequately prepared for them.

On 25 February 2022, we welcomed Dr Javed Khan OBE to the Board as an Independent Non-Executive Director. Javed has significant experience in executive leadership roles, has served on a wide range of boards in a non-executive capacity and has worked on high profile appointments for the UK government. Javed is already helping to drive forward our ESG agenda.

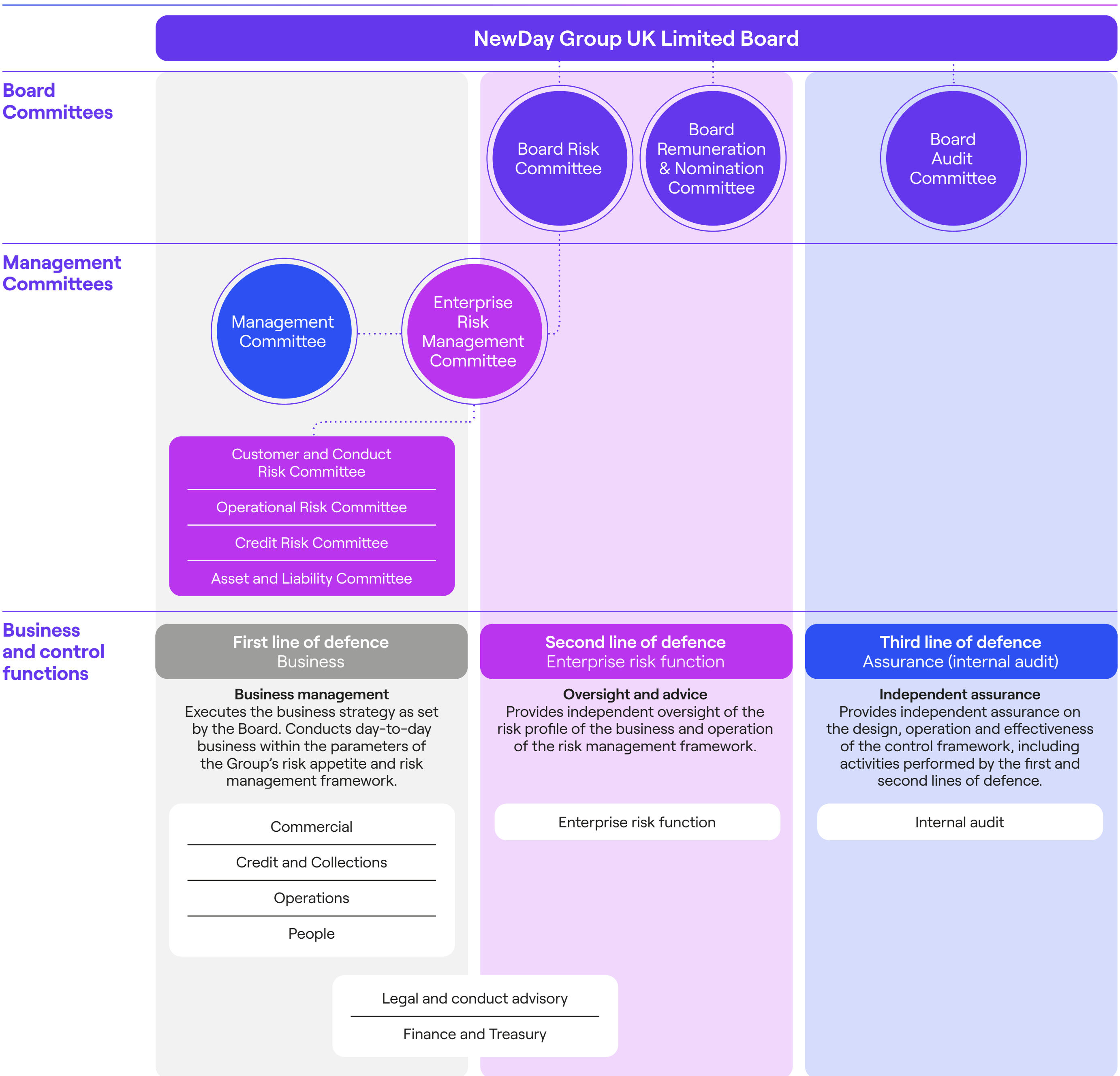
On 31 December 2022, we welcomed Alex Lelekov to the Board as an Investor Director from CVC Capital Partners, replacing Pev Hooper who resigned on the same date. Alex brings a wealth of experience to the Board and is a Director in the Financial Services team at CVC Capital Partners.

Chairman's introduction to corporate governance *continued*

Governance framework

During 2022, the commercial aspects of the Group's UK subsidiaries were managed by the Board of NewDay Group UK Limited (the Board), a wholly owned subsidiary of NewDay Group (Jersey) Limited, the Jersey-based parent Company.

The Directors of NewDay Group (Jersey) Limited were responsible for the matters relating to NewDay Group (Jersey) Limited and their report for the year is set out on page 76. In addition, the Managers of NewDay Group Holdings S.à r.l. (the parent company of the Predecessor Group) remain responsible for matters relating to NewDay Group Holdings S.à r.l.



Other than as set out on pages 76 and 77, the governance and risk framework described in this report relates to the governance and risk framework established for the Group's UK subsidiaries and references to the 'Board', 'Group', 'NewDay' and 'Company' should be construed accordingly (where appropriate).

The Board's role and composition are regularly reviewed to ensure that they are well defined and appropriate, and support the long-term development of the Group.

The day-to-day responsibility for managing the Group's business is delegated to the Chief Executive Officer who, supported by the Management Committee, implements the decisions and policies approved by the Board and deals with matters within the ordinary course of business.

For the year ended 31 December 2022, the Board has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) and available on the FRC's website) (the 'Wates Principles'). In addition, the Group complies with: (i) the FRC's UK Corporate Governance Code (which can also be found on the FRC's website) where deemed appropriate taking account of the size, nature and share ownership structure of the Group; and (ii) the Guidelines for Disclosure and Transparency in Private Equity, which can be found online at www.privateequityreportinggroup.co.uk.

A summary of how the Group has complied with the Wates Principles is set out below.

Principle 1

An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

- We believe in credit as a force for good. Our purpose is to help people move forward with credit. This is at the heart of everything we do and is supported by our manifesto. Detailed disclosures regarding our manifesto and strategy can be found on pages 02 and 12.

Principle 2

Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual Directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the company.

- We have a highly experienced Board with a diverse range of skills and experience reflecting the needs of the business. Board biographies can be found on pages 60 to 62. Details on how the Board operates, together with further details on its composition and committee structure, can be found on pages 64 and 58.

Principle 3

The Board and individual Directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.

- The Board executes its responsibilities through its own decision-making and by delegating responsibility to Board committees and to the Chief Executive Officer, with support from the Management Committee. Responsibilities are appropriately defined in terms of reference to ensure there are clear lines of accountability between the Board and the other committees. Further details on: (i) the Group's committee structure and their responsibilities can be found on page 58; and (ii) how our Board operates can be found on page 64.

Principle 4

A Board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

- The Board meets regularly to review strategic opportunities including through the annual strategy process culminating in the Board's annual strategy day. The Board drives a technology agenda to enhance digital capabilities to create value. The Board also receives regular ESG updates to ensure success is delivered in a sustainable manner, see pages 16 and 38 for further details.
- The Board Risk Committee ensures risks are identified and managed appropriately. Further details can be found on page 72.

Principle 5

A Board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

- The Board Remuneration and Nomination Committee oversees our remuneration policy with the aim of ensuring the long-term health and success of the Group. Further details can be on page 74.

Principle 6

Directors should foster effective stakeholder relationships aligned to the company's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

- We are committed to ensuring we maintain strong relationships with all stakeholders (including employees) and actively engage with them on an ongoing basis. Further details are provided on page 36.

Board of Directors

Sir Michael Rake
Chairman, Independent Non-Executive Director and member of the Board Remuneration and Nomination Committee

Appointed – May 2018

Sir Michael is currently chairman of Wireless Logic Ltd, Phoenix Global Resources plc and Majid Al Futtaim Holdings LLC. He is also chairman of Great Ormond Street Hospital and a Vice President of the RNIB.

He has previously been chairman of BT plc, Worldpay plc, EasyJet plc, KPMG (UK and International), deputy chairman of Barclays Bank plc and a director of the Financial Reporting Council (FRC). He has been a director of S&P Global Inc and lead director of Worldpay Inc (now FIS). He has been a senior advisor to Chatham House, a member of the Oxford University global board for business reputation and a William Pitt fellow at Pembroke College Cambridge. He has been president of the CBI, a member of Prime Minister David Cameron's Business Advisory council and chairman of the International Chairman of Commerce (UK). He was a member of Prime Minister Gordon Brown's National Security Forum, the first chairman of the Commission for Employment and Skills and the first chairman of the Private Equity Oversight group. He has also been chairman of Business in the Community (BITC), Blueprint for Better Business and a director of the Prince's Charitable Foundation.

John Hourican
Executive Director, Chief Executive Officer and member of the Board Remuneration and Nomination Committee

Appointed – October 2019

John has over 30 years of global financial services experience. He began his career at Price Waterhouse working in Dublin, Hong Kong and London before moving to Royal Bank of Scotland in 1997. He served as Chief Executive of the Group's Investment Bank (Markets & International Banking) for five years. Between 2013 and 2019 John served as CEO of Bank of Cyprus, the largest banking and financial services group in Cyprus. During his tenure, John reshaped the business, re-established its deposit base, improved the quality of its loan book and strengthened its financial position. He was named Euromoney's Banker of the Year in 2015 and is a fellow of the Institute of Chartered Accountants in Ireland.

Paul Sheriff
Executive Director and Chief Financial Officer

Appointed – June 2016 (joined NewDay in January 2016)

Paul has over 20 years of experience in financial services organisations spanning banking, asset management and insurance. Paul joined from Legatum, a private investment firm based in Dubai where he was CFO/COO for three years, having previously been CFO/COO of Record plc, a main market listed asset management business. Prior to this, he was Group Finance Director at Arbuthnot Banking Group plc, a listed banking group, and Commercial Finance Director of the Prudential's UK and European Business. Earlier in his career he spent five years in private equity and qualified as a Chartered Accountant with Arthur Andersen. He is a member of the Institute of Chartered Accountants in England and Wales.

Alison Reed
Senior Independent Non-Executive Director, Chair of the Board Audit Committee and Board Risk Committee

Appointed – October 2012

Alison is a Chartered Accountant with over 35 years of experience in retail, financial services, transport and technology. Alison spent 20 years at Marks and Spencer plc where she held senior management roles across the business, including as CFO from 2001 to 2005 where she played a key role in the 2004 bid defence. She was also CFO at Standard Life plc (including Standard Life Assurance Company) where she led the company's listing on the London Stock Exchange in 2006. Alison currently serves as a non-executive Director and Deputy Chairman of British Airways plc, a non-executive Director of CGI Inc. and as a member of council of Exeter University. She has served as a non-executive Director on the Board of Directors of several companies including HSBC Bank plc and Darty plc. Alison holds a Bachelor of Arts degree from Exeter University and qualified as a Chartered Accountant with Touche Ross in London.

Rupert Keeley
Independent Non-Executive Director, Chair of the Board Remuneration and Nomination Committee

Appointed – July 2014

Rupert has more than 40 years of banking and payments experience and was formerly EVP/GM for PayPal's business in EMEA including as CEO for PayPal Europe. Prior to PayPal, Rupert was Visa Inc.'s Group Executive and President of the Asia Pacific and CEMEA regions and a Section 16 Officer of the company. In his 11-year career with Visa, he held a number of management roles including President and CEO of Asia Pacific and Global Head of Strategy and Corporate Development. Prior to joining Visa in 1999, Rupert held senior management positions with Standard Chartered plc based in London, Singapore and the Middle East. Current external appointments include as a member of the Board of Directors of the Dubai Financial Services Authority and as a member of the Advisory Boards of Unzer GmbH in Germany and Team8 Fintech based in Israel.

Dr Javed Khan OBE
Independent Non-Executive Director

Appointed – February 2022

Javed is a leading figure in the UK public and voluntary sectors. He was CEO of the children's charity Barnardo's from 2014 to 2021, and of the charity Victim Support from 2010 to 2014. As well as holding other non-executive director roles, he is currently the chair of the Buckinghamshire, Oxfordshire & Berkshire West Integrated Care Board and a commissioner on the Law Family Commission on Civil Society. Javed is a Companion of the Chartered Management Institute and a former member of the Independent Grenfell Recovery Taskforce. He was also a Specialist Advisor to the Justice Select Committee's inquiry into prison reform. Javed was appointed an Officer of the Order of the British Empire in 2021 for services to young people and to education. He has a degree in mathematics and an honorary doctorate degree from the University of Salford, and an honorary doctorate degree from Birmingham City University.

James Corcoran
Non-Executive Director

Appointed – January 2009 (originally as Chief Executive Officer)

James Corcoran has over 30 years of global financial services experience with large multi-national companies, such as American Express, Citibank, HBOS and IBM. James began his career in sales and marketing, moving into general management where he has held various senior executive positions over the last 20 years. He has run credit card businesses for First USA/Bank One and Amex and at HBOS his final role was CEO of Distribution, Retail and Insurance Division. Prior to that, he was head of their Retail Product business units. James joined NewDay as CEO in January 2009 from Washington Mutual in Seattle, where he was President of the Retail Banking Division.

Caspar Berendsen
Investor Director (Cinven), member of the Board Risk Committee and Board Remuneration and Nomination Committee

Appointed – January 2017

Caspar is a Partner at Cinven and leads the Financial Services sector team and is co-head of the Strategic Financials Fund team. Caspar has extensive experience of investing across various financial services industries, including Avolon, Compre, Eurovita, Guardian Financial Services, Miller, Partnership Assurance, Premium Credit, True Potential and Viridium. Prior to this, Caspar worked at J.P. Morgan in London advising Dutch and Belgian clients across a variety of sectors. Caspar holds a MSc degree in Mining and Petroleum Engineering from the Technical University Delft, the Netherlands and graduated from the Erasmus University, Rotterdam with a Drs in Business Administration.

Board of Directors *continued*

Peter Rutland
Investor Director (CVC Capital Partners), member of the Board Risk Committee, Board Remuneration and Nomination Committee and Board Audit Committee

Appointed – January 2017

Peter is a Managing Partner at CVC and is Head of CVC's Financial Services Group. Prior to joining CVC in 2007, he worked for Advent International and Goldman Sachs in the Investment Banking Division. Peter holds an MA degree from the University of Cambridge and an MBA from INSEAD. Peter has led or been responsible for investments in Brit Insurance, Avolon, Skrill, Domestic & General, Pension Insurance Corporation, Paysafe, April Group, TMF Group and Riverstone International. He serves on the boards of a number of these portfolio companies, some of which are PRA/FCA regulated.

David Giroflier
Investor Director (Cinven), member of the Board Audit Committee

Appointed – May 2017

David is a Senior Principal at Cinven in the TMT sector team and the regional team for France. David has been involved in a number of transactions at Cinven, including ETC Group, MasMovil, Tractel, Viridium and Visma. Prior to joining Cinven, David worked in the Investment Banking division of HSBC Paris. David graduated from the HEC School of Management in Paris with an MSc in Business Administration.

Alex Lelekov
Investor Director (CVC Capital Partners)

Appointed – December 2022

Alex is a Director at CVC and a member of the Financial Services team. Alex has been involved in a number of transactions including Phoenix, Ethniki and Swissport. Prior to CVC, he worked at Centerbridge Partners focusing on financial services investing. Before that, Alex worked at Goldman Sachs in the Financial Services team. He graduated from the Finance University under the Government of the Russian Federation.

Rebecca Hunter
Investor Director (Cinven)

Appointed – March 2021

Rebecca is a Principal at Cinven in the Financial Services sector team. Rebecca has been involved in a number of transactions at Cinven, including JLA, Miller, Premium Credit and True Potential. Prior to joining Cinven, Rebecca worked at Lazard, focusing on M&A transactions across both the Financial Institutions and Industrials sectors. Rebecca graduated from Oxford University with a BA in Economics and Management.

Management Committee

Whilst the Board, among other things, directs the Group's strategy, the Management Committee supports the Chief Executive Officer in the management of the Group's day-to-day operations. The Management Committee comprises the Chief Executive Officer (who acts as Chair) and Chief Financial Officer together with the following individuals:

John Hourican
Chief Executive Officer

Paul Sheriff
Chief Financial Officer

Ian Corfield
Chief Commercial Officer

Ian joined NewDay in 2014 after six years at the Commonwealth Bank of Australia, where he was CEO and a board director of its majority owned Aussie Home Loans subsidiary, having previously been CEO of the retail and then business bank at Bankwest. Before moving to Australia, he was Managing Director of HBOS's credit card business.

Sanjay Sharma
Chief Operating Officer

Sanjay joined NewDay in 2013. He has nearly 30 years of experience in senior technology and operational roles in international and UK businesses working in India, the Philippines, London and Austria. He joined from BAWAG PSK in Vienna where he was Chief Operating Officer and a member of the Management Board.

Damaris Anderson-Supple
Chief People Officer

Damaris joined NewDay in 2013 to establish and lead the people team. Previously she had 20 years' experience in senior commercial leadership roles in the pharmaceutical industry. She joined from Hill and Knowlton, where she was Chief Operating Officer.

Mark Eyre
Chief Risk Officer

Mark joined NewDay in 2014 from Deloitte, where he was a Director in the Risk and Regulation practice, providing advisory support to financial services firms regarding risk management and regulation. Prior to this, he worked at Barclays for 17 years reporting to the Group Chief Risk Officer.

Rob Holt
Chief Credit and Collections Officer

Rob joined NewDay in 2012 from Santander UK where he held various leadership roles spanning Credit Risk, Collections, Commercial and Marketing Analytics. Prior to this, he worked for HBOS, Capital One and PwC in a career spanning over 20 years in financial services.

Stephen Rowland
General Counsel

Stephen joined NewDay in 2011 from Santander UK, where he was Legal and Compliance Director for the UK Cards business for two years. Prior to this, he worked in the legal team at GE Capital for four years and in practice at Baker & McKenzie for five years.

The Board

The Board is responsible for overseeing the Group's activities. The Directors are apprised of, debate and challenge strategy, mergers and acquisitions, operational performance metrics, risk matters, customer and conduct-related matters and receive reports on current strategic initiatives.

The Directors bring many skills and a breadth of experience to the Board, including strategic experience, commercial knowledge, retail and investment banking experience, UK regulatory knowledge, customer management and conduct expertise, treasury and funding experience, risk management expertise and operational, IT and accounting experience. This enables Board members to make informed decisions on key issues facing the business.

Throughout the year, the Group maintained appropriate insurance cover to protect the Directors from liabilities that may arise against them personally in connection with the performance of their role. In addition: (i) the Articles of Association of NewDay Group (Jersey) Limited contain an indemnity in favour of its Directors so far as is permitted under Jersey law; and (ii) certain of the Group's UK subsidiaries have similar provisions in their Articles of Association providing qualifying third party indemnities for the benefit of the Directors of such entities.

Role of the Board

The Board is responsible for creating a foundation for growth and attractive shareholder returns. It determines the vision, strategy and high-level policies of the Group, striking an appropriate balance between risk and reward, whilst ensuring positive customer outcomes. It sets out the guidelines within which the business, including those parts of the business that are outsourced, is managed and controlled. It monitors business performance against agreed targets, within an agreed budget, to support the strategic objectives of the business.

It also provides oversight and independent challenge, particularly with regard to the business' culture and values.

The Board executes these responsibilities through its own decision-making and by delegating responsibility to Board committees and to the Chief Executive Officer, with support from the Management Committee. The Board has three sub-committees: (i) the Board Audit Committee; (ii) the Board Risk Committee; and (iii) the Board Remuneration and Nomination Committee. The roles and responsibilities of each committee are documented in Board-approved terms of reference. However, some matters are reserved for consideration by the Board. These include matters relating to: (i) strategy and management; (ii) structure, capital and funding; (iii) financial reporting and controls; (iv) internal controls and risk management; (v) material contracts; (vi) external communications requiring Board approval; (vii) changes to the Board's structure and remuneration and senior management arrangements; (viii) delegation of authority; and (ix) corporate governance matters.

Attendance at Board and Committee meetings

Member	Board	Board Audit Committee	Board Risk Committee	Board Remuneration and Nomination Committee
Sir Michael Rake	9/9	N/A	N/A	3/3
John Hourican	9/9	N/A	N/A	3/3
Paul Sheriff	9/9	N/A	N/A	N/A
Alison Reed	9/9	6/6	6/6	N/A
Rupert Keeley	9/9	N/A	N/A	3/3
Javed Khan OBE[1]	7/9	N/A	N/A	N/A
James Corcoran	9/9	N/A	N/A	N/A
Caspar Berendsen[2]	6/9	N/A	3/6	3/3
Peter Rutland[3]	7/9	2/6	4/6	3/3
David Giroflier[4]	8/9	5/6	N/A	N/A
Pev Hooper[5]	4/9	N/A	N/A	N/A
Rebecca Hunter	9/9	N/A	N/A	N/A

1 Javed Khan OBE was appointed to the Board from 25 February 2022.
2 Rebecca Hunter also attended three Board Risk Committee meetings as alternate for Caspar Berendsen.
3 Alex Lelekov attended four Board Audit Committee meetings and two Board Risk Committee meetings as alternate for Peter Rutland.
4 Rebecca Hunter also attended one Board Audit Committee meeting as alternate for David Giroflier.
5 Pev Hooper stepped down from the Board on 31 December 2022 and was replaced by Alex Lelekov on the same date.

Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are separate and clearly defined.

The Chairman is responsible for overseeing the Board and its meetings to ensure that: (i) the Board meets its responsibilities; (ii) effective communications are maintained with stakeholders; and (iii) Directors receive accurate, timely and clear information regarding the Group.

The Chief Executive Officer is responsible for overseeing the Group and the management of its senior executives within parameters set by the Board.

The Chief Executive Officer is also responsible for the development, recommendation and implementation of the Group's strategic plans, which are approved by the Board. The Management Committee supports the Chief Executive Officer in the performance of his duties.

Board balance and independence
Five of our 12 Board members are Investor Directors (three of whom have been appointed by Cinven with the remaining two Investor Directors appointed by CVC). These Investor Directors have significant experience serving on the boards of regulated companies as well as in the specialty finance sector. James Corcoran (the Group's former Chief Executive) serves as a Non-Executive Director providing the benefit of his over ten years of experience at NewDay.

In addition, three experienced Independent Non-Executive Directors sit on the Board whose views carry substantial weight in the Board's decision-making processes. These members were appointed on merit after a process involving external search consultants. They were considered to be free from any relationship with the Group's executive management that could compromise their independent judgement.

Independent professional advice is available to the Directors at the Group's expense.

The long-standing inclusion of Independent Non-Executive Directors offers an external perspective, independent challenge and broad expertise in key areas of financial services and other related disciplines.

Training
Directors have access to relevant training courses during the year to continue to ensure they are up to date on the latest developments and maximise their effectiveness. During 2022, training focused on the FCA's Consumer Duty and the Senior Managers and Certification Regime.

Supply of information
An online repository for Board materials is used to supply appropriate and good-quality information to the Board. All Directors have access to the services of the Company Secretary and other staff, as required.

Political donations
The Group did not incur any political expenditure or make any political donations to political parties, other political organisations, or any independent election candidates during the year.

Relations with Cinven and CVC
Cinven and CVC have both appointed Investor Directors to the Board. In addition, three experienced Independent Non-Executive Directors, one Non-Executive Director and two Executive Directors sit on the Board. Cinven and CVC are able to appoint and/or remove sufficient Directors to ensure they control the Board for voting purposes.

The Boards of NewDay Ltd and NewDay Cards Ltd, the regulated entities within the Group, do not have Investor Directors and are comprised only of Executive Directors (together with, in the case of NewDay Ltd only, certain of the Independent Non-Executive Directors and the Non-Executive Director).

Engagement with Cinven and CVC is encouraged through attendance at Board meetings and representatives of Cinven and CVC receive updates on key Group initiatives.

Directors' conflicts of interest
The Group has procedures in place for the effective management of conflicts of interest. The Articles of Association of relevant UK Group companies contain provisions to allow the Board to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law.

Internal control and risk management systems
The Board is responsible for monitoring and reviewing the Group's internal control system to maximise its effectiveness. The internal control environment is described on page 71.

Share capital
During the year ended 31 December 2022, the Company did not acquire any of its own shares.

Board Audit Committee

“I am pleased with the business’ resilience in a period of continued economic uncertainty. Our control environment is fully embedded throughout the business and supports high quality financial reporting. This gives me confidence that we can continue on our sustainable growth trajectory.”

Alison Reed
Senior Independent Non-Executive Director, Chair of the Board Audit Committee

Chair’s overview

The Committee’s focus during the year was ensuring the business’ control environment and financial reporting processes supported its growth against a backdrop of continuing economic uncertainty.

All significant judgement areas within the Group’s financial reporting were regularly reviewed during the year.

The Committee spent a significant amount of time with management and the external auditor assessing the adequacy of the Group’s ECL allowance and the significant judgements surrounding the likely impact of the economic uncertainty, and cost-of-living pressures, on our customers’ ability to repay their balances. Although inherently subjective, with debate and challenge the Committee was comfortable the ECL allowance was appropriately reported throughout the year.

The economic uncertainty and its impact on capital markets was also a key discussion topic during the year. The Committee reviewed numerous cash flow stress scenarios and was satisfied that the Group had sufficient reserves and funding levers to satisfy going concern reporting requirements without any significant concerns.

The Committee provided challenge to the integrity and accuracy of externally reported financial information to ensure it was fair, balanced and understandable, before recommending for approval to the Board. This incorporated all quarterly, half-yearly and annual reports, financial statements and investor presentations.

The Committee also oversaw the in-house internal audit function, including monitoring its effectiveness and audit plan.

Committee composition, skills and experience

The following Directors are members of the Board Audit Committee:

- Alison Reed (Committee Chair), Senior Independent Non-Executive Director;
- David Giroflier, Investor Director (Cinven); and
- Peter Rutland, Investor Director (CVC).

The diverse backgrounds of the Committee members and our combined skills and range of accounting and financial reporting, risk and business experience (as detailed on pages 60 and 62) enable us to fulfil the Committee’s remit, as set out in the terms of reference, which are reviewed regularly.

The Committee acts independently from the Executive team to ensure shareholders’ interests are protected in relation to financial reporting and internal control. The internal and external auditors attend all meetings when necessary and we regularly meet with them in private.

Although not members of the Committee, the Chairman, Chief Executive Officer, Chief Financial Officer and Company Secretary attend each meeting. Other Directors and members of the Management Committee are invited as and when required, to ensure that we have all the information required to operate effectively.

Roles and responsibilities

The main roles and responsibilities of the Committee, as set out in the terms of reference, are:

- to monitor the integrity of the Financial Statements, review and challenge significant financial reporting issues and assess the judgements made;
- to review the financial reports for publication to ensure compliance with accounting policies and standards and that, taken as a whole, they are fair, balanced and understandable;
- to review and approve financial control and liquidity frameworks;
- to review the internal financial control and risk management systems and to review risk exposures and steps taken to monitor and mitigate them;
- to monitor and review the effectiveness of the internal audit function;
- to make recommendations to the Board in relation to the appointment, remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence, objectivity and effectiveness, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement an approach on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- to review the findings of the external auditor;
- to monitor management's response to the findings and recommendations of internal and external audit;
- to review compliance with legal and regulatory requirements;
- to report the outcome of meetings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken;
- to monitor, and challenge where appropriate, the whistleblowing arrangements as set out in the whistleblowing policy; and
- to review procedures for detecting fraud, including the systems and controls for the prevention of bribery.

Key activities of the Board Audit Committee in 2022

The Committee convened several times during the year and delivered the following key outcomes:

- reviewed the 2021 Annual Report and Financial Statements and each of the quarterly investor reports and presentations to ensure that, taken as a whole, they were fair, balanced and understandable and advised the Board to that effect;
- reviewed and challenged the appropriateness of the Group's critical accounting estimates and key judgements which were presented to the Committee quarterly;
- considered and challenged management forecasts of Group cash flows and net debt, as well as financing facilities available to the Group to approve to the Board the use of the going concern basis of preparation in the Group's Financial Statements;
- oversaw the relationship with the internal and external auditor including consideration of the terms of engagement and assessed the effectiveness of both the internal and external audit functions. The Committee also reviewed its effectiveness including how it interacts with the internal and external audit functions;
- approved the internal audit plan for the year to ensure it focused on key risk areas of the business;
- reviewed the effectiveness of the Financial Control Framework;
- assessed the Group's compliance with certain provisions of the UK Corporate Governance Code;
- reviewed the 2021 Sustainability Report;
- evaluated the reports and findings of the internal and external auditors, including management's response to any recommendations along with status updates on the resolution of agreed actions;
- reviewed the Group's tax strategy; and
- reviewed regular updates on whistleblowing.

Financial reporting

The main areas of judgement the Committee considered in relation to the Financial Statements for the year ended 31 December 2022 are detailed in the following table. These issues were closely examined with our external auditor during the year.

Board Audit Committee *continued*

Key issues and judgements in financial reporting	Board Audit Committee's review and conclusions
ECL allowance on loans and advances to customers ECL allowances are recognised on origination of a financial asset, based on anticipated credit losses. Our ECL allowance is the product of the probability of default, exposure at default and loss given default, discounted at the original effective interest rate. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. ECL allowances and credit risk remain a significant area of risk and audit focus in the Financial Statements as a result of the various assumptions and judgements that are necessary. The ECL allowance recorded by the Group as at 31 December 2022 was £475m for the Direct to Consumer portfolio and £112m for the Merchant Offering portfolio (2021: £461m and £108m respectively). Refer to note 2.3 for further details on the judgements inherent within the ECL allowance.	The Committee regularly reviewed and challenged the key judgements applied, including the appropriateness of the modelling estimates, the determination of a significant increase in credit risk, the definition of default and incorporation of forward-looking information. In considering the appropriateness, the Committee reviewed the rationale and impact of variations to each of the key assumptions. The Committee assessed the credit performance of the Group's portfolio in light of the ongoing economic uncertainty and cost-of-living pressures. The Committee reviewed and approved the forward-looking information incorporated in the ECL allowance, including the use of post-model adjustments, to ensure the credit performance observed on the portfolio and the likely estimates of future performance were appropriately reflected. The Committee reviewed the disclosures in the Financial Statements to ensure they were appropriate and addressed the requirements of IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'. The Committee was satisfied that the ECL allowance was appropriate.
Impairment of goodwill and acquired intangible assets The carrying value of goodwill and acquired intangible assets should be reduced to the higher of their fair value less costs of disposal and their value in use should both of these be lower than the asset's carrying value. Accordingly, an impairment review is required whenever there is evidence to suggest the assets may be impaired, in addition to the annual impairment review required for goodwill. An impairment review is conducted by comparing the discounted estimated future cash flows of the cash-generating units or underlying intangible assets with their carrying value prior to impairment. In 2022, impairment reviews were performed on goodwill (as part of its annual review) and on specific intangible assets that were identified in the first half of the year as potentially being impaired as a result of the Amazon contract termination. No impairment was required following the reviews. As at 31 December 2022, the Group reported acquired intangible assets of £80m and goodwill of £280m (2021: £134m and £280m respectively). Refer to note 2.3 for further details on the judgements inherent within the impairment assessment on goodwill and acquired intangible assets.	The Committee reviewed and challenged the impairment reviews performed on goodwill and certain acquired intangible assets and challenged the key assumptions made within them. This included consideration of the rationale and impact of variations to each of the key assumptions and the estimated future cash flows, including scenario analysis. The Committee was satisfied that the no impairment charge was required and the reported carrying values of goodwill and acquired intangible assets were appropriate.

Key issues and judgements in financial reporting	Board Audit Committee's review and conclusions
Effective interest rate (EIR) method of accounting for loans and advances to customers The Group applies the requirements of IFRS 9 through the EIR method for the recognition and measurement of interest income for loans and advances to customers, including customers who have been offered interest-free promotional periods. The EIR is determined on inception as management's best estimate of future cash flows based on historical information, where available, and considers the repayment activity and the retention of the customer balance after the end of the promotional period. As such, in the case of interest-free promotional period offers, the EIR method introduces estimation uncertainty which, if the actual cash flows differ from the estimate, could result in an adjustment to the carrying value of the asset recognised from interest accrued in the interest-free promotional period. The Group has recognised an EIR adjustment to loans and advances to customers in respect of interest-free periods of £36m as at 31 December 2022 (2021: £37m). Refer to note 2.3 for further details on the judgements inherent within the EIR accounting for loans and advances to customers.	The Committee received regular updates on several aspects of the EIR accounting adjustments and focused specifically on the significant judgements used in the adjustment to loans and advances to customers in respect of interest-free promotional periods. These judgements, which include the expected repayment activity and customer retention after the end of the promotional period, were reviewed and approved by the Committee throughout the year. The Committee was satisfied that the carrying value of the EIR adjustment to loans and advances to customers in respect of interest-free periods was appropriate. Whilst other aspects of the EIR accounting adjustments include judgements, these judgements are not considered by the Committee to be significant as they incorporate low levels of estimation uncertainty.

Board Audit Committee *continued*

Other financial reporting issues

Going concern
The Committee considered and challenged management forecasts of Group cash flows and net debt, as well as financing facilities available to the Group. The Committee concluded that the Group has adequate resources, including in a severe but plausible stress scenario, to continue in operational existence for a period of at least 12 months from the date of approval of the Financial Statements and confirmed to the Board that it was appropriate for the Group's 2022 Financial Statements to be prepared on a going concern basis.

Provisions
The Group is engaged in various operational, legal and regulatory matters, the impact of which cannot always be predicted, but can give rise to provisioning for contingent and other liabilities depending on the relevant facts and circumstances. The level of provisioning is subject to management judgement on the basis of legal advice and the uncertainty over the potential outcome and is therefore an area of focus for the Committee. Having reviewed all information available to determine what was both probable and could be reliably estimated, the Committee determined that the provisions at the year end were appropriate. See note 21 for further details of the Group's provisions.

Assessment of fair, balanced and understandable reporting
The Committee provided robust challenge to the integrity and accuracy of the 2022 Annual Report and Financial Statements to ensure it was fair, balanced and understandable, before recommending for approval to the Board. This included ensuring the Strategic Report presented a balanced view of the successes and challenges experienced by the Group in the year as well as ensuring there was equal prominence given to relevant statutory and adjusted measures.

Internal audit

The business operates an in-house internal audit function with support provided by third party consultants where specialist knowledge is required. The internal audit function reports to me, as Chair of the Committee, to ensure its independence from the management team and I regularly meet with the Director of Internal Audit and his team.

The Committee assesses the performance of the internal audit function on an ongoing basis to ensure it is satisfied with the function's effectiveness. The Committee monitored progress and delivery against the 2022 internal audit plan throughout the year, including assessing the scope of work performed, and evaluating coverage of the internal audit plans. The Committee determines the effectiveness with which internal audit performs its activities including the level of resources and training of the internal audit function.

Internal audit reports issued in the year covered the following areas:

- credit management;
- cyber and data protection/security;
- credit bureau usage and reporting;
- customer pricing and disclosures, terms and conditions;
- anti-money laundering, anti-bribery and corruption, counter-terrorist finance and financial crime;
- compliance with FCA rules on Operational Resilience;
- new product development – including annual product reviews;
- change management (covering the launch of the John Lewis & Partners programme);
- compliance with the data governance framework;
- review of controls over impairment model development and validation;
- third party supplier management;
- annual PPI statements customer remediation;
- compliance with the Senior Managers and Certification Regime (SMCR) framework;
- operational controls over non-monetary and monetary adjustments to customer accounts; and
- end user developed applications.

The Committee reviewed all internal audit reports issued and ensured that management took appropriate action to address issues arising from these reports. The Committee subsequently assessed progress against agreed management actions to ensure that they were promptly resolved.

Having reflected on the achievements of the 2022 internal audit plan, the Committee endorsed the internal audit plan for 2023 ensuring it was tailored to address areas on a risk-based approach either as a result of regulator or industry focus or as a result of the continued pace of growth and change within the business.

In order to ensure the continued development of the internal audit function such that it can continue to fulfil its responsibilities and adapt its audit plans in line with the pace of change in the business, we oversaw a series of training sessions for the internal audit team facilitated by Ernst & Young and Grant Thornton.

External audit

The Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor. KPMG LLP has been the auditor of the Group (including predecessor groups) since 2012.

The external auditor is not permitted to perform any work that might affect its objectivity and independence or create a conflict of interest with respect to the Group. The Committee has internal procedures in place to determine the use of the external auditor for non-audit services. The amount paid to the external auditor is disclosed in note 9.

The Committee reviewed and approved the annual external audit plan, including the methodology and risk identification processes used, and reviewed the findings of the external audit including key judgements and the level of challenge provided. The Committee assesses the performance of the external auditor on an ongoing basis to ensure it is satisfied with the quality of the services provided. This includes consideration of the experience and capabilities of the auditor, the delivery of their audit work in accordance with the agreed plan and the quality of their reports and communications to the Committee.

The Committee has examined regulatory and legislative guidance around the tenure of the auditor. Having considered this, along with the assessment of the effectiveness of the external auditor, the Committee has recommended to the Board that KPMG LLP be reappointed as external auditor for the financial year ending 31 December 2023.

Alison Reed
Senior Independent Non-Executive Director,
Chair of the Board Audit Committee

Internal control environment

The Committee monitors, and conducts a robust review of, the effectiveness of the Group's internal control systems, accounting policies and practices and compliance controls, including key financial controls, before they are agreed by the Board for inclusion in the Annual Report and Financial Statements. The Board retains overall responsibility for the Group's internal control environment. The system of internal controls is designed to mitigate the risk of material misstatements in the financial records of the Group and to facilitate the business in achieving its objectives. The internal control environment only provides reasonable, rather than absolute, assurance against material misstatement, loss or fraud to the Group.

The Board confirms that a system of internal controls for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year ended 31 December 2022, and up to the date of the approval of these consolidated Financial Statements.

The Board, through the Board Audit and Risk Committees, has reviewed the effectiveness of the system of internal controls and is satisfied with the controls operated over financial reporting and associated business activities such that to the best of the Committee's knowledge there was no material loss, contingency or uncertainty to the Group requiring disclosure in the Financial Statements.

Board Risk Committee

> "During 2022, the Committee provided oversight of the Group's risk management framework and ensured that our risk profile was aligned to the risk appetite set by the Board. The Committee focused the agenda to cover the risks we are facing. This included volatility within the macroeconomic environment and regulatory changes, such as Operational Resilience and Consumer Duty."

Alison Reed
Senior Independent Non-Executive Director, Chair of the Board Risk Committee

Chair's overview

2022 was a challenging year from a risk management perspective. Macroeconomic volatility emanating from geopolitics impacted energy prices which was then compounded by UK political changes. Both undoubtedly had an impact on our customers.

There has been a regular spotlight shone on to the credit performance of our portfolio and towards the end of the year we saw emerging signs of stress upon customers' ability to repay their debt. The Committee has provided keen oversight of proactive measures the business has been taking throughout the year to manage our credit exposure and to best support our customers.

Another significant area of focus has been operational resilience, brought to life through risk events relating to material third parties. This highlighted the importance of understanding the resilience of all our third and fourth parties upon whom we rely to deliver our customer journeys and other important business services.

Information and cyber security have continued to be key areas of focus throughout the year reflecting global increased cyber risk. These will become a bigger part of our discussions as cyber risk is added to our standing agenda items in 2023.

The Committee also reviewed the John Lewis & Partners launch and its impact on customers. The Committee worked to ensure all feedback from customers who expressed dissatisfaction with their journey to NewDay was acted on and business processes were adapted to ensure future interactions were positive.

From a regulatory perspective, consideration was given to a number of regulatory changes through the year, including NewDay's readiness for Consumer Duty. The Committee was focused on ensuring NewDay is in a strong position to evidence the existing good practices of our conduct risk management and can demonstrate that the customer remains at the heart of what we do. The Committee continues to monitor the horizon for emerging regulatory risks as well as regulatory developments and evolving guidance.

The Committee continued to oversee risk management in relation to major projects and business initiatives, ensuring risk management practices continued to be fit for purpose in the face of the significant business and technology change agenda. The Committee continued to closely monitor the effectiveness of the risk management framework in order to ensure that the principal and emerging risks identified by the business remained relevant and appropriately managed within the parameters of the Board's agreed risk appetite.

Ongoing oversight of NewDay's day-to-day risk management was provided through a twice-yearly assessment of our consolidated business-wide risk profile, which has been expanded as we mature in our risk management methodologies to incorporate all of our principal and functional risks and relevant scores to ensure the Committee remained fully informed of NewDay's risk management position.

The Committee has overseen the continued maturation of NewDay's risk management model and continued to monitor changes to the Group's risk-related processes which are designed to improve management's ability to manage risk and provide oversight.

Committee composition, skills and experience

The following Directors are members of the Board Risk Committee:

- Alison Reed (Committee Chair), Senior Independent Non-Executive Director;
- Caspar Berendsen, Investor Director (Cinven); and
- Peter Rutland, Investor Director (CVC).

The diverse backgrounds of the Committee members and their combined skills and range of risk and business experience (as detailed on pages 60 to 62) enable us to fulfil the Committee's remit, as set out in the terms of reference, which are reviewed annually. Although not members of the Committee, the Chief Executive Officer, Chief Risk Officer and Chief Financial Officer attend each meeting. Other members of senior management and the external auditor are invited as and when required to ensure that the Committee has all the information it requires to operate effectively.

Additionally, during the year the Chair and Chief Risk Officer met frequently to discuss upcoming topics and areas of focus for the Committee.

Roles and responsibilities

The main roles and responsibilities of the Committee, as set out in the terms of reference, are:

- to oversee the risk management framework and challenge the processes and methodologies used for identifying, measuring, managing, monitoring and reporting all key risks facing the business;
- to recommend to the Board how to improve the risk management framework including the monitoring of risk exposures, risk appetite, capital and liquidity and any significant risk issues;
- to review the output, effectiveness and resources of the Enterprise Risk team;
- to review, monitor and report to the Board on our interactions with regulators, the effectiveness of regulatory reporting and action on any significant regulatory issues;
- to review and monitor the implementation of risk or compliance-related policies, their suitability in terms of compliance, and the necessary actions taken as a result of policy breaches; and
- to oversee, review, report and make associated recommendations to the Board on risk appetite, risk management culture, training and competence throughout the business.

Key activities of the Board Risk Committee in 2022

As part of discharging its duties the Committee convened several times during the year to deliver the following:

- reviewed the effectiveness of the risk management framework and associated policy to ensure it remained appropriate and fit for purpose;
- considered the effectiveness of the Board Risk Committee;
- reviewed and challenged the proposed risk appetite statements and metrics, to ensure they were in line with our strategic objectives;
- regularly assessed performance against risk appetite, and monitored any breaches or trends towards breaches, challenging management to deliver action plans to improve when appropriate;
- reviewed and challenged the risk profile of the business using the aggregated risk profile and focused on the management of risks and issues within the business;
- provided oversight and ongoing challenge to management's approach to managing credit risk and fraud, including credit performance, impairment performance and payment deferrals alongside customer outcomes. The Committee particularly focused on the uncertainty of macroeconomic impacts driven by energy prices and cost-of-living pressures, and their resultant impact on customer affordability. Delinquency behaviour was also reviewed;
- reviewed and challenged new product approvals to ensure that proposals were in line with business aims;
- provided oversight of the regulatory horizon and management response to regulation and legislation, including NewDay's preparation for Consumer Duty and design and implementation of NewDay's Operational Resilience programme;
- provided ongoing oversight of cyber security programme, including a review of the management of increased cyber risk relating to geopolitical situations during the year and a review of an independent assessment of the business' cyber security;
- reviewed continued progress of our new in-house collections platform to provide customers with both a self-service collections journey as well as an agent platform to support customers when this is needed or preferred; and
- considered updates in relation to other matters during the year to understand management's plans, for example stress test scenarios against forecasted plans.

Alison Reed
Senior Independent Non-Executive Director, Chair of the Board Risk Committee

Board Remuneration and Nomination Committee

“In 2022, the Committee assessed the Group’s compensation and benefits in light of the significant cost-of-living challenges faced by our colleagues.”

Rupert Keeley
Independent Non-Executive Director,
Chair of the Board Remuneration and Nomination Committee

Chair’s overview

In 2022, the Committee assessed the Group’s compensation and benefits programme in light of the significant cost-of-living challenges faced by our colleagues. The Committee supported Management’s decision to award our lowest earners with a one-off payment in October and to extend the focus on those most likely to be impacted by rising prices in the approach to pay awards in 2023. In general, these colleagues were awarded the highest percentage salary increases. Good salary increases were given to managers whilst restraint was shown for the executive leadership team. Individual awards were based using annual benchmarking data to help ensure the Company’s highest performers and key talent were retained.

The Committee has a responsibility to support the long-term health and progression of the business, in alignment with shareholder interests. The Group’s rewards reflect the achievement of a range of performance, culture and risk management goals. The Committee reviews and adjusts these goals annually using a balanced scorecard of metrics which, with Board approval, helps determine annual bonuses and remuneration awards. It also assesses the Company’s overall ratings distribution and reviews the rating of each member of the Management and Executive team.

The Group’s people-related policies and practices were reviewed, including a full review of benefits. External benchmarking data confirmed that benefits are well above market median levels. The Committee supported Management’s proposal for further enhancement of family leave in 2023 to help retain and attract new and prospective parents.

In 2022, a rigorous review of talent and succession planning was conducted for and reviewed by the Committee and the Board. The Committee was pleased to see a leader100 programme established to enhance talent development for all senior leaders. New career pathways for the tech team were implemented during the year to support the Company’s growth in technology. Actively developing talent in this area is critical to the Company’s strategy. The Company’s approach to reward and talent development played an important part in ensuring the retention of 92% of highest performers and 89% of our key talent.

84% of colleagues took part in the Group’s engagement survey in 2022. The results were outstanding, despite our colleagues facing a number of external pressures. More than 75% of our colleagues gave positive or very positive scores for ten of the 12 key metrics tracked. The Company’s flexible working approach ‘NewWork’ scored 90% and scores of more than 80% were recorded for purpose and values, inclusion and diversity, wellbeing, people management and risk and control. Additional actions to address lower scores for leadership and development are being taken. These results reflect the positive culture that underpins the Group’s embedded values and supports the shared pursuit of NewDay’s purpose.

Committee composition, skills and experience

The following Directors are members of the Board Remuneration and Nomination Committee:

- Rupert Keeley (Committee Chair), Independent Non-Executive Director;
- Sir Michael Rake, Chairman and Independent Non-Executive Director;
- John Hourican, Executive Director and Chief Executive Officer;
- Caspar Berendsen, Investor Director (Cinven); and
- Peter Rutland, Investor Director (CVC).

The diverse backgrounds of the Committee members and their combined skills and range of risk and business experience (as detailed on pages 60 to 62) enable us to fulfil the Committee's remit, as set out in the terms of reference.

Although not a member of the Committee, the Chief People Officer attends each meeting.

Roles and responsibilities

The main roles and responsibilities of the Committee, as set out in the terms of reference, are:

- recommending to the Board a suitable remuneration policy, and reviewing its ongoing appropriateness and relevance;
- setting the remuneration of all Executive Directors, Non-Executive Directors (including the Chairman) and members of the Management Committee (including pension rights and any compensation payments);
- recommending for the Board's approval, candidates for appointment to the Board and reviewing the process undertaken in relation to such appointments; and
- recommending for the Board's approval, suitable candidates for the role of Senior Independent Non-Executive Director, membership of each Board Committee and matters relating to the continuation in office of any Director.

Key activities of the Board Remuneration and Nomination Committee in 2022

During the year the Committee achieved the following key outcomes:

- reviewed and evaluated management performance in 2021;
- recommended performance objectives for 2022 to the Board for approval; and
- reviewed and updated the remuneration policy.

Rupert Keeley

Rupert Keeley
Independent Non-Executive Director,
Chair of the Board Remuneration and Nomination Committee

Directors' report

Group business review and results

The Group's business model is outlined on page 10 and the KPIs and financial review on pages 28 to 35 contain highlights of the financial performance and capital structure for the year. The Group reported a profit before tax of £110m for the year ended 31 December 2022. A reconciliation of the statutory profit to underlying profit before tax, referred to throughout the Strategic Report, is provided on page 29.

The Chief Executive Officer's review on page 18 and the strategic priorities on page 12 provide details of future business developments.

We do not propose the payment of a dividend for the year ended 31 December 2022.

Principal risks and management

The principal risks and management thereof are described on pages 48 to 56.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, as well as the overall financial position of the Group, its cash flows, liquidity position and borrowing facilities, are described in the KPIs and financial review on pages 26 to 35 and within the Financial Statements. The notes to the Financial Statements include our objectives, policies and processes for managing capital, financial risk management objectives, details of financial instruments and our exposures to credit risk and liquidity risk.

We continue to monitor the outlook for the UK economic environment and its impact on the Group's credit risk exposure. We have a robust credit risk management framework in place to limit unexpected losses arising as a result of customers failing to meet their repayment obligations. We also depend on the availability of external borrowing to finance our existing gross receivables as well as fund future growth. We aim to refinance or repay all debt maturing within the next 12 months. Our funding is structured so that we have a right to extend the maturity date of all our asset-backed term debt by one year. As at 31 December 2022, we reported a cash balance of £382m.

We believe that our existing plans and projections of business performance will be sufficient to allow us to continue to meet all of our current obligations, including financial covenants and cash requirements, for a period of at least 12 months following the approval of the Financial Statements. Whilst the UK's economic outlook remains uncertain, we have considered the impact of this uncertainty on the Group's forecast profitability and ability to refinance maturing debt, including through conducting severely stressed but plausible scenario analysis. Considering the scenario analysis and our current funding position, we feel that we are well placed to continue trading as a going concern for the next 12 months. For this reason the Board has adopted the going concern basis in preparing these Financial Statements.

Transparency in reporting

In preparing the Annual Report and Financial Statements, we have fully complied with the best practice principles set out in 'The Walker Guidelines for Disclosure and Transparency in Private Equity', which were established to provide oversight on disclosure issues and, specifically, to demonstrate private equity companies' commitment to transparency.

ESG matters

We are committed to conducting our business in a manner that protects the environment. This means ensuring that all relevant environmental legislation and regulations are met, and reducing consumption of resources. For further details see pages 16 and 38. The Group's Sustainability Report is available on its website, **newday.co.uk**.

Modern slavery and human trafficking

We aim to act fairly, ethically and openly in everything that we do and are committed to carrying out our business responsibly. This includes ensuring that modern slavery and human trafficking are not taking place in any part of our business or supply chain. The Group's statement on modern slavery is available on its website at **newday.co.uk**.

Business relationships and employee engagement

The Group is committed to ensuring it maintains strong relationships with all stakeholders (including employees) and actively engages with them on an ongoing basis. Further details are provided on page 36.

Directors' insurance

Throughout the year, we maintained appropriate insurance cover to protect the Directors from liabilities that may arise against them personally in connection with the performance of their role. In addition: (i) the Articles of Association of NewDay Group (Jersey) Limited contain an indemnity in favour of its Directors so far as is permitted under Jersey law; and (ii) certain of the Group's UK subsidiaries have similar provisions in their Articles of Association providing qualifying third party indemnities for the benefit of the Directors of such entities.

Research and development activities

During the ordinary course of business we develop new products and services within our business units.

Issuance of shares

Upon incorporation on 26 September 2016, the Company issued share capital of 101 fully paid ordinary shares of one pence each. No shares were issued during the year.

Directors

The Directors who held office during the year and up to approval of the Annual Report and Financial Statements were as follows:

- Grant Collins; and
- Carl Hansen.

Auditor and disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, as far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all of the steps that they ought to have taken as Directors to make themselves aware of any relevant information and to establish that the Company's auditor is aware of that information.

Statement of Directors' responsibilities in relation to the consolidated Financial Statements

The Directors are responsible for preparing the Group and Company Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the UK.

Company law requires the Directors to prepare Group and Company Financial Statements for each financial year which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping sufficient accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the Financial Statements comply with the Companies (Jersey) Law 1991. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the Group's website is the responsibility of the Directors. The work carried out by the independent auditor does not involve consideration of these matters and, accordingly, the independent auditor accepts no responsibility for any changes that may have occurred to the Financial Statements or the audit report since 22 March 2023. The independent auditor has carried out no procedures of any nature subsequent to 22 March 2023 which in any way extends this date.

Legislation in Jersey governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions. The Directors remain responsible for establishing and controlling the process for doing so, and for ensuring that the Financial Statements are complete and unaltered in any way.

Grant Collins
Director

Carl Hansen
Director

22 March 2023

Independent auditor's report

Opinion

We have audited the Financial Statements of NewDay Group (Jersey) Limited (the 'Company') for the year ended 31 December 2022 which comprise the income statements and statements of comprehensive income, balance sheets, statements of changes in equity, statements of cash flows and the related notes, including the accounting policies in note 2.

In our opinion the Financial Statements:

- give a true and fair view, in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK, of the state of the Group's and parent Company's affairs as at 31 December 2022 and of the Group's and the parent Company's result for the year then ended; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the Financial Statements ('the going concern period').

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and the Company's business model and analysed how those risks might affect the Group's and the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate; and
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- enquiring of Directors, Board Audit Committee, Internal Audit and inspection of policy documentation as to the Group's high level policies and procedures to prevent and detect fraud, including the Internal Audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board, Board Audit Committee and Board Risk Committee minutes;
- considering remuneration incentive schemes and performance targets for management under the Group's Management Incentive Plan; and
- using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk associated with revenue recognition under the effective interest rate (EIR) method arising from the judgements in relation to customer behavioural profiles and the risk that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the estimation of expected credit losses (ECL), and the valuation of acquired intangibles. We also identified a fraud risk related to estimation of ECL and the valuation of acquired intangibles, specifically relating to the economic scenarios and cash flow forecasts as these involve subjective judgements, in response to possible pressures to meet performance targets.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those whose descriptions contained reference to Group executives;
- critically assessing the behavioural life profiles applied in the EIR modelling against the Group's historical experience; and
- critically evaluating, with the assistance of our modelling specialists, the appropriateness of the ECL methodologies and post model adjustments recognised against market practice and the Group's historical loss experience.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Financial Statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

In addition, our assessment of risks involved gaining an understanding of the control environment including the Group's procedures for complying with laws and regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the Financial Statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the Financial Statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Financial Statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Financial Statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: conduct, bribery, money laundering and financial crime and certain aspects of company legislation recognising the financial nature of the Group's and parent Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards.

For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's accounts are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 77, the Directors are responsible for:

- the preparation of Financial Statements which give a true and fair view;
- such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error;
- assessing the Group's and the parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

A Simpson

Alex Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square, Sovereign Street
Leeds, LS1 4DA

22 March 2023

Income statements and statements of comprehensive income

	Note	Group		Company	
		Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Continuing operations					
Interest and similar income	5	887.2	705.8	46.3	171.5
Interest and similar expense	6	(155.1)	(93.1)	(30.3)	(30.8)
Net interest income		**732.1**	**612.7**	**16.0**	**140.7**
Fee and commission income	7	95.8	66.6	–	–
Impairment losses on loans and advances to customers	12	(382.3)	(296.1)	–	–
Risk-adjusted income		**445.6**	**383.2**	**16.0**	**140.7**
Personnel expense	8	(135.2)	(106.8)	–	–
Other operating expenses	9	(200.5)	(197.7)	(0.4)	(0.7)
Total operating expenses		**(335.7)**	**(304.5)**	**(0.4)**	**(0.7)**
Profit before tax from continuing operations		**109.9**	**78.7**	**15.6**	**140.0**
Tax expense	10	(15.6)	(18.0)	–	–
Profit after tax from continuing operations		**94.3**	**60.7**	**15.6**	**140.0**
Discontinued operation					
Profit after tax from discontinued operation	4	–	3.4	–	–
Profit after tax		**94.3**	**64.1**	**15.6**	**140.0**
Other comprehensive income/(expense)					
Items that may subsequently be reclassified to the income statement:					
– Effective portion of changes in fair value of cash flow hedges		84.1	4.7	–	–
– Net income statement transfer from hedging reserve		(58.0)	(5.1)	–	–
Other comprehensive income/(expense)		**26.1**	**(0.4)**	**–**	**–**
Total comprehensive income		**120.4**	**63.7**	**15.6**	**140.0**

The notes on pages 84 to 123 form an integral part of these statutory Financial Statements.

Balance sheets

	Note	Group 31 December 2022 £m	Group 31 December 2021 £m	Company 31 December 2022 £m	Company 31 December 2021 £m
Assets					
Loans and advances to banks	11	382.2	304.4	10.7	66.1
Loans and advances to customers	12	3,807.9	2,844.5	–	–
Other assets	13	146.5	47.6	514.4	556.7
Derivative financial assets	14	63.4	1.9	–	–
Current tax assets		10.8	3.0	–	–
Deferred tax assets		0.5	0.3	–	–
Property and equipment	15	12.5	15.7	–	–
Intangible assets	16	111.8	154.3	–	–
Investment in subsidiaries	17	–	–	570.4	511.4
Goodwill	18	279.9	279.9	–	–
Total assets		**4,815.5**	**3,651.6**	**1,095.5**	**1,134.2**
Liabilities					
Debt issued and other borrowed funds	19	4,237.2	3,221.2	290.2	329.9
Other liabilities	20	158.0	90.0	5.6	1.7
Derivative financial liabilities	14	–	16.5	–	–
Current tax liabilities		0.1	0.6	–	–
Deferred tax liabilities		1.1	–	–	–
Provisions	21	5.0	11.1	–	–
Total liabilities		**4,401.4**	**3,339.4**	**295.8**	**331.6**
Net assets		**414.1**	**312.2**	**799.7**	**802.6**
Equity attributable to owners of the Company					
Share capital and share premium	22	–	–	–	–
Equity instruments	22	593.9	593.9	593.9	593.9
Capital contribution	22	–	9.2	–	9.2
Hedging reserve	22	23.6	(2.5)	–	–
Retained (losses)/profits	22	(203.4)	(288.4)	205.8	199.5
Total equity		**414.1**	**312.2**	**799.7**	**802.6**

The notes on pages 84 to 123 form an integral part of these statutory Financial Statements.

The Financial Statements on pages 80 to 123 were approved and authorised for issue by the Board of Directors on 22 March 2023 and signed on its behalf by:

Grant Collins
Director

Carl Hansen
Director

Registration number 122135

Statements of changes in equity

Group	Share capital and share premium £m	Equity instruments £m	Capital contribution £m	Hedging reserve £m	Retained losses £m	Total equity £m
As at 1 January 2021	**–**	**593.9**	**20.2**	**(2.1)**	**(352.5)**	**259.5**
Return on loan from immediate parent company[1]	–	–	(11.0)	–	–	(11.0)
Total comprehensive income for the year:						
– Profit after tax	–	–	–	–	64.1	64.1
– Other comprehensive expense	–	–	–	(0.4)	–	(0.4)
As at 31 December 2021	**–**	**593.9**	**9.2**	**(2.5)**	**(288.4)**	**312.2**
Return on loan from immediate parent company[1]	–	–	(9.2)	–	(9.3)	(18.5)
Total comprehensive income for the year:						
– Profit after tax	–	–	–	–	94.3	94.3
– Other comprehensive income	–	–	–	26.1	–	26.1
As at 31 December 2022	**–**	**593.9**	**–**	**23.6**	**(203.4)**	**414.1**

Company	Share capital and share premium £m	Equity instruments £m	Capital contribution £m	Retained profits £m	Total equity £m
As at 1 January 2021	**–**	**593.9**	**20.2**	**59.5**	**673.6**
Return on loan from immediate parent company[1]	–	–	(11.0)	–	(11.0)
Total comprehensive income for the year:					
– Profit after tax	–	–	–	140.0	140.0
As at 31 December 2021	**–**	**593.9**	**9.2**	**199.5**	**802.6**
Return on loan from immediate parent company[1]	–	–	(9.2)	(9.3)	(18.5)
Total comprehensive income for the year:					
– Profit after tax	–	–	–	15.6	15.6
As at 31 December 2022	**–**	**593.9**	**–**	**205.8**	**799.7**

1 The Group (and Company) made a return of £18.5m (2021: £11.0m) to Nemean Midco Limited, its immediate parent. The return was made in accordance with the £529.2m loan agreement between NewDay Group (Jersey) Limited and Nemean Midco Limited which, consistent with the requirements of IFRS, is reported as an equity instrument in the Group's and Company's Financial Statements.

The notes on pages 84 to 123 form an integral part of these statutory Financial Statements.

Statements of cash flows

	Note	Group Year ended 31 December 2022 £m	Group Year ended 31 December 2021 £m	Company Year ended 31 December 2022 £m	Company Year ended 31 December 2021 £m
Operating activities					
Profit after tax		94.3	64.1	15.6	140.0
Reconciliation of profit after tax to net cash (used in)/generated from operating activities:					
– Tax expense	10	15.6	18.0	–	–
– Interest and similar expense	6	155.1	93.1	30.3	30.8
– Interest and similar expense from discontinued operation	4	–	0.1	–	–
– Depreciation of property and equipment	15	4.8	4.9	–	–
– Charge on disposal of property and equipment	15	–	0.6	–	–
– Amortisation of intangible assets	16	61.1	63.5	–	–
– Charge on disposal of intangible assets	16	–	0.4	–	–
– Impairment losses on loans and advances to customers	12	382.3	296.1	–	–
Changes in operating assets and liabilities:					
– Increase in loans and advances to customers including those held for sale		(1,345.7)	(734.4)	–	–
– (Increase)/decrease in other assets		(98.9)	3.2	42.3	16.5
– Increase/(decrease) in other liabilities		65.6	14.1	(0.1)	0.9
– Decrease in provisions		(6.1)	–	–	–
– Interest and similar expense paid		(148.1)	(93.6)	(31.3)	(28.9)
– Tax paid		(21.7)	(16.9)	–	–
Net cash (used in)/generated from operating activities		**(841.7)**	**(286.8)**	**56.8**	**159.3**
Cash flows from investing activities					
Purchases of property and equipment	15	(1.9)	(1.3)	–	–
Investment in intangible assets	16	(20.0)	(7.8)	–	–
Proceeds from the sale of loans and advances to customers held for sale[1]		–	67.2	–	–
Investment in subsidiary	16	–	–	(59.0)	–
Net cash (used in)/generated from investing activities		**(21.9)**	**58.1**	**(59.0)**	**–**
Cash flows from financing activities					
Proceeds from debt issued and other borrowed funds	19	3,383.2	1,726.4	229.4	50.0
Repayment of debt issued and other borrowed funds	19	(2,420.5)	(1,765.0)	(264.1)	(180.0)
Payment of principal element of lease liabilities		(2.8)	(2.6)	–	–
Return paid on loan from immediate parent company		(18.5)	(10.3)	(18.5)	(10.3)
Net cash generated from/(used in) financing activities		**941.4**	**(51.5)**	**(53.2)**	**(140.3)**
Net increase/(decrease) in cash and cash equivalents		77.8	(280.2)	(55.4)	19.0
Cash and cash equivalents at the start of the year		304.4	584.6	66.1	47.1
Cash and cash equivalents at the end of the year	11	**382.2**	**304.4**	**10.7**	**66.1**

1 This includes the fair value gain of £4.5m on classification and measurement of loans and advances to customers held for sale as fair value through profit or loss on 1 January 2021.

The notes on pages 84 to 123 form an integral part of these statutory Financial Statements.

Notes to the Financial Statements

1. Corporate information

NewDay Group (Jersey) Limited (the Company) was incorporated in Jersey as a private limited company on 26 September 2016. The address of its registered office is 27 Esplanade, St Helier, Jersey JE1 1SG. Nemean Midco Limited has been the sole shareholder of the Company since incorporation. The ultimate parent undertaking is Nemean Topco Limited, a private limited company incorporated in Jersey.

2. Accounting policies

2.1 Basis of preparation

The consolidated Group and Company Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK. The Group's accounting policies have been consistently applied in the current year and prior year comparatives, and the Financial Statements of the Group and Company have been prepared on a historical cost basis except for derivative financial instruments which have been measured at fair value.

The consolidated Group and Company Financial Statements for the year ended 31 December 2022 were approved by the Board of Directors on 22 March 2023.

Going concern

As at 22 March 2023, the Group has £362.4m (including £98.8m through a cross-currency interest rate swap) of asset-backed term debt principal within the Direct to Consumer securitisation programme and £331.5m within the Merchant Offering programme maturing in the next 12 months. Additionally, the Merchant Offering programme has £6.5m drawn from VFNs maturing in the next 12 months. In order to deliver the growth plans, it is the Directors' intention to refinance the funding due to mature with new asset-backed term debt or VFNs. If new funding cannot be obtained in line with the Group's growth plans, the Directors note that the Group can, if required, exercise an option to extend the maturity date on all its asset-backed term debt and VFNs by one year. As at 22 March 2023, the Group has undrawn VFNs of £948.0m within the Direct to Consumer securitisation programme and £401.5m within the Merchant Offering securitisation programme (excluding VFNs specific to the John Lewis & Partners portfolio) with a maturity in excess of 12 months which can be used to fund future growth and refinance any other maturing debt (subject to sufficient headroom).

The Group also has £60.9m of Senior Secured Notes maturing in February 2024 and it is the Directors' intention to repay or refinance the debt on or before maturity (including by way of a new issuance, exchange offer, open market purchase or other form of liability management transaction, subject to market conditions). The Group has sufficient forecast liquidity arising through its normal course of operations to settle this debt before its maturity should it choose to do so.

In addition to regular forecasting of performance, the Group has undertaken various stress scenarios to assess the impact on profitability, cash flows, the balance sheet and compliance with funding covenants (such as a minimum excess spread, maximum delinquency rate and maximum charge-off rate) in stressed environments. This information is formally presented to the Board for review, and has been approved by the Board, along with consideration of the potential impact of contingent liabilities on the Group.

As part of the stress scenarios, the Directors also considered the impact of the UK economic outlook on the Group including the potential closure of capital markets and other restrictions on the Group's ability to raise new finance. In the event that there is limited headroom within the Group's financing structures, the Directors also have the ability to alter the Group's growth plans to reduce funding requirements.

The most severe but plausible stress scenario considered by the Directors assumes an uplift in unemployment, inflation and base rates in line with the latest PRA stress forecast, as well as a limited ability to raise new financing. In this scenario, the Directors would be required to take mitigating action to reduce growth plans, tighten credit amongst the Group's customers as well as reducing costs and discretionary spend. However, the Group would continue to operate within the financing available under its existing facilities and funding covenants.

Considering this scenario analysis and the stress testing on the Group's current funding position, the Directors are satisfied that the Group and Company have the resources necessary to continue in business for a period of at least 12 months after the approval of the Financial Statements and are of the opinion that the Group and Company are both a going concern. Therefore, the Financial Statements are prepared on the going concern basis.

Presentation of the Financial Statements

The Financial Statements are presented in Sterling and all values are rounded to the nearest £0.1m, except where otherwise indicated. The Group presents its balance sheets in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 25.

Financial assets and financial liabilities are offset with the net amount reported in the balance sheet only when there is a legally enforceable right to offset and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard or interpretation, and specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated Financial Statements comprise the Financial Statements of the Group and its subsidiaries (together with certain structured entities (SEs) that the Group consolidates) as at 31 December 2022. The subsidiaries and SEs are disclosed in note 27. The Financial Statements of the Group's subsidiaries (including SEs that the Group consolidates) are prepared for the same reporting period as the Company using consistent accounting policies.

Subsidiaries are fully consolidated from the date that control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity, has the exposure or rights to the variable returns from the involvement with the entity, and is able to use its power to affect the amount of returns for the Group.

SEs are fully consolidated based on the power of the Group to direct relevant activities, and its exposure to the variable returns of the SE. In assessing whether the Group controls a SE, judgement is exercised to determine the following: whether the activities of the SE are being conducted on behalf of the Group to obtain benefits from the SE's operation; whether the Group has the decision-making powers to control or to obtain control of the SE or its assets; whether the Group is exposed to the variable returns from the SE's activities; and whether the Group is able to use its power to affect the amount of returns. The Group's involvement with SEs is detailed in note 28.

All intra-Group balances, transactions, income and expenses are eliminated in full.

2.2 Summary of significant accounting policies

(1) Foreign currency translation

The Financial Statements are presented in Sterling which is the presentational and functional currency of the Group and Company. The Group transacts mainly in Sterling. Transactions that are not Sterling denominated are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as effective cash flow hedges.

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

Loans and advances to customers are initially recognised on the date on which they are originated or purchased. All other financial instruments are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

(ii) Classification of financial assets and financial liabilities

IFRS 9 'Financial Instruments' contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Classification is generally based on the business model in which a financial asset is managed and the contractual cash flow characteristics of the financial instruments (whether these are solely payments of principal and interest or not). The Group's business model objective for continuing operations is to hold assets to collect the contractual cash flows. Any financial asset sales from continuing operations are incidental to the objective of the business model. The Group has assessed the contractual cash flow characteristics of its non-derivative financial assets to be consistent with a basic lending arrangement, being cash flows that are predominantly payments of principal and interest on the principal amount outstanding. Accordingly, the Group's non-derivative financial assets are classified as measured at amortised cost. The Group's derivative financial instruments meet the hedge accounting requirements of IFRS 9, which the Group has elected to apply, and are measured at FVTPL with the effective portion of changes in their fair value recognised in other comprehensive income.

The classification and subsequent measurement of financial assets changes at the start of the next reporting period after the objective of the Group's business model associated with those financial assets changes.

Non-derivative financial liabilities are held at amortised cost and derivative financial liabilities are measured at FVTPL with the effective portion of changes in their fair value recognised in other comprehensive income.

(iii) Loans and advances to banks

Loans and advances to banks, as referred to in the balance sheet, comprise cash and cash equivalents (which are amounts due on demand or with an original maturity of three months or less) and restricted cash. Restricted cash are demand deposits that is ring-fenced cash for credit balances on loans and advances to customers and cash restricted due to covenants in place in accordance with the Group's funding structure.

(iv) Loans and advances to customers

Financial instruments which are disclosed as loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value, they are subsequently measured at amortised cost using the effective interest rate (EIR) method, less allowances for any expected credit loss (ECL). The interest income calculated using this method is included in interest and similar income in the income statement (see note 2.2(6)(i)). The ECL is recognised in the income statement in impairment losses on loans and advances to customers.

(v) Debt issued and other borrowed funds

Financial liabilities that are not designated at fair value through profit and loss are classified as liabilities under debt issued and other borrowed funds where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset.

After initial measurement, debt issued and other borrowed funds are measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on issue and directly attributable, incremental issue costs (such as debt funding issuance fees) that are an integral part of the EIR.

Notes to the Financial Statements *continued*

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the performance of the asset suggests there is no reasonable expectation of its recovery and it is therefore written off; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  - the Group has transferred substantially all the risks and rewards of the asset; or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. For example, the Group has issued asset-backed securities to fund certain loans and advances to customers. In cases where the securitisation vehicles are funded by the issue of debt, on terms whereby the majority of the risks and rewards of the portfolio of the securitised lending are retained by the Group, these loans and advances to customers continue to be recognised in the Group's balance sheet, together with a corresponding liability for the debt issued. In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset but it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement determined by the extent to which it is exposed to changes in the value of the transferred asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the income statement.

(4) Determination of fair value

For all other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

(5) Impairment of financial assets

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group assesses impairment on a collective basis for all financial assets that are not individually significant. Loans and advances to customers are collectively grouped together by brand and retail partner which reflects the shared risk characteristics at this level.

IFRS 9 prescribes a forward-looking ECL model for financial assets measured at amortised cost. An impairment provision is recognised on origination of a financial asset, based on its anticipated credit loss. Under IFRS 9, expected loss allowances are measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition (including those which are credit-impaired) or if it was purchased or originated credit-impaired (POCI), otherwise the 12-month ECL measurement applies.

Financial assets where 12-month ECL is recognised are classified as 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk since initial recognition but are not credit-impaired, are classified as 'stage 2'; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit-impaired, are classified as 'stage 3'. Financial assets that were credit-impaired when purchased by the Group through the Acquisition (being the purchase by NewDay Group (Jersey) Limited of NewDay Group Holdings S.à r.l. and its subsidiaries on 26 January 2017) are classified as 'POCI' for the remainder of their life and cannot transition out of this classification. The assessment of whether a significant increase in credit risk has occurred is a key aspect of the IFRS 9 methodology which includes quantitative and qualitative measures and therefore requires management judgement as disclosed in note 2.3.

ECL is the product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted at the original effective interest rate. The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted, and should incorporate all information that is available without undue cost or effort relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECL. See note 2.3 for further details of the significant accounting judgements, estimates and assumptions used in the ECL allowance.

(ii) Renegotiated loans and advances to customers
Where possible, the Group seeks to restructure assets before they reach write-off based on customers' ability to make minimum monthly payments on their outstanding balances. This may involve setting up payment arrangements. The terms and conditions of the credit agreements are not varied as the payment arrangements operate by way of waiver. Once these arrangements are in place, any impairment is measured using a provision rate consistent with other restructured assets (separately from the portfolio of non-renegotiated assets) discounted at the original EIR as calculated before the introduction of the payment arrangements and the asset is no longer considered past due. Management continually reviews renegotiated assets to ensure that all criteria are met and that future payments are likely to occur. The assets continue to be subject to collective impairment assessments.

(6) Recognition of income and expenses
Income and expenses are recognised to the extent that it is probable that economic benefits will flow to or from the Group and the amount can be reliably measured. The following specific recognition criteria must also be met before income or expenses are recognised:

(i) Interest and similar income and expense
Interest income and expense are recognised in the income statement using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying value of the financial asset; or
- the amortised cost of the financial liability.

When calculating the EIR for financial instruments, other than for POCI financial assets, the Group estimates future cash flows considering all contractual terms of the financial instrument but not ECL. The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. For POCI financial assets, a credit-adjusted EIR is calculated using estimated future cash flows including ECL.

In calculating interest income and expense, the EIR is applied to the gross carrying value of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition and are therefore classified as stage 3, interest income is calculated by applying the EIR to the carrying value of the financial asset net of the ECL allowance. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For POCI financial assets, interest income is calculated by applying the EIR to the carrying value of the financial asset net of the ECL allowance and does not revert to a gross basis, even if the credit risk of the asset improves.

The Group recognises interest and similar income using the EIR on loans and advances to customers that have been offered interest-free promotional periods. The EIR is determined on inception as management's best estimate of expected future cash flows based on historical information, where available. The EIR methodology applied by the Group brings forward interest expected to be charged to the customer after the interest-free period to recognise a yield in the interest-free period. This interest is derived from the expected pay down of the spend that attracts the interest-free period. Any costs incurred to originate the account that has an interest-free period are spread over the expected life of the account.

See note 2.3 for further details of the significant accounting judgements, estimates and assumptions used in the EIR method.

The Group extends short-term concessions to customers in the form of payment holidays which suspend interest and fees for the duration of the intervention. These concessions have been accounted for as a non-substantial modification and therefore have not resulted in derecognition of the underlying asset. As at 31 December 2022, the total loans and advances to customers that were on a payment holiday was £90.0m (31 December 2021: £54.9m). In the year ended 31 December 2022, the Group reported a loss on modification of £17.7m (2021: £9.8m) on balances totalling £330.6m (2021: £180.9m) at the point of modification. This loss has been recorded within impairment losses on loans and advances to customers because the modifications are deemed to be resulting from financial difficulties of the customers.

See note 24.2 for further details of the Group's forbearance and other temporary arrangements offered to customers.

The Company's interest and similar income also consists of interest on Tracking Preferred Equity Certificates (TPECs) issued by NewDay Group Holdings S.à r.l. Interest is contractually accrued on the TPECs per the terms of the underlying agreement and recognised as interest income when there is an irrevocable right to receive it.

(ii) Fee and commission income
In accordance with IFRS 15 'Revenue from Contracts with Customers', fee and commission income is recognised when the Group satisfies its underlying performance obligations. Fees arising from revolving credit product agreements are predominantly based on customer transaction events (for example, foreign exchange fees) and are recognised at the point of the customer transaction. Fees linked to certain servicing activities are recognised after fulfilling the corresponding criteria. Any subsequent refunds of fees to customers are netted against fee and commission income in the period in which the Group commits to make the refund. Fee and commission income excludes fees that have been recognised using the EIR method and reported within interest and similar income in the income statement. Also included within fee and commission income are interchange fees which are the fees received, as card issuer, each time a cardholder purchases goods and services; and income earned from insurance commission (including profit shares).

Notes to the Financial Statements *continued*

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

Netting off against fee and commission income are fee and commission expenses which principally consist of scheme fees arising from using third party processing networks (such as the Mastercard network), cashback the Group pays to its customers on qualifying spend and customer goodwill gestures.

(iii) Customer cashback programmes

On some of the Group's credit products customers earn cashback on qualifying spend through cashback programmes. Expenses incurred in relation to these programmes are accrued within fee and commission income in the income statement (as a separate item from transactional fees) when the relevant spend is incurred on the customers' accounts.

(iv) Loyalty programmes

Loyalty points and vouchers costs relate to programmes run by the Merchant Offering retail partners and are recognised in the period in which they are incurred. Earned but not yet redeemed points and vouchers at the year end are accrued in the balance sheet within other liabilities.

Where loyalty points and vouchers expire before they are utilised by customers, the accrual is reversed in the period in which they expire. The costs are calculated individually for each scheme in place and are accrued within commissions to retailers, advertising and marketing costs in other operating expenses.

(v) Personnel expense

The Group applies IAS 19 'Employee Benefits' in its accounting for the relevant components of staff costs. Short-term employee benefits including salaries, accrued bonus, other incentive costs and social security are recognised over the period in which the employees provide the services to which the payments relate. Bonus and other incentive costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised over the period of service that employees are required to work to qualify for the benefits.

(vi) Defined contribution pension plan

The contributions payable to the defined contribution pension plan are in proportion to the services rendered to the Group by its employees and are recorded in the income statement as a personnel expense on an accruals basis. Unpaid contributions are accrued in the balance sheet within other liabilities.

(vii) Share-based payment transactions

The fair value of the amount payable to employees in respect of share-based payment transactions is recognised as an expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the shares.

(viii) Servicing costs

Servicing costs include costs associated with servicing customer accounts. Certain servicing costs are subject to a netting arrangement whereby the expenses and income (rebates) relating to the same servicer are netted against each other. This is in line with the servicer agreement and reflects the intention of both parties to settle on a net basis. Some of the Group's servicing costs are prepaid and released to the income statement over the period in which the service is provided. These amounts are included in prepayments and accrued income on the balance sheet.

(ix) Capitalisation of expenditure

Expenditure relating to specific projects is reviewed to determine whether the capitalisation criteria of IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment' are met (see note 2.2 (10) and (11)). The Group capitalises expenditure where the criteria are met and amortises or depreciates over the useful economic life of the asset.

(7) Tax

(i) Current tax

Current tax assets and liabilities arising in current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the tax balances are those that are enacted or substantively enacted by the reporting date.

Current tax relating to items recognised directly in equity is also recognised in equity and not in the income statement.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax assets relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, where deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

(8) Derivative financial instruments

The Group uses derivative financial instruments, namely interest rate swaps (which have not previously been used by the Group prior to 2022) and cross-currency interest rate swaps, to manage the interest rate and foreign exchange rate risks arising from the Group's debt. No transactions of a speculative nature are undertaken.

All derivative financial instruments are assessed against the hedge accounting criteria prescribed in IFRS 9. The Group's derivatives are cash flow hedges and meet the hedge accounting requirements of IFRS 9.

Derivatives are recognised initially at the fair value on the date a derivative contract is entered into and are remeasured subsequently at each reporting date at their fair value. Where derivatives do not qualify for hedge accounting, movements in their fair value are recognised immediately in the income statement.

For derivatives that are designated as cash flow hedges and where the hedge accounting criteria are met, the effective portion of changes in the fair value is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

The Group discontinues hedge accounting when:

- it is evident from testing that a derivative no longer meets the hedge effectiveness requirements of IFRS 9;
- the derivative expires, or is sold, terminated or exercised, with the exception of when the expiry or termination of a derivative is a replacement or roll-over of a hedging instrument into another that is part of, and consistent with, the Group's documented risk management objective; or
- the underlying hedged item matures or is sold or repaid.

(9) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting as required by IFRS 3 'Business Combinations'. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the consideration transferred over the fair values of the identifiable net assets acquired is recognised as goodwill.

Goodwill is allocated to cash-generating units for the purposes of impairment assessments. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the cash-generating unit to the discounted expected future cash flows from the relevant cash-generating unit. Any impairment is recognised immediately in the income statement.

See note 2.3 for further details on the significant accounting judgements, estimates and assumptions that affect the carrying value of goodwill.

Notes to the Financial Statements *continued*

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

(10) Intangible assets

The Group's intangible assets include intangible assets acquired as part of the Acquisition and internally generated intangible assets.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired as part of a business combination is their fair value at the date of acquisition.

Internally generated intangible assets primarily include computer software and core operating platforms. These assets are capitalised as an intangible asset based on the costs incurred to acquire, develop and bring it into use. An intangible asset is recognised only when an asset is created that can be identified, its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Expenditure incurred in relation to scoping and researching the build of an asset as part of a project is expensed as incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful economic lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortised over their useful economic life. Amortisation is calculated using the straight-line method, or a unit-of-production method for acquired intellectual property, to write down the cost of intangible assets to their residual values over their estimated useful economic lives, which are generally estimated to be:

• computer software and core operating platforms	3–5 years
• acquired customer and retail partner relationships	6–8 years
• acquired brand and trade names	20 years
• acquired intellectual property (credit scoring models)	7 years

Changes in the expected useful economic life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates.

The Group has no intangible assets with an infinite useful economic life. The amortisation expense on intangible assets with finite lives is recognised within other operating expenses in the income statement.

Intangible assets are assessed for indications of impairment at each balance sheet date, or more frequently where changes in circumstances exist. The carrying value of assets is compared to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. Any impairment is recognised immediately in the income statement.

See note 2.3 for further details on the significant accounting judgements, estimates and assumptions that affect the carrying value of intangible assets.

(11) Property and equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Changes in the expected useful economic life are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful economic lives. The estimated useful economic lives are as follows:

• computer equipment	3–5 years
• fixtures and fittings	3–5 years
• leasehold improvements	over the lease term

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is recognised in other operating expenses in the income statement in the period in which the asset is derecognised.

(12) Leasing

(i) Lease liability

All leases where the Group is a lessee, other than those that are less than 12 months in duration or are low value which the Group has elected to treat as exempt, require a lease liability to be recognised on the balance sheet on origination of the lease. The lease liability is initially measured as the present value of the contractual lease payments payable over the lease term discounted at the rate implicit in the lease if that can be readily determined or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Subsequently settled lease payments reduce the lease liability and an interest expense is recognised in the income statement as the discount is unwound. Each lease payment is allocated between payments of the principal element of the lease liability and interest payments within the consolidated statement of cash flows.

(ii) Right-of-use asset
For each lease liability a corresponding right-of-use asset is recorded in the balance sheet. The right-of-use asset is measured at cost comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use asset is subsequently depreciated over the shorter of the asset's useful economic life and the lease term on a straight-line basis and recorded as an expense in other operating expenses. All of the Group's right-of-use assets relate to property leases.

(13) Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying value of the asset does not exceed its recoverable amount, nor exceeds the carrying value that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior periods. Such reversal is recognised in the income statement.

(14) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources representing economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in other operating expenses in the income statement net of any reimbursement.

(15) Share capital and equity instruments
The Group applies IAS 32 'Financial Instruments: Presentation' to determine whether funding is either a financial liability or equity.

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are no longer at the discretion of the Group. Dividends for the year that are approved after the reporting date are disclosed as a post balance sheet event.

Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument. If this is not the case, the instrument is generally an equity instrument and the proceeds are included in equity, net of transaction costs.

(16) Investment in subsidiary undertakings
The Company's equity investments in its subsidiary undertakings are recorded at cost less impairment. At each reporting date an assessment is undertaken to determine whether there is any indication of impairment.

(17) Discontinued operations
A discontinued operation is a component of the Group's business which has either been disposed of or is classified as held for sale and the operations and cash flows from the component can be clearly distinguished from the rest of the Group and:
- represents a separate major line of business operations;
- is part of a single co-ordinated plan to dispose of the operation; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of income and other comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative year.

Notes to the Financial Statements *continued*

2. Accounting policies continued

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated Group and Company Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. The Group's Board Audit Committee regularly reviews and approves the significant accounting judgements, estimates and assumptions, see pages 68 and 69 for further details. The most significant uses of judgements, estimates and assumptions are as follows:

(1) ECL on loans and advances to customers

The following judgements, estimates and assumptions are made in determining the Group's ECL under the requirements of IFRS 9.

(i) Modelling estimates

The measurement of ECL is calculated using three main components: (i) PD; (ii) EAD; and (iii) LGD. The ECL is calculated by multiplying the PD, EAD and the LGD. The 12-month PD, being the likelihood of default occurring in the next 12 months, is used for assets in stage 1 and the lifetime PD, being the likelihood of default occurring over the remaining expected life of the asset, is used for all other assets. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of unutilised but committed credit limits. The LGD represents expected losses on the EAD upon default, taking into account the time value of money. The Group's strategy is to sell debt once it is written off, which is predominantly after it reaches 180 days past due, and the Group's LGD is primarily determined by the recoveries received following such debt sales. The debt sales are principally at contractually agreed prices through forward flow agreements.

The following table details the movements in the ECL allowance for changes in the significant modelling estimates, being the PD and expected recoveries incorporated in the LGD.

Group	31 December 2022 £m	31 December 2021 £m
+/-5% relative change in the PD	17.7/(17.7)	18.4/(18.4)
+/-1 pence movement per pound of receivable on recoveries from debt sales assumed in the LGD	(3.4)/3.4	(3.1)/3.1

(ii) Significant increase in credit risk

In determining whether an account has demonstrated a significant increase in credit risk since origination the Group applies the following criteria, based on its historical experience, to assess whether an asset should move from stage 1 to stage 2:

- quantitative measures consider the increase in an account's remaining lifetime PD compared to the expected lifetime PD when the account was originated. For the purposes of provisioning, the Group segments its portfolios into PD risk grades and has determined a relevant threshold for each risk grade where a movement in excess of the threshold since origination is considered to be significant and the account is therefore moved into stage 2;
- qualitative measures which consider whether an account has displayed specific adverse behaviour which is indicative, based on historical experience, that the account may go on to default. These measures include a range of information as reasonably available, including payment holiday intervention, bureau scores, specific credit bureau flags and a high consumer indebtedness index (wherever possible or relevant); and
- IFRS 9 includes a rebuttable presumption that once contractual payments are more than 30 days past due this is an indicator of a significant increase in credit risk since origination. The Group considers 30 days past due to be an appropriate backstop and has not rebutted this presumption.

In most instances an account has to meet both the quantitative and at least one qualitative criteria before it is deemed to have experienced a significant increase in credit risk since origination. An account on a payment holiday is deemed to have experienced a significant increase in credit risk since origination irrespective of the quantitative criteria.

An account is moved back to stage 1 when it no longer meets these criteria for a period of three consecutive monthly payment cycles.

As at 31 December 2022, a 10% increase/decrease in the significant increase in credit risk PD thresholds (for example, from a 1.0 to 1.1 times uplift) results in a £2.9m reduction or £4.7m increase (31 December 2021: £3.1m reduction or £4.5m increase) in the Group's ECL allowance respectively.

(iii) Definition of default

The Group classifies an account as in default and therefore moves to stage 3 when it meets one or more of the following criteria:

- quantitative measures reflecting the IFRS 9 rebuttable presumption that once contractual payments are more than 90 days past due they are in default; and
- qualitative measures including the observation of specific events such as insolvency or forbearance measures.

Where the performance of the asset improves to the extent that it no longer meets any of the default criteria for three consecutive months, or 12 consecutive months for accounts that were in default through forbearance measures, it transitions out of stage 3.

(iv) Forward-looking information

The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information. As at 31 December 2022, the Group has identified the UK unemployment rate as the most significant macroeconomic factor that is likely to impact credit loss. The UK unemployment rate and its associated impact on ECL has been factored into the credit loss models using a five-year outlook period utilising four scenarios based on reasonable forecasts of future economic conditions and applying a probability-weighted approach. These scenarios include a base, an upside and two downside scenarios, which are based on a panel of external forecasts taken from HM Treasury and the PRA stress forecast. The probability weighting applied to each scenario is based on management's best estimate of the likely occurrence of each scenario.

The following table details the key forward-looking information incorporated into the Group's ECL allowance over the five-year outlook period used in the Group's ECL provisioning model.

	UK unemployment rate forecast over five-year outlook period %			ECL allowance assuming 100% probability weighting	Probability weighting used in reported ECL allowance
Group	Peak	Minimum	Average	£m	%
31 December 2022					
Upside	4.0	3.6	3.8	527.2	5
Base	4.4	3.7	4.2	564.9	55
Downside 1	6.4	3.7	5.6	612.4	35
Downside 2	8.5	3.7	7.0	698.2	5
31 December 2021					
Upside	4.2	3.8	3.9	477.2	5
Base	4.6	4.1	4.3	502.0	50
Downside 1	9.1	4.2	6.3	644.2	40
Downside 2	11.9	4.2	7.3	727.0	5

A summary of the assumptions in each scenario as at 31 December 2022 is detailed below.

- The upside scenario assumes the UK economy avoids going into a recession as price and wage expectations ease faster than expected, reducing the need for the Bank of England to undertake substantial interest rate increases. The unemployment rate is expected to remain broadly flat over the outlook period and reach a long-term rate of 3.8%.
- The base scenario is that the UK economy will enter a recession. This outlook reflects consumer price inflation rising, driven by higher utility and energy costs which are creating spill-over effects into other parts of the economy through increased wage demands and higher prices. Persistent high inflation results in the Bank of England increasing the base rate. Increased borrowing costs add to pressure on households that are already facing considerably higher prices which reduces household spending and business activity, depressing economic activity. The unemployment rate rises gradually to its peak of 4.4% in 2024 before falling back to 4.2% by the end of the forecast period.
- The downside 1 scenario assumes a steeper increase in the unemployment rate than in the base scenario, reflecting a deeper downturn and slower recovery from the expected recession. The slower recovery reflects a combination of strong domestic price growth and lower global economic growth which sees businesses face a negative trifecta of higher costs, lower domestic consumer spending and reduced exports, which causes them to reduce hiring and investment. This, in turn, further negatively affects household incomes through reduced employment and lower wage growth. The unemployment rate gradually rises to its peak of 6.4% by the end of 2024, slightly recovering to 5.5% at the end of the forecast period.
- The downside 2 scenario embodies a series of cost shocks, and high and persistent consumer price inflation, across advanced economies. A fall in real household real income, lower confidence and tighter financial conditions result in a severe UK recession. Inflation rises sharply and predominantly reflects increases in energy and food prices as well as wider global supply chain pressures affecting import and domestic prices. The unemployment rate peaks at 8.5% by the end of 2024 and gradually reduces to 6.8% by the end of the forecast period. The rise in unemployment and prolonged recovery reflects an increase in structural underlying unemployment.

The changes to the probability weighting applied to each scenario represent changes to management's view of the likelihood of each scenario occurring and reflect the uncertainty in the UK economic outlook at the prevailing date. The ECL allowance assuming a 100% probability weighting applied to each scenario also includes the impact of post model adjustments.

As at 31 December 2022, the impact of probability-weighting these scenarios and overlaying other forward-looking information increased the ECL allowance on loans and advances to customers by £21.4m (31 December 2021: £67.0m) compared to the base scenario ECL allowance.

Notes to the Financial Statements *continued*

2. Accounting policies continued

2.3 Significant accounting judgements, estimates and assumptions continued

(v) Post model adjustments (PMAs)

The Group uses PMAs to adjust modelled ECL outcomes when it is deemed that the ECL model methodology has not fully captured anticipated credit losses. The following table details the PMAs reported in the Group's ECL allowance.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
COVID-19 related	–	19.2
Forward-looking information	24.3	25.4
Model performance	(35.3)	21.9
Total PMAs	**(11.0)**	**66.5**

The methodologies used to calculate PMAs are based on similar principles to those used in the underlying model methodology, with the inputs and calculations subject to regular oversight and review consistent with the underlying model output. A summary of each category of PMA is detailed below.

- COVID-19 related PMAs represent adjustments to ECL arising from changes in customer behaviour and model inputs driven by the pandemic that are not captured appropriately by the underlying model methodology. The PMAs have reduced to nil as at 31 December 2022 because the impact of COVID-19 has dissipated and the specific risks identified by these PMAs have been incorporated into the underlying data within the Group's ECL model.
- The forward-looking information PMAs primarily represent an uplift to ECL arising from cost-of-living squeezes increasing household bills, in particular, the impact from rising interest rates on mortgage payments. The Group's forward-looking information modelling is based solely on unemployment and due to the changing dynamics of the UK economic outlook the Group has incorporated, through a PMA totalling £28.5m (31 December 2021: £21.5m), the potential impact on ECL arising from cost-of-living pressures. The PMA assumes a range of cost-of-living squeezes up to £150 per month across four potential economic scenarios which have the same probability weighting as used in unemployment forecasting (note 2.3(iv)). In addition to this, the Group has a £(4.2)m PMA which reduces overall ECL (31 December 2021: £3.9m uplift in ECL) for the use of proxies to model the impact on ECL of multiple economic scenarios. The Group uses its Direct to Consumer model as a proxy for considering the impact of changes in forward-looking information on ECL for portfolios which do not have a bespoke forward-looking model.
- Model performance PMAs represent adjustments to modelled outcomes including normalisation for recent experience and the outcome of periodic model validations. As at 31 December 2022, through its ongoing validation of model metrics, the Group has recalibrated the probability of default (PD) it uses in its ECL methodology. This has resulted in a PMA of £(35.3)m reducing overall ECL (31 December 2021: £5.3m uplift in ECL) and reflects the improvement in the underlying performance of the receivables portfolio since the last calibration exercise and is driven, in part, by credit-tightening measures implemented in recent periods. A full calibration exercise was last performed in 2019 prior to the COVID-19 pandemic. As a result of Government interventions introduced following the pandemic, the Group's PDs were temporarily suppressed from 2020 onwards and were not reflective of expected performance once the interventions were no longer available. Accordingly, although the PDs were regularly assessed for appropriateness they were not fully recalibrated until the second half of 2022 when they were no longer deemed to be significantly impacted by COVID-19. Accordingly, the PDs have been recalibrated to include data up until August 2022 and management has performed a sensitivity to consider calibrating the PDs using data up until December 2022. Under this sensitivity, the PMA would have been £17.3m lower (resulting in an impairment charge), however, management are of the opinion this impact is driven by the cost-of-living squeeze and does not reflect the Group's estimated default levels for deployment in the ECL model. Model performance PMAs also include several other PMAs that collectively net-off to nil as at the year end (31 December 2021: £16.6m).

See note 24.2 for further details of the Group's ECL allowance.

(2) Effective interest rate (EIR) on loans and advances to customers

In accordance with IFRS 9, interest income is recognised in the income statement using the EIR method for loans and advances to customers, including throughout interest-free promotional periods when these are offered to customers.

The EIR is determined on inception as management's best estimate of future cash flows based on historical information, where available, and considers the repayment activity and the retention of the customer balance after the end of the promotional period. As such the EIR method introduces estimation uncertainty which, if the actual cash flows differ from that estimate, could result in an adjustment to the carrying value of the asset which reflects the value of interest recorded.

The Group's best estimate of the future cash flows shows a profile running off over a period of up to ten years across the Direct to Consumer and Merchant Offering portfolios. The interest-free promotional period is the most sensitive element of the total EIR methodology.

As at 31 December 2022, the Group reported an EIR adjustment to loans and advances to customers in respect of interest-free periods of £35.7m (31 December 2021: £37.4m). Net interest and similar income recognised in relation to the interest-free promotional periods totalled £(1.7)m (2021: £4.2m) of interest and similar income for the year ended 31 December 2022.

As at 31 December 2022, if the estimated cash flows used in the EIR model for interest-free promotional products increased/decreased by 5% the EIR adjustment to loans and advances to customers would increase/decrease by £1.8m/£1.8m (31 December 2021: £1.5m/£1.5m).

(3) Impairment of intangible assets and goodwill

In accordance with IAS 36 'Impairment of Assets' the goodwill arising on the Acquisition is subject to an annual impairment review and intangible assets are assessed for indications of impairment at each balance sheet date, or more frequently where changes in circumstances exist.

(i) Impairment of goodwill

In 2022, the Group performed an annual impairment review of goodwill by comparing the discounted estimated future cash flows of the cash-generating units with their carrying value including goodwill. The impairment review is dependent on a number of key assumptions which have a significant impact on the outcome including those listed below.

- The cash flow forecasts utilised. These were extracted from the Group's Board-approved five-year budget and inherently include a number of judgements and estimates, particularly in relation to new customer account originations, impairment rates and the ongoing cost base of the cash-generating units. Cash flows were extrapolated into perpetuity, reflecting the fact they are held for long-term investment, with no further growth assumed during the extrapolated period.
- The discount rate which has been estimated based on the cost of equity relevant to each cash-generating unit, being 12% (2021: 11%). In 2022, against a backdrop of rising interest rates, the Group benchmarked its cost of equity to other companies and determined 12% to be appropriate.

The nature and inherent uncertainty relating to the above judgements and estimates means that the forecast cash flows may be materially different from actual cash flows. A material reduction in future cash flows from these assets would necessitate a full impairment review and the possibility of a material impairment charge in future years. As at 31 December 2022, the Group reported a goodwill carrying value of £279.9m (31 December 2021: £279.9m) and no impairment charge in the year (2021: £nil). If the discount rate used in the impairment assessment was to increase by 10%, from 12% to 13%, or cash flows were to reduce by 10%, there would be no goodwill impairment charge either. Cash flows would have to reduce by over 40% before there would be an impairment charge. The pre-tax discount rate used in the goodwill impairment review, based on the 12% cost of equity rate, was 16% (2021: 12%).

See note 18 for further details of the Group's goodwill.

(ii) Impairment of acquired intangible assets

As at 31 December 2022, the reported carrying value of the Group's acquired intangible assets was £79.5m (31 December 2021: £133.8m). In accordance with IAS 36, intangible assets arising on the Acquisition are measured at fair value on the date they were acquired less accumulated amortisation and impairment losses. Accordingly, at each reporting date the Group is required to assess whether there is any indication that the assets may be impaired. If there is an indication that an asset may be impaired, the asset's recoverable amount must be calculated and the carrying value should be reduced to the recoverable amount should it be lower.

As at 31 December 2022, the Group has reviewed all available information that may indicate its acquired intangible assets are impaired and assessed there to be no impairment triggers. Accordingly, no impairment has been recognised on the acquired intangible assets in the year. See note 16 for further details of the Group's acquired intangible assets.

2.4 Adoption of new and revised standards

The following new amendments to existing standards are mandatory for the first time for the year ended 31 December 2022 but do not have a significant impact on the Group or Company.

- Amendments to IFRS 16 'Leases' – COVID-19-Related Rent Concessions beyond 30 June 2021. The amendments extend the time period over which the practical expedient introduced by earlier amendments is available for use.
- Annual improvements to IFRS standards 2018-2020 cycle. Minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' – Onerous Contracts: Cost of Fulfilling a Contract. The amendments specify which costs to include when assessing whether a contract will be loss-making.
- Amendments to IAS 16 'Property, Plant and Equipment' – Proceeds before Intended Use. The amendments require amounts received from selling items produced whilst preparing the asset for its intended use to be recognised in profit or loss, and not as an adjustment to the cost of the asset.
- Amendments to IFRS 3 'Business combinations' – Reference to the Conceptual Framework. The amendments update certain references to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

2.5 Standards issued but not yet effective

The following accounting standards and interpretations have been issued by the International Accounting Standards Board but have not been early adopted by the Group or Company.

- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2. The amendments provide more guidance on the definition of a current and non-current liability, guidance on disclosures for liabilities subject to covenants, and guidance on relevant accounting policy disclosures.
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The amendments introduce a new definition for accounting estimates and clarify the relationship between accounting policies and accounting estimates.
- Amendments to IAS 12 'Income Taxes'. The amendments clarify how companies should account for deferred tax on certain transactions, such as leases and decommissioning provisions.

The items noted above are not expected to have a significant impact on the Group's or Company's Financial Statements.

Notes to the Financial Statements *continued*

3. Segment information

The Group's operating performance on a segmental basis is regularly reviewed by management. These segmental results contain various reclassifications from the statutory results. As at 31 December 2022, the Group's reportable segments comprise Direct to Consumer, Merchant Offering and Platform Services, which are the segments reported to the chief operating decision maker, which is deemed to be the Chief Executive Officer and the Management Committee. Each segment offers different products and services and is managed in line with the Group's management and internal reporting structure. The segments are detailed below.

- Direct to Consumer: this segment serves customers who are typically new to credit or have a limited or poor credit history. The segment issues credit cards under the *Aqua, Marbles* and *Fluid* brands and digital credit under the *Bip* brand. The segment also includes two closed portfolios.
- Merchant Offering: this segment provides co-branded credit products in partnership with established retail and consumer brands, and an own-branded *Pulse* card to customers from previous partnerships that have since ended. The segment also offers finance products to customers through its digital revolving credit product, *Newpay*. In addition, the segment has a portfolio of other closed credit cards and point-of-sale finance products.
- Platform Services: this segment provides digital platform solutions for end-to-end servicing of unsecured credit products financed and owned by third parties, together with certain other capital-light activities.

These segments reflect how internal reporting is provided to management and how management allocates resources and assesses performance. Segment performance is assessed on the basis of contribution. The accounting policies of the reportable segments are consistent with the Group's accounting policies. The Group's activities are managed across Jersey, Luxembourg and the UK. However, the Group only offers products to customers in the UK. Capital expenditure is not allocated to individual segments as property and equipment is managed at a Group level.

The table below presents the Group's performance on a segmental basis in line with reporting to the chief operating decision maker.

Year ended 31 December 2022	Direct to Consumer £m	Merchant Offering £m	Platform Services £m	Total £m
Interest income	640.3	243.8	–	884.1
Cost of funds	(78.0)	(46.3)	–	(124.3)
Net interest income	**562.3**	**197.5**	**–**	**759.8**
Fee and commission income	44.3	21.3	1.4	67.0
Net revenue	**606.6**	**218.8**	**1.4**	**826.8**
Impairment losses on loans and advances to customers	(302.0)	(80.6)	–	(382.6)
Underlying risk-adjusted income	**304.6**	**138.2**	**1.4**	**444.2**
Servicing costs	(56.5)	(51.5)	(0.4)	(108.4)
Change costs	(23.4)	(16.6)	(3.3)	(43.3)
Marketing and partner payments	(24.2)	(21.1)	(0.2)	(45.5)
Collection fees	21.3	8.9	–	30.2
Contribution	**221.8**	**57.9**	**(2.5)**	**277.2**
Salaries, benefits and overheads				(73.8)
Underlying profit before tax				**203.4**
Add back: depreciation and amortisation				11.6
Adjusted EBITDA				**215.0**
Senior Secured Debt interest and related costs				(30.3)
PPI				1.2
Platform development costs				(9.3)
Other				(0.8)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(65.9)
Profit before tax				**109.9**
Gross receivables	**2,418.3**	**1,833.4**	**–**	**4,251.7**

No single customer in the current and prior year accounts for more than 10% of revenue.

The table below presents a reconciliation of the reclassifications from the statutory performance to the results shown in the segmental analysis.

Year ended 31 December 2022 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	887.2	–	–	(3.1)	884.1
Cost of funds	(155.1)	–	30.3	0.5	(124.3)
Fee and commission income	95.8	(28.6)	–	(0.2)	67.0
Impairment losses on loans and advances to customers	(382.3)	–	–	(0.3)	(382.6)
Underlying risk-adjusted income	**445.6**	**(28.6)**	**30.3**	**(3.1)**	**444.2**
Total operating expenses	(335.7)	28.6	(30.3)	3.1	(334.3)
Profit before tax	**109.9**	**–**	**–**	**–**	**109.9**

Fee income represents i) cost recovery fees which are presented as a component of collection fees on a segmental basis rather than income; and ii) in 2021, subsidy income which is presented as a component of fee and commission income on a segmental basis rather than as an adjustment to the effective interest rate and therefore presented in interest income.

Senior Secured Debt interest and related costs include the interest charge and other costs associated with the issuance and servicing of the Senior Secured Debt and the Revolving Credit Facility. The costs are excluded from underlying profit on a segmental basis where appropriate. In 2022, the Group exchanged £237.7m of existing notes for new notes with a December 2026 maturity and settled £26.4m of notes in cash. As at 31 December 2022, the nominal value of Senior Secured Debt and Revolving Credit Facility totalled £298.6m (31 December 2021: £325.0m).

Other primarily represents interest income from loans and advances to banks which is presented in overheads on a segmental basis rather than interest and similar income.

Notes to the Financial Statements *continued*

3. Segment information continued

The table below presents the Group's performance on a segmental basis for the year ended 31 December 2021 in line with reporting to the chief operating decision maker.

Year ended 31 December 2021	Direct to Consumer £m	Merchant Offering £m	Platform Services £m	Total £m
Interest income	487.8	212.6	–	700.4
Cost of funds	(41.2)	(20.6)	–	(61.8)
Net interest income	**446.6**	**192.0**	**–**	**638.6**
Fee and commission income	31.2	15.7	0.6	47.5
Net revenue	**477.8**	**207.7**	**0.6**	**686.1**
Impairment losses on loans and advances to customers	(218.3)	(77.9)	–	(296.2)
Underlying risk-adjusted income	**259.5**	**129.8**	**0.6**	**389.9**
Servicing costs	(43.7)	(40.7)	–	(84.4)
Change costs	(22.4)	(15.9)	(5.9)	(44.2)
Marketing and partner payments	(22.3)	(19.5)	–	(41.8)
Collection fees	15.4	8.9	–	24.3
Contribution	**186.5**	**62.6**	**(5.3)**	**243.8**
Salaries, benefits and overheads				(71.8)
Underlying profit before tax from continuing operations				**172.0**
Add back: depreciation and amortisation				11.0
Adjusted EBITDA				**183.0**
Senior Secured Debt interest and related costs				(30.6)
Fair value unwind				1.1
PPI				(4.7)
Platform development costs				(1.7)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(68.4)
Profit before tax from continuing operations				**78.7**
Gross receivables	**2,112.1**	**1,173.5**	**–**	**3,285.6**

The table below presents a reconciliation of the reclassifications from the statutory performance to the results shown in the segmental analysis.

Year ended 31 December 2021 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	705.8	(4.3)	–	(1.1)	700.4
Cost of funds	(93.1)	–	30.5	0.8	(61.8)
Fee and commission income	66.6	(19.1)	–	–	47.5
Impairment losses on loans and advances to customers	(296.1)	–	–	(0.1)	(296.2)
Underlying risk-adjusted income	**383.2**	**(23.4)**	**30.5**	**(0.4)**	**389.9**
Total operating expenses	(304.5)	23.4	(30.5)	0.4	(311.2)
Profit before tax from continuing operations	**78.7**	**–**	**–**	**–**	**78.7**

The table below presents a reconciliation from gross receivables to gross loans and advances to customers.

	31 December 2022			31 December 2021		
	Direct to Consumer £m	Merchant Offering £m	Group £m	Direct to Consumer £m	Merchant Offering £m	Group £m
Gross receivables	**2,418.3**	**1,833.4**	**4,251.7**	**2,112.1**	**1,173.5**	**3,285.6**
Deferred origination costs[1]	57.6	8.4	66.0	52.5	8.9	61.4
EIR method adjustment for interest-free promotional periods (note 2.3)	21.2	14.5	35.7	24.5	12.9	37.4
Other[2]	23.7	17.1	40.8	16.0	13.1	29.1
Gross loans and advances to customers	**2,520.8**	**1,873.4**	**4,394.2**	**2,205.1**	**1,208.4**	**3,413.5**

1 This relates to transaction costs incurred on origination of customer accounts. These costs are amortised through the EIR method over the life of the underlying accounts.
2 This relates to other adjustments required by IFRS and principally includes: interest income accruals to ensure appropriate cut-off to the period end; fee income deferred and amortised through the EIR method over the life of the underlying account; and reclassification of accounts that are in a credit position.

4. Discontinued operation

Following a strategic review of its operations, the Group closed its UPL segment to new lending in March 2020. Towards the end of 2020, the Group made the decision to market for sale the UPL loans and advances to customers portfolio and committed to a plan to sell the loans. This sale was concluded in February 2021 generating proceeds of £67.2m. The cash received from this sale was used to settle in full the outstanding UPL VFN. Following the repayment of the UPL VFN, the UPL segment was discontinued.

As per the requirements of IFRS 9, the classification and subsequent measurement of the loans and advances to customers held for sale changed at the start of the next reporting period after the objective of the Group's business model associated with these financial assets changed. Specifically, towards the end of 2020 the business model for these financial assets changed from holding them to collect the contractual cash flows (held-to-collect) to selling the assets before their maturity to maximise cash flows. Consequently, from 1 January 2021, the financial assets were measured at fair value through profit or loss (FVTPL). The fair value was calculated based on the price received from the loans and advances to customers held for sale when they were sold in February 2021. Since the loans and advances to customers held for sale were measured at FVTPL there was no gain on their sale because the sale proceeds were aligned to the carrying value.

a) Results of discontinued operation

	UPL	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Interest and similar expense	–	(0.1)
Net interest expense	**–**	**(0.1)**
Impairment losses on loans and advances to customers	–	–
Risk-adjusted expense	**–**	**(0.1)**
Other operating expenses	–	(0.3)
Fair value gain on classification and measurement of loans and advances to customers held for sale as FVTPL on 1 January 2021	–	4.5
Fair value gain recognised in period on loans and advances to customers held for sale	–	0.8
Costs incurred to sell loans and advances to customers held for sale	–	(1.5)
Profit before tax from discontinued operation	**–**	**3.4**
Tax expense	–	–
Profit after tax from discontinued operation	**–**	**3.4**

The results of discontinued operation includes all income and expenses that are directly attributable to the UPL business unit.

Notes to the Financial Statements *continued*

4. Discontinued operation continued

b) Cash flows generated from discontinued operation

	UPL	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Net cash generated from operating activities	–	5.3
Net cash generated from investing activities	–	67.2
Net cash used in financing activities	–	(54.2)
Net cash flows generated from discontinued operation	**–**	**18.3**

5. Interest and similar income

	Group		Company	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Interest income from loans and advances to customers	884.0	705.8	–	–
Interest income from loans and advances to banks	3.2	–	–	–
Interest income from loans with Group undertakings	–	–	46.3	51.5
Interest income from TPECs	–	–	–	120.0
Interest and similar income	**887.2**	**705.8**	**46.3**	**171.5**

The Company's interest and similar income consists of interest on a loan note issued by NewDay UK Limited and interest on TPECs issued by NewDay Group Holdings S.à r.l. Interest is contractually accrued on the TPECs per the terms of the underlying agreement and recognised as interest income when there is an irrevocable right to receive it.

6. Interest and similar expense

	Group		Company	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Interest and similar expense on debt issued and other borrowed funds	153.5	92.4	5.5	3.6
Interest expense on amounts owed to Group undertakings	–	–	24.8	27.2
Net realised loss arising from qualifying hedge relationships	1.1	–	–	–
Other	0.5	0.7	–	–
Interest and similar expense	**155.1**	**93.1**	**30.3**	**30.8**

Within interest and similar expense on debt issued and other borrowed funds is £30.3m (2021: £30.5m) of Senior Secured Debt interest and related costs. Other includes £0.5m (2021: £0.6m) of cost which represents the interest expense arising from the unwind of lease liabilities.

7. Fee and commission income

	Group		Company	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Card fees	76.4	58.9	–	–
Interchange fees	28.8	16.9	–	–
Other income	7.5	4.7	–	–
Fee and commission expenses	(16.9)	(13.9)	–	–
Fee and commission income	**95.8**	**66.6**	**–**	**–**

Fee and commission income consists of fees earned on customer accounts but excludes fees that have been recognised using the EIR method which are reported within interest and similar income in the income statement. Also included in fee and commission income are interchange fees earned each time a cardholder purchases goods or services. Fee and commission expenses principally consist of scheme fees arising from using third party processing networks (such as the Mastercard network), cashback the Group pays to its customers on qualifying spend and customer goodwill gestures.

8. Personnel expense

	Group		Company	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Wages and salaries	112.1	87.0	–	–
Social security costs	10.3	9.1	–	–
Pension contributions	6.4	5.5	–	–
Other staff costs	6.4	5.2	–	–
Personnel expense	**135.2**	**106.8**	**–**	**–**
Average number of full time equivalent employees	1,253	1,129	–	–
Number of full time equivalent employees as at the year end	1,346	1,121	–	–

In 2022, the Group incurred £40.8m (2021: £22.8m) of project-related personnel expenses, of which £11.5m (2021: £1.7m) was capitalised within intangible assets. The corresponding capitalisation credit is netted off project expenses within other operating expenses (note 9).

The Company has no employees (2021: none). No Directors' remuneration was paid by the Company during the year (2021: £nil). Remuneration for the Directors listed in the Board of Directors section on pages 60 to 62 is borne by NewDay Cards Ltd (for the Executive Directors) and NewDay Group UK Limited (for the Non-Executive Directors).

See note 27 for details of transactions with key management personnel.

9. Other operating expenses

	Group		Company	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Servicing costs	56.4	44.3	–	–
Commission to retailers, advertising and marketing costs	43.8	35.2	–	–
Administrative costs	7.0	10.1	0.4	0.5
IT and communications	19.9	15.7	–	–
Professional fees	4.2	4.8	–	0.1
Project expenses	4.6	13.4	–	0.1
Depreciation of property and equipment (see note 15)	4.8	4.9	–	–
Charge on disposal of property and equipment (see note 15)	–	0.6	–	–
Amortisation of intangible assets (see note 16)	61.1	63.5	–	–
Charge on disposal of intangible assets (see note 16)	–	0.4	–	–
(Release)/uplift of PPI provision	(1.2)	4.7	–	–
Other	(0.1)	0.1	–	–
Other operating expenses	**200.5**	**197.7**	**0.4**	**0.7**

Notes to the Financial Statements *continued*

9. Other operating expenses continued

Professional fees include fees payable to the external auditor, KPMG LLP, in relation to:

	Group	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Audit of consolidated Group and Company Financial Statements	0.4	0.5
Audit of the Financial Statements of the Company's subsidiaries	1.1	1.4
Other assurance services	0.4	0.1
Fees payable to the external auditor	**1.9**	**2.0**

The auditor may undertake work in other areas where it is permissible under the Ethical Standard published by the Financial Reporting Council if it is the most suitable supplier and the terms and conditions of the engagement, including the fee, do not impair its objectivity or independence.

10. Tax expense

	Group		Company	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Current tax expense	14.7	16.2	–	–
Deferred tax expense	0.9	1.8	–	–
Tax expense from continuing operations	**15.6**	**18.0**	**–**	**–**

The discontinued operation incurred no tax in the year (2021: £nil). See note 4 for further details of the discontinued operation.

Reconciliation of the total tax expense

The applicable tax regime for all the Group's entities apart from the Company, NewDay Group Holdings S.à r.l., NewDay Partnership Receivables Trustee Ltd and NewDay Funding Receivables Trustee Ltd is the UK. The Jersey tax regime is applicable for the Company, NewDay Partnership Receivables Trustee Ltd and NewDay Funding Receivables Trustee Ltd and the Luxembourg tax regime is applicable for NewDay Group Holdings S.à r.l. and is reflected in the tax computations accordingly. A reconciliation between the result before tax and the tax expense at the UK corporation tax rate is shown in the following table.

	Group		Company	
	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Profit before tax from continuing operations	109.9	78.7	15.6	140.0
Tax charge at average UK corporation tax rate of 19% (2021: 19%)	20.9	15.0	3.0	26.6
Effects of:				
– Disallowable items and allowable deductions[1]	8.4	2.3	–	(22.8)
– Profits subject to corporation tax under securitisation vehicle rules	(4.6)	7.7	–	–
– Adjustment in respect of foreign tax rates	(3.0)	(3.8)	(3.0)	(3.8)
– Prior year adjustment[2]	(6.1)	0.3	–	–
– Brought forward losses utilised	–	(3.5)	–	–
Tax expense from continuing operations	**15.6**	**18.0**	**–**	**–**

1 In 2022, disallowable items and allowable deductions for the Group largely relates to disallowable amortisation and depreciation.
2 In 2022, the prior year adjustment principally relates to R&D expenditure credits from previous years and the utilisation of brought forward losses.

For the year ended 31 December 2022, the enacted UK corporation tax rate applicable to the Group was 19% (2021: 19%). For the year ended 31 December 2022, the Jersey tax regime rate applicable to the Company was 0% (2021: 0%). An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge.

The 31 December 2022 deferred tax balances have been calculated based on these rates, reflecting the expected timing of the reversal of the related temporary differences (31 December 2021: 19%).

As at 31 December 2022, the Group reported a deferred tax asset of £0.5m (31 December 2021: £0.3m) and a deferred tax liability of £1.1m (31 December 2021: £nil) and both resulted from temporary differences. There was no tax recognised through the Group's or Company's statement of other comprehensive income in the year (2021: £nil).

11. Loans and advances to banks

	Group		Company	
	31 December 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Unrestricted cash	314.1	246.2	10.7	66.1
Restricted cash	68.1	58.2	–	–
Loans and advances to banks	**382.2**	**304.4**	**10.7**	**66.1**

Loans and advances to banks are held with large commercial banks and represent cash and cash equivalents in the cash flow statement. Restricted cash of £68.1m (31 December 2021: £58.2m) are demand deposits that is ring-fenced cash for credit balances on loans and advances to customers and cash restricted due to covenants in place in accordance with the Group's funding structure. As at 31 December 2022, the Group's unrestricted cash balance included £60.1m (31 December 2021: £127.6m) of cash held by entities outside of the securitisation structure.

12. Loans and advances to customers

	Group		Company	
	31 December 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Gross loans and advances to customers	4,394.2	3,413.5	–	–
ECL allowance on loans and advances to customers	(586.3)	(569.0)	–	–
Loans and advances to customers	**3,807.9**	**2,844.5**	**–**	**–**

There is no fixed term for repayment of revolving credit agreements other than a contractual requirement for customers to make a minimum monthly repayment towards their outstanding balance. For details of the ECL assessment performed on loans and advances to customers see note 24.2. See note 3 for a reconciliation between gross receivables and gross loans and advances to customers.

Transfers of financial assets

The Group transfers certain receivables to recovery agencies, in the ordinary course of business, for a proportion of their carrying value. During the year the Group sold and derecognised certain loans and advances to customers for the purpose of expediting recovery of these balances for total net proceeds of £74.2m (2021: £39.0m). The Group has no other transferred financial assets which are derecognised partly or in their entirety and in which it retains some form of continuing involvement.

13. Other assets

	Group		Company	
	31 December 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Other receivables	118.9	32.3	–	–
Prepayments and accrued income	26.5	14.8	–	0.1
Amounts due from related parties	1.1	0.5	0.9	0.5
Amounts due from Group undertakings	–	–	513.5	556.1
Other assets	**146.5**	**47.6**	**514.4**	**556.7**

The increase in other receivables primarily represents an increase in daily settlement volumes resulting from the John Lewis & Partners programme and from 31 December 2022 falling on a weekend.

On 28 April 2017, the Company acquired from NewDay Group Holdings S.à r.l. a loan note issued by NewDay UK Limited of £483.7m at an interest rate of 9% per annum due 2027. The loan note was listed on the International Stock Exchange on 12 October 2017. The outstanding balance is included within amounts due from Group undertakings.

See note 27 for details of the amounts due from related parties.

Notes to the Financial Statements *continued*

14. Derivative financial instruments

The Group uses derivative financial instruments, namely interest rate swaps (which have not previously been used by the Group prior to 2022) and cross-currency interest rate swaps, to manage the interest rate and foreign exchange rate risks arising from the Group's debt. The principal terms of the instruments match (with the exception of spreads) and this results in an economic hedge but gives rise to an accounting mismatch as derivatives are measured at fair value and asset-backed term debt is measured at amortised cost.

Management regularly assesses the effectiveness of the hedge relationships and to date the hedge relationships have been 100% effective. The key consideration that could give rise to any ineffectiveness is whether there is a need for a debit valuation adjustment (DVA) or credit valuation adjustment (CVA). Any DVA/CVA has been assessed as being immaterial.

The Group has designated its derivative financial instruments as hedging instruments in qualifying cash flow hedges. Their fair value has been calculated by discounting contractual future cash flows using relevant market interest rate yield curves and forward foreign exchange rates (where relevant) prevailing at the balance sheet date. The notional amounts and fair values of derivative financial instruments at the year end are detailed in the following table.

	As at 31 December 2022			As at 31 December 2021		
Group	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Cross-currency interest rate swaps	364.4	43.0	–	403.3	1.9	(16.5)
Interest rate swaps	680.0	20.4	–	–	–	–
Derivative financial instruments	**1,044.4**	**63.4**	**–**	**403.3**	**1.9**	**(16.5)**

The following table shows a reconciliation of the movements in the notional amounts of the derivative financial instruments.

	Cross-currency interest rate swaps £m	Interest rate swaps £m
As at 31 December 2020	328.7	–
Issued	248.9	–
Settled	(187.7)	–
Foreign exchange movements	13.4	–
As at 31 December 2021	**403.3**	**–**
Issued	76.3	680.0
Settled	(166.4)	–
Foreign exchange movements	51.2	–
As at 31 December 2022	**364.4**	**680.0**

All cash flow hedges are deemed to be effective and the fair value thereof has been deferred in equity within the hedging reserve. There was no impact on the income statement in the year in respect of the movement in the fair value of ineffective cash flow hedges (2021: £nil). Foreign currency basis spreads of the financial instruments are excluded from the designated hedging instrument and are recognised in the income statement as a cost of hedging.

The Company held no derivative financial instruments during the year (2021: £nil).

15. Property and equipment

Group	Computer equipment £m	Fixtures and fittings £m	Leasehold improvements £m	Right-of-use assets £m	Total property and equipment £m
Cost as at 1 January 2022	3.9	3.7	8.0	17.2	32.8
Additions	1.8	0.1	–	–	1.9
Disposals	(1.5)	–	–	–	(1.5)
Other	(0.2)	(0.2)	(0.4)	0.2	(0.6)
Cost as at 31 December 2022	**4.0**	**3.6**	**7.6**	**17.4**	**32.6**
Depreciation as at 1 January 2022	(2.4)	(3.2)	(4.5)	(7.0)	(17.1)
Charge to the income statement for the year	(1.2)	(0.3)	(0.9)	(2.4)	(4.8)
Disposals	1.5	–	–	–	1.5
Other	0.1	0.1	0.3	(0.2)	0.3
Depreciation as at 31 December 2022	**(2.0)**	**(3.4)**	**(5.1)**	**(9.6)**	**(20.1)**
Net book value as at 31 December 2022	**2.0**	**0.2**	**2.5**	**7.8**	**12.5**
Net book value as at 31 December 2021	1.5	0.5	3.5	10.2	15.7

Other represents adjustments to brought forward cost and accumulated depreciation to reflect the expected VAT recovery on such balances.

The right-of-use assets consist solely of land and buildings leased by the Group. The total cash outflow in the year arising from right-of-use leases was £3.3m (2021: £3.2m).

The Company held no property and equipment during the year (2021: £nil).

16. Intangible assets

Group	Acquired customer and retail partner relationships £m	Acquired brand and trade names £m	Acquired intellectual property £m	Internally generated intangibles £m	Total intangible assets £m
Cost as at 1 January 2022	313.4	27.8	51.9	31.8	424.9
Additions	–	–	–	20.0	20.0
Disposals	–	–	–	(0.7)	(0.7)
Other	–	–	–	(1.9)	(1.9)
Cost as at 31 December 2022	**313.4**	**27.8**	**51.9**	**49.2**	**442.3**
Amortisation as at 1 January 2022	(213.5)	(6.7)	(39.1)	(11.3)	(270.6)
Charge to the income statement for the year	(45.4)	(1.4)	(7.5)	(6.8)	(61.1)
Disposals	–	–	–	0.7	0.7
Other	–	–	–	0.5	0.5
Amortisation as at 31 December 2022	**(258.9)**	**(8.1)**	**(46.6)**	**(16.9)**	**(330.5)**
Net book value as at 31 December 2022	**54.5**	**19.7**	**5.3**	**32.3**	**111.8**
Net book value as at 31 December 2021	99.9	21.1	12.8	20.5	154.3

Other represents adjustments to brought forward cost and accumulated amortisation to reflect the expected VAT recovery on such balances.

Internally generated intangibles primarily include computer software and core operating platforms. For details of the significant accounting judgements, estimates and assumptions in the acquired intangibles see note 2.3.

The Company held no intangible assets during the year (2021: £nil).

Notes to the Financial Statements *continued*

17. Investment in subsidiaries

Company	£m
As at 31 December 2021	511.4
Capital contribution	59.0
As at 31 December 2022	**570.4**

The Company holds 100% of the ordinary shares of NewDay Group UK Limited and NewDay Group Holdings S.à r.l.

On 28 April 2017, NewDay Group Holdings S.à r.l. assigned to the Company a loan note issued by NewDay UK Limited for £483.7m, at an interest rate of 9% per annum due 2027 in consideration for: (i) the repurchase of 312,500 A9 NewDay Group Holdings S.à r.l. shares for £324.6m; (ii) redemption of £68.5m Interest Free Preferred Equity Certificates; and (iii) repayment of £92.5m Tracking Preferred Equity Certificate interest.

In 2018, the Company made a capital contribution to NewDay Group Holdings S.à r.l. of £6.5m.

In 2022, the Company made three separate capital contributions to NewDay Group Holdings S.à r.l amounting to £59.0m.

In 2022, an impairment assessment was performed on the carrying value of the investments which concluded that no impairment was required (2021: £nil).

18. Goodwill

Group	£m
As at 31 December 2021	279.9
As at 31 December 2022	**279.9**

On 26 January 2017, the Company acquired 100% of the issued share capital and preferred equity certificates in NewDay Group Holdings S.à r.l. for cash consideration of £990.5m. NewDay Group Holdings S.à r.l. was the parent company of the Predecessor Group.

The allocation of the consideration was subject to a purchase price allocation exercise. The excess of consideration over the net assets acquired was allocated to goodwill. Goodwill is allocated to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. £240.5m of goodwill was allocated to Direct to Consumer and £39.4m was allocated to Merchant Offering.

In line with the requirements of IAS 38, an annual impairment assessment has been completed and no impairment was identified (2021: £nil). See note 2.3 for further details.

19. Debt issued and other borrowed funds

	Group		Company	
	31 December 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Senior Secured Debt and associated facilities	294.4	335.0	–	–
Asset-backed term debt	2,218.4	2,192.3	–	–
Variable funding notes	1,741.9	709.1	–	–
Intercompany loan agreement	–	–	294.4	335.0
Gross debt issued and other borrowed funds	**4,254.7**	**3,236.4**	**294.4**	**335.0**
Capitalised debt funding fees	(17.5)	(15.2)	(4.2)	(5.1)
Debt issued and other borrowed funds	**4,237.2**	**3,221.2**	**290.2**	**329.9**

In connection with the Acquisition, on 25 January 2017 NewDay BondCo plc (formerly Nemean BondCo plc) issued £425.0m Senior Secured Notes comprising £275.0m Fixed Rate Senior Secured Notes due in 2024 and £150.0m Floating Rate Senior Secured Notes that were due in 2023 before being repaid. In 2021, the Group completed a financing transaction which repaid in full the £150.0m Floating Rate Senior Secured Notes. These notes were repaid using £100.0m of cash and £50.0m raised from an issuance of additional Fixed Rate Senior Secured Notes, leaving £325.0m of notes outstanding. In 2022, the Group completed an Exchange Offer whereby it exchanged £237.7m of the remaining notes for new notes with a December 2026 maturity and settled £26.4m of notes in cash, leaving £298.6m of notes outstanding. In accordance with IFRS, the new notes were treated as being issued at an £8.3m discount to their nominal value, which is being accounted for as an adjustment to the EIR of the financial instrument.

In addition, the Company and certain subsidiaries of the Group entered into a £30.0m Super Senior Revolving Credit Facility. The facility was undrawn as at 31 December 2022 (31 December 2021: undrawn).

Debt issued and other borrowed funds includes publicly listed asset-backed securities and variable funding notes provided by a number of different investors. The debt is provided at SOFR or SONIA plus margin and is backed by securitised outstanding loans and advances to customers. As at 31 December 2022, £2,168.8m (31 December 2021: £1,817.2m) was used to fund the Direct to Consumer portfolio and £1,791.5m (31 December 2021: £1,084.2m) was used to fund the Merchant Offering portfolio.

Of the debt issued and other borrowed funds, £365.5m (31 December 2021: £403.5m) was denominated in US Dollars with the remaining denominated in Sterling.

A reconciliation of gross debt issued and other borrowed funds movements during the year is as follows:

		Cash flows		Non-cash movements	
Group	**As at 1 January 2022 £m**	**Proceeds from debt issued £m**	**Repayment of debt issued £m**	**Other £m**	**As at 31 December 2022 £m**
Senior Secured Debt and associated facilities	335.0	229.4	(264.1)	(5.9)	294.4
Asset-backed term debt	2,192.3	840.5	(869.8)	55.4	2,218.4
Variable funding notes	709.1	2,313.3	(1,286.6)	6.1	1,741.9
Gross debt issued and other borrowed funds	**3,236.4**	**3,383.2**	**(2,420.5)**	**55.6**	**4,254.7**

		Cash flows		Non-cash movements	
Group	As at 1 January 2021 £m	Proceeds from debt issued £m	Repayment of debt issued £m	Other £m	As at 31 December 2021 £m
Senior Secured Debt and associated facilities	465.4	50.0	(180.0)	(0.4)	335.0
Asset-backed term debt	1,979.7	1,001.2	(801.5)	12.9	2,192.3
Variable funding notes	817.2	675.2	(783.5)	0.2	709.1
Gross debt issued and other borrowed funds	**3,262.3**	**1,726.4**	**(1,765.0)**	**12.7**	**3,236.4**

Other non-cash movements includes movements in accrued interest and foreign exchange gains and losses on the US Dollar denominated debt.

In 2022, the Group completed several financing transactions including those listed below.

- An Exchange Offer to refinance Senior Secured Notes due to mature in February 2024. This included exchanging £237.7m of existing notes for new notes and settling £26.4m of notes in cash. The new notes have a maturity of December 2026 at an interest rate of 13.25% per annum. The remaining £60.9m of existing notes are currently anticipated to be repaid in cash on or before maturity.
- A £650.0m VFN deal signed from the Merchant Offering securitisation programme which is used to fund the receivables from the John Lewis & Partners credit card partnership. As at 31 December 2022, the amount drawn down on the facility was £620.0m.
- Three separate VFN expansions in the Direct to Consumer securitisation programme totalling £400.0m.
- Three separate issuances of asset-backed securities, totalling £934.0m (of which £91.9m was retained internally) and included $100.0m raised from US capital markets, from the Direct to Consumer securitisation programme. The $100.0m was hedged to a fixed interest rate and foreign exchange rate.

Additionally, the Group executed hedges to swap variable for fixed interest rates on £680.0m of asset-backed debt to reduce its exposure to increases in the Bank of England base rate not covered by the ability to pass through base rate increases to customers.

On 26 January 2017, the Company entered into an intercompany loan agreement with NewDay UK Limited pursuant to which the Company borrowed £425.0m comprising: (i) a fixed rate loan of £275.0m at an interest rate of 7.375% per annum due 2024; and (ii) a floating rate loan of £150.0m at an interest rate of three-month LIBOR plus a margin of 6.5% per annum that was originally due in 2023. In 2021, the floating rate loan was settled and a further £50.0m fixed rate loan was issued with the same terms as the original fixed rate loan.

On 7 December 2022, the Company settled £264.1m of the fixed rate loan and issued a £237.7m loan at a fixed rate of 13.25% per annum due 2026.

Notes to the Financial Statements *continued*

19. Debt issued and other borrowed funds continued

The scheduled maturities of debt issued and other borrowed funds are shown in the following table.

	Group		Company	
	31 December 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Gross debt issued and other borrowed funds repayable in:				
Less than one year	338.7	856.0	–	–
Between one and two years	1,861.6	379.4	62.8	–
Between two and five years	2,054.4	2,001.0	231.6	335.0
	4,254.7	**3,236.4**	**294.4**	**335.0**

Refer to note 28 for further details on the Group's funding structure.

20. Other liabilities

	Group		Company	
	31 December 2022 £m	31 December 2021 £m	**31 December 2022 £m**	31 December 2021 £m
Trade payables and accruals	96.1	69.4	5.2	1.3
Other payables	51.8	8.6	–	–
Lease liabilities	9.2	11.9	–	–
Pension contributions	0.9	0.1	–	–
Amounts owed to Group undertakings	–	–	0.4	0.4
Other liabilities	**158.0**	**90.0**	**5.6**	**1.7**

The increase in other payables primarily represents an increase in daily settlement volumes resulting from the John Lewis & Partners programme and from 31 December 2022 falling on a weekend.

Lease liabilities consist of leases held by the Group for land and buildings. The scheduled maturities of the leases are shown in the following table.

	Group	
	31 December 2022 £m	31 December 2021 £m
Lease liabilities:		
Less than one year	2.9	2.8
Between one and two years	2.7	2.9
Between two and five years	3.6	6.2
	9.2	**11.9**

21. Provisions

Group	PPI provision £m	Other provisions £m	Total provisions £m
As at 1 January 2021	5.3	5.8	11.1
Arising during the year	4.7	2.1	6.8
Utilised during the year	(2.3)	(4.5)	(6.8)
As at 31 December 2021	**7.7**	**3.4**	**11.1**
(Released)/arising during the year	(1.2)	0.9	(0.3)
Utilised during the year	(5.5)	(0.3)	(5.8)
As at 31 December 2022	**1.0**	**4.0**	**5.0**

The Company held no provisions during the year ended 31 December 2022 (2021: £nil).

PPI provision

The PPI provision relates to the Group's liabilities in respect of matters relating to the sale of PPI policies to cardholders. Whilst the Group has not sold any PPI policies directly, in certain circumstances it may be liable for PPI policies that were sold to cardholders whose accounts were subsequently acquired by, or assigned to, the Group, by previous owners. The FCA's deadline by which customers can raise a claim with their PPI provider, which can be considered by the Financial Ombudsman Service, passed on 29 August 2019.

The total cost associated with PPI for the Group since its inception is £67.0m (2021: £68.2m), of which £1.5m (2021: £2.3m) was remediated in the year ended 31 December 2022. Within PPI provision utilisation is a £4.0m (2021: £nil) reclassification to trade payables and accruals (note 20). This reclassification reflects that, as at the year end, there was enough certainty over the payment amount and its timing for it to be an accrual.

Other provisions

The Group is, from time to time and in the normal course of business, subject to a variety of legal or regulatory claims, actions or proceedings. When such circumstances arise management provides for its best estimate of cost where an outflow of economic resources is considered probable.

22. Share capital and reserves

	Group		Company	
	31 December 2022 £m	31 December 2021 £m	31 December 2022 £m	31 December 2021 £m
Share capital and share premium	–	–	–	–
Equity instruments	593.9	593.9	593.9	593.9
Capital contribution	–	9.2	–	9.2
Hedging reserve	23.6	(2.5)	–	–
Retained (losses)/profits	(203.4)	(288.4)	205.8	199.5
Total equity	**414.1**	**312.2**	**799.7**	**802.6**

	Company	
Called up share capital ordinary shares (1 pence)	Number of shares	Nominal value £
Issued upon incorporation	101	1.01
As at 31 December 2022 and 31 December 2021	**101**	**1.01**

Share capital consists of 101 fully paid up ordinary shares at a nominal value of 1 pence each.

Notes to the Financial Statements *continued*

22. Share capital and reserves continued

Equity instruments and capital contribution

With effect from 1 July 2017, the terms of a £529.2m intercompany loan from Nemean Midco Limited and £64.7m loan notes issued by the Company and held by Nemean Midco Limited were amended, resulting in a change in classification from liabilities to equity instruments. The interest accrued on these loans up to 30 June 2017 was recorded as a capital contribution. Since then, returns have been made on these instruments which have reduced the capital contribution account to nil.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges net of income statement transfers.

Capital management

The Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue capital securities. The objectives, policies and processes are under constant review by the Directors.

The Group maintains an actively managed capital base to cover risks inherent in the business and specifically for NewDay Ltd, to meet the capital adequacy requirements of the FCA under the Payment Services Regulations (2017) for Authorised Payment Institutions.

During the year, the Group complied with its externally imposed capital requirements (2021: complied).

23. Fair value of financial instruments

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: other techniques for which all inputs, other than observable unadjusted quoted prices included within level 1, having a significant effect on the recorded fair value are observable, either directly or indirectly; and
- level 3: techniques which use inputs having a significant effect on the recorded fair value not based on observable market data.

Derivative financial instruments are recognised at fair value and are classified as level 2 (31 December 2021: level 2) as they are not traded in an active market and the fair value is therefore determined by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at the year end. See note 14 for further details.

Fair value of financial instruments carried at amortised cost

Set out below is a comparison, by class, of the carrying value and fair values of the Group's and Company's financial instruments. During the year there have been no transfers between levels (2021: none).

Group As at 31 December 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	–	382.2	–	382.2	382.2
Loans and advances to customers	–	–	3,807.9	3,807.9	3,969.1
Other assets	–	120.0	–	120.0	120.0
Total financial assets	**–**	**502.2**	**3,807.9**	**4,310.1**	**4,471.3**
Financial liabilities					
Debt issued and other borrowed funds	–	(4,237.2)	–	(4,237.2)	(4,200.5)
Other liabilities	–	(157.1)	–	(157.1)	(157.1)
Total financial liabilities	**–**	**(4,394.3)**	**–**	**(4,394.3)**	**(4,357.6)**

Group As at 31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	–	304.4	–	304.4	304.4
Loans and advances to customers	–	–	2,844.5	2,844.5	3,060.9
Other assets	–	32.8	–	32.8	32.8
Total financial assets	**–**	**337.2**	**2,844.5**	**3,181.7**	**3,398.1**
Financial liabilities					
Debt issued and other borrowed funds	–	(3,221.2)	–	(3,221.2)	(3,223.4)
Other liabilities	–	(89.9)	–	(89.9)	(89.9)
Total financial liabilities	**–**	**(3,311.1)**	**–**	**(3,311.1)**	**(3,313.3)**

Company **As at 31 December 2022**	**Level 1** **£m**	**Level 2** **£m**	**Level 3** **£m**	**Total carrying value** **£m**	**Fair value** **£m**
Financial assets					
Loans and advances to banks	–	10.7	–	10.7	10.7
Other assets	–	0.9	513.5	514.4	514.4
Total financial assets	**–**	**11.6**	**513.5**	**525.1**	**525.1**
Financial liabilities					
Debt issued and other borrowed funds	–	(290.2)	–	(290.2)	(287.1)
Other liabilities	–	(5.6)	–	(5.6)	(5.6)
Total financial liabilities	**–**	**(295.8)**	**–**	**(295.8)**	**(292.7)**

Company As at 31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	–	66.1	–	66.1	66.1
Other assets	–	0.5	556.2	556.7	556.7
Total financial assets	**–**	**66.6**	**556.2**	**622.8**	**622.8**
Financial liabilities					
Debt issued and other borrowed funds	–	(329.9)	–	(329.9)	(331.4)
Other liabilities	–	(1.7)	–	(1.7)	(1.7)
Total financial liabilities	**–**	**(331.6)**	**–**	**(331.6)**	**(333.1)**

Loans and advances to banks
These items have a short-term maturity (usually less than three months) and it is assumed that their carrying value approximates to their fair value as a result of their short time horizon to maturity. These have been classified as level 2.

Loans and advances to customers
This contains the receivables related to credit card and loan balances that have been issued by the Group. The fair value of these instruments is based on valuation inputs that have been derived from historical performance of the Group's portfolios which would not be observable to a market participant and as such these financial instruments have been classified as level 3.

Other assets
With the exception of the loan note held by the Company, other assets of the Group and Company consist of other receivables. The fair value of these receivable balances approximates to their carrying value as there have been no significant changes to market conditions that would have caused a difference between the two values. As the assets can be repriced using market observable inputs these have been classified as level 2. The loan note held by the Company, issued by NewDay UK Limited, cannot be repriced using market observable data and therefore has been classified as level 3.

Notes to the Financial Statements *continued*

23. Fair value of financial instruments continued

Debt issued and other borrowed funds

The debt issued contains Senior Secured Debt and associated facilities, asset-backed term securities and variable funding notes. For the Senior Secured Debt, excluding the Revolving Credit Facility, and asset-backed term debt an observable market price is available; however, such debt is not actively traded, therefore the fair value has been estimated using prices quoted by banks and they have been classified as level 2. The senior variable funding notes and Revolving Credit Facility's fair value approximate to their carrying values. The variable funding notes and Revolving Credit Facility are private bilateral agreements that can be drawn upon and repaid by the borrower. These issuances have been classified as level 2.

Debt issued and other borrowed funds of the Company consists of the intercompany loan with NewDay UK Limited and the Revolving Credit Facility. The fair value of the intercompany loan is determined by using the market price quoted by banks on the publicly listed bonds issued by NewDay BondCo plc, another Group entity, whose terms are identical. The Revolving Credit Facility's fair value approximates to its carrying value. These issuances have been classified as level 2.

Other liabilities

Other liabilities of the Group largely consist of accounts payable. The fair value of other liabilities approximates to their carrying value because there have been no significant changes to market conditions that would have caused a difference between these two values. These have been classified as level 2 because these items can be repriced using market observable inputs.

24. Risk management

24.1 Introduction

Risk is inherent in the Group's activities, but is managed through a process of ongoing identification, measurement and monitoring, with respect to predetermined risk appetite settings and other controls performed by the Board. The Group controls risk via the operation of a risk management framework.

Sound risk management is critical to ensure the Group meets its regulatory requirements, and delivers on the strategic and financial goals agreed with shareholders, whilst also preserving the Group's brand and reputation. The financial risks faced by the Group include:
- credit risk;
- liquidity, funding and cash management risk;
- market risk; and
- regulatory and conduct risk.

See pages 48 to 56 for details of the Group's principal risks and how they are addressed.

Risk measurement and reporting systems

As part of the overall risk management strategy, risks are measured, monitored and reported to ensure the Group understands the risks it faces. The Group has a definition and categorisation model that forms a key part of the risk management framework.

The Group uses qualitative and quantitative methods (including the use of statistical models) to compute both expected and unexpected losses.

Monitoring and control processes are set by the Board, delegated to the Board Risk Committee and subsequently delegated down to the individual business committees and ultimately to all employees of the Group.

Information is compiled from all parts of the business in order to identify, analyse and control risks on a timely basis. Appropriate key risk indicators and other information are presented and discussed at the Board Risk Committee, Enterprise Risk Management Committee and specific sub-committees on a regular basis.

24.2 Credit risk

The Group is exposed to credit risk on loans and advances to customers and other financial assets. Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and monitoring exposures in relation to such limits.

Credit risk exposure from customers is managed throughout the life cycle, underpinned by proprietary credit models which have been developed from customers' historical credit performance and are used to forecast a probability of default for a given level of credit. At the point of originating a new account, the risk profile is assessed against the credit policy and scorecard cut-off, aligned to the product applied for, to determine the terms and credit limit offered. Credit assessment utilises a combination of customer-provided data as well as data sourced from multiple credit reference agencies. A monthly assessment of existing customers' risk profiles determines if their credit limit is still appropriate for their borrowing needs. The proprietary credit models utilise spend and payment behaviour from products held by the Group as well as products with other providers to determine if a credit limit increase or decrease should be extended to the customer.

Risk-based arrears management combined with specific contact strategies ensure that letters, inbound and outbound telephony, e-servicing, web chat, SMS and email are deployed in a way which manages credit risk and aims to ensure appropriate customer outcomes. Contact is established with customers to understand the reason behind missed payments and to understand if potential future concerns exist over payments due. Strategies are then deployed to ensure that customers in arrears are supported in returning to an up-to-date position or appropriate forbearance arrangements are put in place.

The Group has a range of treatments for customers who are experiencing financial stress through concessions which can be applied on a short-term or permanent basis where there is no detriment to the customer. Forbearance or other temporary arrangements are designed with the aim of ensuring that the customer's product remains sustainable and aligned to their personal circumstances. A customer identified as being in financial difficulty will be managed on an individual basis, with the appropriate understanding of their personal circumstances and priority debt being key factors in judging if a suitable arrangement can be made so the debt repayment becomes affordable and sustainable. One such solution offered by the Group is a payment holiday. A payment holiday suspends payments, interest, fees and any undrawn credit limit for a period of between one to three months depending on the specific circumstances of the individual. At the end of the payment holiday, the customer circumstances are reassessed, and additional forbearance support is available where required, including the option of a further payment holiday of up to three months, depending on the specific circumstances of the individual.

The provision of such arrangements is managed through the operational centres and governed using several processes, including, but not limited to: operational policy framework; controls against the execution of the policy; regular quality assurance reviews; and monitoring of customer outcomes through regular reporting. Forbearance arrangements, which typically include a temporary suspension of fees and interest, are available to customers who complete an income and expenditure assessment and conclude that their contractual minimum payment is unaffordable. These arrangements are tailored to individual customer circumstances and, on the condition that an agreed and affordable monthly payment is made, can range from the suspension of fees for a short time period through to an indefinite suspension of fees and interest.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of customers. Credit limits are established using a credit risk classification system, which assigns each customer a risk rating. Customer risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and to take corrective action where appropriate.

Credit risk exposure is also impacted by the macroeconomic environment. Adverse movements in economic trends in the UK can cause detrimental effects on the recovery of the Group's loans and advances to customers. The unemployment rate is deemed to be a key variable influencing the recoverability of customer balances and this is factored into the Group's ECL assessment as a variable in the model methodology, see note 2.3 for further details. Additionally, inflationary and cost-of-living pressures are incorporated into the Group's ECL assessment through a PMA when necessary.

Credit quality analysis

The following table details the internal measures used to determine the credit quality of loans and advances to customers. As shown in the table, loans and advances to customers in risk grades 1, 2 and 3 are currently continuing to make payments when due.

Credit quality	12-month probability of default	Credit quality description
Risk grade 1	0%–5.89%	Up-to-date accounts which have a very high likelihood of being fully recovered
Risk grade 2	5.90%–19.99%	Up-to-date accounts which have a high likelihood of being fully recovered
Risk grade 3	20.00%–99.99%	Up-to-date accounts which may be fully recovered but where the likelihood of default is higher
Delinquent		Accounts that are up to two monthly payments in arrears and have not defaulted
Defaulted		Accounts that are at least three monthly payments in arrears, forborne, insolvent or bankrupt

The Group extends certain short-term arrangements, being payment holidays, to customers which temporarily suspend the requirement for them to make their contractual monthly payment. As at 31 December 2022, the total loans and advances to customers that were on a payment holiday was £90.0m (31 December 2021: £54.9m), with a maximum balance at any one point in time during the year of £90.7m (2021: £107.2m including payment freezes, which were not issued by the Group in 2022, and excluding balances arising from loans and advances to customers held for sale).

Notes to the Financial Statements *continued*

24. Risk management continued

24.2 Credit risk continued

The following table contains an analysis of the credit risk exposure of the Group's loans and advances to customers for which an ECL allowance is recognised.

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
	As at 31 December 2022				
Risk grade 1	1,931.7	17.3	–	0.5	1,949.5
Risk grade 2	1,338.1	134.4	–	1.0	1,473.5
Risk grade 3	200.2	218.9	–	0.3	419.4
Delinquent	–	164.6	–	0.1	164.7
Defaulted	–	–	386.4	0.7	387.1
Gross loans and advances to customers	**3,470.0**	**535.2**	**386.4**	**2.6**	**4,394.2**
ECL allowance	(161.2)	(194.1)	(230.3)	(0.7)	(586.3)
Loans and advances to customers	**3,308.8**	**341.1**	**156.1**	**1.9**	**3,807.9**

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
	As at 31 December 2021				
Risk grade 1	1,297.0	12.7	–	0.7	1,310.4
Risk grade 2	1,262.4	86.7	–	1.1	1,350.2
Risk grade 3	147.8	193.7	–	0.3	341.8
Delinquent	–	89.2	–	0.1	89.3
Defaulted	–	–	320.9	0.9	321.8
Gross loans and advances to customers	**2,707.2**	**382.3**	**320.9**	**3.1**	**3,413.5**
ECL allowance	(216.4)	(150.9)	(200.6)	(1.1)	(569.0)
Loans and advances to customers	**2,490.8**	**231.4**	**120.3**	**2.0**	**2,844.5**

Loans and advances to banks and other financial assets are all classified as stage 1 as at 31 December 2022 (31 December 2021: stage 1). The probabilities of default associated with these balances have been assessed to be so low as to require no ECL allowance.

The following tables present the credit risk exposure of the Group's loans and advances to customers on a segmental basis.

Direct to Consumer	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
	As at 31 December 2022				
Risk grade 1	411.0	6.2	–	0.4	417.6
Risk grade 2	1,178.9	97.6	–	1.0	1,277.5
Risk grade 3	195.4	201.1	–	0.3	396.8
Delinquent	–	127.6	–	0.1	127.7
Defaulted	–	–	300.8	0.4	301.2
Gross loans and advances to customers	**1,785.3**	**432.5**	**300.8**	**2.2**	**2,520.8**
ECL allowance	(128.6)	(166.3)	(179.0)	(0.6)	(474.5)
Loans and advances to customers	**1,656.7**	**266.2**	**121.8**	**1.6**	**2,046.3**

Direct to Consumer	As at 31 December 2021 Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Risk grade 1	416.5	2.6	–	0.5	419.6
Risk grade 2	1,096.4	54.4	–	1.1	1,151.9
Risk grade 3	142.8	174.7	–	0.3	317.8
Delinquent	–	65.9	–	0.1	66.0
Defaulted	–	–	249.3	0.5	249.8
Gross loans and advances to customers	**1,655.7**	**297.6**	**249.3**	**2.5**	**2,205.1**
ECL allowance	(173.6)	(128.3)	(158.0)	(0.9)	(460.8)
Loans and advances to customers	**1,482.1**	**169.3**	**91.3**	**1.6**	**1,744.3**

Merchant Offering	**As at 31 December 2022 Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	1,520.7	11.1	–	0.1	1531.9
Risk grade 2	159.2	36.8	–	–	196.0
Risk grade 3	4.8	17.8	–	–	22.6
Delinquent	–	37.0	–	–	37.0
Defaulted	–	–	85.6	0.3	85.9
Gross loans and advances to customers	**1,684.7**	**102.7**	**85.6**	**0.4**	**1,873.4**
ECL allowance	(32.6)	(27.8)	(51.3)	(0.1)	(111.8)
Loans and advances to customers	**1,652.1**	**74.9**	**34.3**	**0.3**	**1,761.6**

Merchant Offering	As at 31 December 2021 Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Risk grade 1	880.5	10.1	–	0.2	890.8
Risk grade 2	166.0	32.3	–	–	198.3
Risk grade 3	5.0	19.0	–	–	24.0
Delinquent	–	23.3	–	–	23.3
Defaulted	–	–	71.6	0.4	72.0
Gross loans and advances to customers	**1,051.5**	**84.7**	**71.6**	**0.6**	**1,208.4**
ECL allowance	(42.8)	(22.6)	(42.6)	(0.2)	(108.2)
Loans and advances to customers	**1,008.7**	**62.1**	**29.0**	**0.4**	**1,100.2**

In the second half of 2022, the Merchant Offering segment launched a new partnership with John Lewis & Partners. As at 31 December 2022, the partnership reported gross loans and advances to customers of £754.6m and an ECL allowance of £3.7m. This portfolio is generally of a higher credit quality than the pre-existing Merchant Offering portfolio and consequently resulted in the significant increase in stage 1, risk grade 1 gross loans and advances to customers. Following this launch, the Group anticipates an improved credit profile for the Merchant Offering segment going forward.

Impairment assessment

In accordance with IFRS 9, the Group uses a forward-looking ECL model. An ECL allowance is to be recognised on origination of a credit agreement, based on its anticipated credit loss. Allowances are assessed collectively for ECL on loans and advances to customers since balances are not individually significant.

The measurement of ECL is calculated using three main components: (i) PD; (ii) EAD; and (iii) LGD. The ECL is calculated by multiplying the PD, EAD and the LGD. ECL for exposures in stage 1 is calculated by multiplying the 12-month PD by the LGD and EAD. Lifetime ECL is reported for all assets other than those in stage 1 and is calculated by multiplying the lifetime PD by the LGD and EAD. On origination, and other than for POCI assets, an asset is reported in stage 1 and subsequently transferred to stage 2 if it has experienced a significant increase in credit risk since origination. Once defaulted, and therefore credit-impaired, an asset is transferred to stage 3. An asset can transition backwards out of stage 2 or 3 if it has evidenced that it has no longer experienced a significant increase in credit risk since origination or it is no longer credit-impaired respectively. An originated credit-impaired asset is classified as POCI and remains in this classification even if it is no longer credit-impaired. The Group monitors performance and default information about its credit risk exposures and employs statistical models to analyse the data collected and generate estimates of the PD.

Notes to the Financial Statements *continued*

24. Risk management continued

24.2 Credit risk continued

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure on the underlying asset as well as expected drawdowns of unutilised, but committed, credit limits. LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates on defaulted assets.

Subject to using a maximum of a 12-month PD for stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. For revolving credit facilities this period is extended to the behavioural life of the facility if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual period. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL, including reducing credit limits and cancellation of the facility.

The provisioning methodology together with significant modelling techniques and assumptions are assessed for appropriateness annually through a model validation exercise. The significant judgements in the provisioning methodology are also regularly reviewed by the Board Audit Committee, see page 68 for further details.

See note 2.3 for further details of the significant accounting judgements, estimates and assumptions in the ECL on loans and advances to customers.

The following tables reconcile the movement in the ECL allowance during both years.

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
ECL allowance as at 31 December 2021	(216.4)	(150.9)	(200.6)	(1.1)	(569.0)
Transfers between stages:					
– to stage 1	(33.3)	22.1	11.2	–	–
– to stage 2	22.6	(30.7)	8.1	–	–
– to stage 3	14.2	17.1	(31.3)	–	–
Remeasurement of ECL[1]	58.8	(30.0)	(0.7)	0.3	28.4
Release of ECL on loans and advances to customers settled in the year	13.8	3.5	5.9	0.1	23.3
ECL on new loans and advances to customers originated in the year	(20.9)	(25.2)	(22.9)	–	(69.0)
ECL allowance as at 31 December 2022	**(161.2)**	**(194.1)**	**(230.3)**	**(0.7)**	**(586.3)**

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
ECL allowance as at 31 December 2020	(213.9)	(168.1)	(178.6)	(2.7)	(563.3)
Transfers between stages:					
– to stage 1	(33.4)	28.7	4.7	–	–
– to stage 2	16.3	(19.6)	3.3	–	–
– to stage 3	15.3	17.9	(33.2)	–	–
Remeasurement of ECL[1]	33.1	6.7	10.2	1.4	51.4
Release of ECL on loans and advances to customers settled in the year	12.3	4.0	4.9	0.2	21.4
Release of ECL on loans and advances to customers held for sale which were sold in the year	4.7	3.3	5.1	–	13.1
ECL on new loans and advances to customers originated in the year	(50.8)	(23.8)	(17.0)	–	(91.6)
ECL allowance as at 31 December 2021	**(216.4)**	**(150.9)**	**(200.6)**	**(1.1)**	**(569.0)**

1 Includes changes in the ECL driven by changes in credit risk (both within and between stages) and write-offs.

Collateral held

The Group's primary business is to provide short-term credit to customers using the Group's various branded store and credit products. In the course of providing credit to customers, the Group has credit risk assessment practices which provide approval for individuals to be extended credit. In providing these products it is not the policy of the Group to obtain collateral or other credit enhancements which reduce exposure to credit risk, other than the individual's commitment to repay outstanding balances.

Other commitments provided

As at 31 December 2022, the Group has undrawn facilities on its loans and advances to customers that are available to draw totalling £10,720.3m (31 December 2021: £8,697.1m), however these facilities are not irrevocably committed. The Company, on behalf of the Group, provides a £7.5m committed facility to Nemean Topco Limited, the Company's ultimate parent undertaking. The Group has not entered into any other financial guarantee contracts, letters of credit or other undrawn commitments to lend.

24.3 Liquidity, funding and cash management risk

Contractual cash flow maturity

Loans and advances to customers constitute primarily revolving credit products such as credit cards and digital credit. All customer receivables are contractually repayable on demand and have been disclosed as such. Individual customer behaviour varies and the finance products are used as revolving facilities where drawdowns and repayments towards outstanding balances are made over time.

Of the £4,254.7m (31 December 2021: £3,236.4m) gross debt issued, which includes the accrued interest, £338.7m (31 December 2021: £856.0m) has a scheduled maturity of less than one year and £3,916.0m (31 December 2021: £2,380.4m) has a scheduled maturity of one to five years.

Total committed funding facilities

The Group's total committed funding facilities as at 31 December 2022 were £5,612.0m (31 December 2021: £4,573.2m) of which £1,373.0m (31 December 2021: £1,349.7m) was undrawn.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the contractual maturity profile of the undiscounted cash flows of the Group's financial liabilities as at 31 December 2022. This reflects both the interest payable and the repayment of the principal on maturity, based upon current borrowings as at the balance sheet date. The actual repayment profile of debt issued and other borrowed funds may differ due to further drawdowns or early repayment of variable funding notes after the balance sheet date.

Group As at 31 December 2022	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Financial liabilities						
Debt issued and other borrowed funds	–	56.7	509.3	4,208.1	–	4,774.1
Other liabilities	–	157.1	–	–	–	157.1
	–	**213.8**	**509.3**	**4,208.1**	**–**	**4,931.2**

Group As at 31 December 2021	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Financial liabilities						
Debt issued and other borrowed funds	–	17.8	905.8	2,442.2	–	3,365.8
Other liabilities	–	89.9	–	–	–	89.9
Derivative financial liabilities	–	0.1	14.9	0.3	–	15.3
	–	**107.8**	**920.7**	**2,442.5**	**–**	**3,471.0**

Securitisation vehicles

In the ordinary course of business, the Group enters into transactions that result in the transfer of the right to receive repayments in respect of loans and advances to customers to securitisation vehicles. In accordance with the accounting policy set out in note 2.2(3), the transferred loans and advances to customers continue to be recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Group transfers financial assets that are not derecognised in their entirety or for which the Group has continuing involvement through securitisation activities. The Group transfers loans and advances to customers to securitisation vehicles but retains substantially all of the risks and rewards of ownership. The Group benefits to the extent that the surplus income generated by the transferred assets exceeds the administration costs of the securitisations, the cost of funding the assets and the cost of any losses associated with the assets and the administration costs of servicing the assets. Refer to note 28 for further details on the structure.

Notes to the Financial Statements *continued*

24. Risk management continued

24.3 Liquidity, funding and cash management risk continued

The results of the securitisation vehicles are consolidated into the Group. The following table shows the carrying value and fair value of the assets transferred to securitisation vehicles and the related carrying value and fair value of the associated liability.

Group As at 31 December 2022	Carrying value of transferred assets not derecognised £m	Carrying value of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net fair value £m
NewDay Funding Transferor Ltd	1,988.8	(2,159.8)	2,117.4	(2,127.1)	(9.7)
NewDay Partnership Transferor plc	1,761.5	(1,787.2)	1,794.1	(1,786.3)	7.8
	3,750.3	**(3,947.0)**	**3,911.5**	**(3,913.4)**	**(1.9)**

Group As at 31 December 2021	Carrying value of transferred assets not derecognised £m	Carrying value of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net fair value £m
NewDay Funding Transferor Ltd	1,691.7	(1,810.8)	1,865.3	(1,810.3)	55.0
NewDay Partnership Transferor plc	1,100.2	(1,080.5)	1,143.0	(1,081.7)	61.3
	2,791.9	**(2,891.3)**	**3,008.3**	**(2,892.0)**	**116.3**

Included within the carrying value of associated liabilities are £13.3m of capitalised debt funding fees (31 December 2021: £10.1m).

24.4 Market risk

Market risk is defined as the risk that market movements will negatively affect the value of the Group's assets and liabilities. The main market risk that the Group is exposed to is interest rate risk. Foreign exchange risk also impacts the Group's debt however this is mitigated by the use of cross-currency interest rate swaps.

The main source of interest rate risk for the Group arises where there is a significant difference between the interest rate bases on assets compared to liabilities. The Group's assets are predominantly variable rate and are sensitive to interest rate movements to the extent that the Group is prohibited from repricing the portfolio of assets. The terms and conditions of the majority of the Group's loans and advances to customers allow it to choose to pass on any increases in the Bank of England base rate to customers holding certain products of the Group, insulating the Group against future bank base rate rises by hedging against interest expenses. The Group's funding is predominantly SONIA or SOFR based and therefore is sensitive to interest rate movements. In 2022, the Group has mitigated the residual interest rate risk on its funding which cannot be passed on to customers through taking out interest rate swaps. The Group also has US Dollar denominated funding which accrues interest linked to USD SOFR but has been hedged to SONIA or fixed through cross-currency interest rate swaps. The following tables analyse the Group's assets and liabilities by reference to the period of time before that asset or liability can be repriced to realign interest rates.

Contractual repricing profile

Group As at 31 December 2022	Less than 3 months £m	3 to 12 months £m	Over 1 year £m	Non-repricing or non-interest bearing £m	Total £m
Financial assets					
Loans and advances to banks	239.3	–	–	142.9	382.2
Loans and advances to customers	3,016.8	311.1	0.7	479.3	3,807.9
Other assets	–	–	–	120.0	120.0
Derivative assets	32.4	–	–	31.0	63.4
Financial liabilities					
Debt issued and other borrowed funds	(3,960.3)	–	–	(276.9)	(4,237.2)
Other liabilities	–	–	–	(157.1)	(157.1)
Net repricing difference	**(671.8)**	**311.1**	**0.7**	**339.2**	**(20.8)**

Group As at 31 December 2021	Less than 3 months £m	3 to 12 months £m	Over 1 year £m	Non-repricing or non-interest bearing £m	Total £m
Financial assets					
Loans and advances to banks	85.2	–	–	219.2	304.4
Loans and advances to customers	2,243.1	205.0	31.6	364.8	2,844.5
Other assets	–	–	–	32.8	32.8
Derivative assets	1.9	–	–	–	1.9
Financial liabilities					
Debt issued and other borrowed funds	(2,901.4)	–	–	(319.8)	(3,221.2)
Other liabilities	–	–	–	(89.9)	(89.9)
Derivative financial liabilities	(16.5)	–	–	–	(16.5)
Net repricing difference	**(587.7)**	**205.0**	**31.6**	**207.1**	**(144.0)**

The following table demonstrates the sensitivity to changes in interest rates (all other variables being held constant) of the Group's income statement. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2022. Total sensitivity of the income statement is based on the assumption that there are parallel shifts in the yield curve.

Interest rate risk sensitivity

		Sensitivity of profit or loss	
Group	Increase/(decrease) in basis points	**Year ended 31 December 2022 £m**	Year ended 31 December 2021 £m
Loans and advances to customers	25/(25)	9.8/(9.8)	7.6/(7.6)
Debt issued and other borrowed funds	25/(25)	9.9/(9.9)	(7.3)/7.3

24.5 Regulatory and conduct risk

Regulatory risk is the risk of regulatory sanction, material financial loss or reputational damage if the organisation fails to design and implement operational processes, systems and controls such that it can maintain compliance with all applicable regulatory requirements. The Board Risk Committee reviews and discusses proposed regulatory changes that the Group is subject to. Regulatory developments form part of the Board Risk Committee's updates to the Board which assesses the impact of regulatory change on the Group's balance sheet and risk profile.

Conduct risk is the risk of customer detriment arising from inappropriate culture, products and processes. Conduct risk can arise through the design of products that do not meet customers' needs, mishandling complaints where the Group has behaved inappropriately towards its customers, inappropriate sale processes and exhibiting behaviour that does not meet market or regulatory standards. Avoiding poor customer outcomes requires focus on treating customers fairly including assessing affordability and sustainability of lending and handling vulnerable customers sensitively. The Group mitigates conduct risk by ensuring colleagues have appropriate training, monitoring various operational metrics that track activities which affect customers, monitoring customer complaints, implementing process improvements and adhering to service standards. The outcomes of this reporting are monitored by the Board and the Board Risk Committee.

Notes to the Financial Statements *continued*

25. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	As at 31 December 2022			As at 31 December 2021		
Group	< 12 months £m	> 12 months £m	Total £m	< 12 months £m	> 12 months £m	Total £m
Assets						
Loans and advances to banks	314.1	68.1	382.2	246.2	58.2	304.4
Loans and advances to customers	3,390.7	417.2	3,807.9	2,437.8	406.7	2,844.5
Other assets	143.6	2.9	146.5	42.8	4.8	47.6
Derivative financial assets	2.9	60.5	63.4	–	1.9	1.9
Current tax assets	10.8	–	10.8	3.0	–	3.0
Deferred tax assets	–	0.5	0.5	–	0.3	0.3
Property and equipment	–	12.5	12.5	–	15.7	15.7
Intangible assets	–	111.8	111.8	–	154.3	154.3
Goodwill	–	279.9	279.9	–	279.9	279.9
Total assets	**3,862.1**	**953.4**	**4,815.5**	**2,729.8**	**921.8**	**3,651.6**
Liabilities						
Debt issued and other borrowed funds	(338.2)	(3,899.0)	(4,237.2)	(855.1)	(2,366.1)	(3,221.2)
Other liabilities	(151.7)	(6.3)	(158.0)	(80.8)	(9.2)	(90.0)
Derivative financial liabilities	–	–	–	(15.6)	(0.9)	(16.5)
Current tax liabilities	(0.1)	–	(0.1)	(0.6)	–	(0.6)
Deferred tax liabilities	–	(1.1)	(1.1)	–	–	–
Provisions	(3.2)	(1.8)	(5.0)	(9.3)	(1.8)	(11.1)
Total liabilities	**(493.2)**	**(3,908.2)**	**(4,401.4)**	**(961.4)**	**(2,378.0)**	**(3,339.4)**

	As at 31 December 2022			As at 31 December 2021		
Company	< 12 months £m	> 12 months £m	Total £m	< 12 months £m	> 12 months £m	Total £m
Assets						
Loans and advances to banks	10.7	–	10.7	66.1	–	66.1
Other assets	16.7	497.7	514.4	51.5	505.2	556.7
Investment in subsidiaries	–	570.4	570.4	–	511.4	511.4
Total assets	**27.4**	**1,068.1**	**1,095.5**	**117.6**	**1,016.6**	**1,134.2**
Liabilities						
Debt issued and other borrowed funds	–	(290.2)	(290.2)	–	(329.9)	(329.9)
Other liabilities	(5.6)	–	(5.6)	(1.7)	–	(1.7)
Total liabilities	**(5.6)**	**(290.2)**	**(295.8)**	**(1.7)**	**(329.9)**	**(331.6)**

26. Contingent liabilities and commitments

Contingent liabilities

As a financial services company, the Group is subject to extensive and comprehensive regulation. The Group must comply with numerous laws and regulations, including the Consumer Credit Act, which significantly affects the way it conducts business. Whilst the Group believes there are no unidentified areas of failure to comply with these laws and regulations which would have a material impact on these Financial Statements, there can be no guarantee that all issues have been identified.

The Group has considered the appeal at the Supreme Court in the case of Target Group Ltd v HMRC (2021) EWCA Civ 1043 and has assessed its potential annual impact on the Group's performance to be immaterial should the Supreme Court uphold the original decision.

Commitments

The Group had capital expenditure commitments contracted with third parties but not provided for of £0.2m as at 31 December 2022 (31 December 2021: £0.3m).

27. Related party disclosures

Group	Maximum balance during the year £m	Year ended 31 December 2022 £m	As at 31 December 2022 £m	Maximum balance during the year £m	Year ended 31 December 2021 £m	As at 31 December 2021 £m
Transactions with key management personnel						
Total emoluments	n/a	8.6	n/a	n/a	7.9	n/a
Total pension contributions	n/a	–	n/a	n/a	–	n/a
Highest paid key management personnel	n/a	2.4	n/a	n/a	2.2	n/a
Highest pension contribution to key management personnel	n/a	–	n/a	n/a	–	n/a
Transactions with other related parties						
Other operating expenses paid to related parties	n/a	0.2	n/a	n/a	0.1	n/a
Personnel expenses recharged to related parties	n/a	1.1	n/a	n/a	0.4	n/a
Receivables due from related parties	0.7	n/a	0.6	0.1	n/a	0.1
Loans to related parties	0.5	n/a	0.5	0.5	n/a	0.5
Amounts owed to related parties	0.7	n/a	0.7	0.7	n/a	0.7

Key management personnel refers to the Management Committee of NewDay Group UK Limited and Non-Executive Directors.

Credit card balances outstanding to key management personnel of the Group and their connected parties as at 31 December 2022 were £39k (31 December 2021: £36k). All transactions are subject to standard commercial interest rates on an arm's length basis.

In 2022, in addition to emoluments in the normal course of business, a member of key management personnel sold £3.8m (2021: £nil) of Senior Secured Notes issued by NewDay BondCo Plc.

In 2022, the Group and Company made a return of £18.5m (2021: £11.0m) to Nemean Midco Limited. As at 31 December 2022, £0.7m (31 December 2021: £0.7m) was still to be paid on previous returns made and this balance was included within other liabilities. The return was made in accordance with the £529.2m loan agreement between NewDay Group (Jersey) Limited and Nemean Midco Limited.

The Group reported a £0.5m (31 December 2021: £nil) receivables balance for costs recharged to Nemean Midco Limited. Costs recharged to Nemean Midco Limited over the year totalled £0.5m (2021: £0.1m).

The Group has a trading agreement with Pay4Later Limited, a sister company of the Group. As at 31 December 2022, the Group reported a £0.1m (31 December 2021: £0.1m) receivables balance with this entity for staff services recharged to Pay4Later Limited. Staff services recharged to Pay4Later Limited over the year totalled £0.6m (2021: £0.3m). Additionally, the Group incurred other operating expenses with Pay4Later Limited totalling £0.2m (2021: £0.1m).

Company	Maximum balance during the year £m	Year ended 31 December 2022 £m	As at 31 December 2022 £m	Maximum balance during the year £m	Year ended 31 December 2021 £m	As at 31 December 2021 £m
Transactions with other related parties						
Loans to related parties	581.0	n/a	513.5	588.4	n/a	556.1
Interest income from related parties	n/a	46.3	n/a	n/a	171.5	n/a
Other assets due from related parties	0.9	n/a	0.9	0.5	n/a	0.5
Loans from related parties	335.0	n/a	294.4	435.3	n/a	335.0
Interest expense to related parties	n/a	24.8	n/a	n/a	27.2	n/a
Other liabilities owed to related parties	0.4	n/a	0.4	0.4	n/a	0.4
Amounts owed to related parties	0.7	n/a	0.7	0.7	n/a	0.7

On 11 January 2018, the Company issued a term loan facility agreement to Nemean Topco Limited for £7.5m. The facility can be drawn upon at any time and accrues interest at 9% per annum. As at 31 December 2022, there was an outstanding balance of £0.5m on the facility (31 December 2021: £0.5m).

In 2022, the Company paid £15k (2021: £16k) to a related party in relation to services provided by the Directors.

Notes to the Financial Statements *continued*

27. Related party disclosures continued

Consolidated subsidiaries and structured entities

The consolidated Financial Statements include the Financial Statements of NewDay Group (Jersey) Limited and the subsidiaries and structured entities in the following table:

Name	Country of incorporation	Share class held as at 31 December 2022	% equity interest as at 31 December 2022	Share class held as at 31 December 2021	% equity interest as at 31 December 2021
NewDay Group UK Limited	UK	Ordinary	100%	Ordinary	100%
NewDay BondCo plc	UK	Ordinary	100%	Ordinary	100%
NewDay UK Limited	UK	Ordinary	100%	Ordinary	100%
NewDay Group Holdings S.à r.l.	Luxembourg	Ordinary	100%	Ordinary	100%
NewDay Holdings Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Intermediate Holdings Limited	UK	Ordinary	100%	Ordinary	100%
NewDay Technology Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Cards Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Loyalty Limited	UK	Ordinary	100%	Ordinary	100%
NewDay Reserve Funding Ltd[1]	UK	Ordinary	100%	Ordinary	100%
NewDay Partnership Transferor plc	UK	Ordinary	100%	Ordinary	100%
NewDay Funding Transferor Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay UPL Transferor Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Partnership Tertiary Funding Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Partnership Receivables Trustee Ltd	Jersey	n/a	SE	n/a	SE
NewDay Partnership Loan Note Issuer Ltd	UK	n/a	SE	n/a	SE
NewDay Partnership Funding 2015-1 plc	UK	n/a	SE	n/a	SE
NewDay Partnership Funding 2017-1 plc	UK	n/a	SE	n/a	SE
NewDay Partnership Funding 2020-1 plc	UK	n/a	SE	n/a	SE
NewDay Funding Master Issuer plc	UK	n/a	SE	n/a	SE
NewDay Funding 2017-1 plc	UK	n/a	SE	n/a	SE
NewDay Funding 2018-1 plc	UK	n/a	SE	n/a	SE
NewDay Funding 2018-2 plc	UK	n/a	SE	n/a	SE
NewDay Funding 2019-1 plc	UK	n/a	SE	n/a	SE
NewDay Funding 2019-2 plc	UK	n/a	SE	n/a	SE
NewDay Funding Loan Note Issuer Ltd	UK	n/a	SE	n/a	SE
NewDay Funding Receivables Trustee Ltd	Jersey	n/a	SE	n/a	SE
NewDay Secondary Funding Limited	UK	n/a	SE	n/a	SE
NewDay Partnership Secondary Funding Ltd	UK	n/a	SE	n/a	SE
Progressive Credit Limited[1]	UK	Ordinary	100%	Ordinary	100%
SAV Credit Limited[1]	UK	Ordinary	100%	Ordinary	100%

1 NewDay Reserve Funding Ltd was a dormant entity as at 31 December 2022. Progressive Credit Limited and SAV Credit Limited were dormant entities as at 31 December 2022 and 31 December 2021.

The Company's immediate parent company is Nemean Midco Limited. The ultimate parent undertaking is Nemean Topco Limited, a private limited company incorporated in Jersey.

With the exception of the following entities the principal place of business for the subsidiaries and structured entities listed above is the UK and their registered address is 7 Handyside Street, London, N1C 4DA.

Name	Principal place of business	Registered address
NewDay Group Holdings S.à r.l.	Luxembourg	6, rue Jean Monnet, L-2180, Luxembourg
NewDay Partnership Receivables Trustee Ltd	Jersey	44 Esplanade, St Helier, Jersey, JE4 9WG
NewDay Partnership Loan Note Issuer Ltd	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Partnership Funding 2015-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Partnership Funding 2017-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Partnership Funding 2020-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding Master Issuer plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2017-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2018-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2018-2 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2019-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2019-2 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding Loan Note Issuer Ltd	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding Receivables Trustee Ltd	Jersey	44 Esplanade, St Helier, Jersey, JE4 9WG
NewDay Secondary Funding Limited	UK	20 Farringdon Street, 8th floor, London, EC4A 4AB
NewDay Partnership Secondary Funding Ltd	UK	20 Farringdon Street, 8th floor, London, EC4A 4AB

28. Structured entities

The Group has four financing arrangements which involve structured entities.

The Direct to Consumer business is funded by a master trust securitisation and a private securitisation. The structures have issued multiple series of debt instruments external to the Group, backed by the cash flow of the Direct to Consumer receivables portfolio. As at 31 December 2022, the master trust has in issue six series of publicly listed term debt sold to capital market investors and two series of senior variable funding notes sold to seven major banks, which act as a revolving facility. As at 31 December 2022, the private securitisation has issued a series of senior variable funding notes to a major bank which act as a revolving facility.

The Merchant Offering business is funded by a master trust securitisation and a private securitisation. The structures have issued multiple series of debt instruments external to the Group, backed by the cash flow of the Merchant Offering receivables portfolio. As at 31 December 2022, the master trust has in issue one series of publicly listed term debt sold to capital market investors and two series of senior variable funding notes sold to five major banks which act as a revolving facility. As at 31 December 2022, the private securitisation has issued multiple series of senior and mezzanine variable funding notes sold to five major banks which act as a revolving facility.

Within the funding structure of the Direct to Consumer and Merchant Offering portfolios are various structured entities where all of the ordinary shares are held by a third party trustee for charitable purposes. The consolidated subsidiary and structured entities table in note 27 has further details of the structured entities consolidated into the Group's Financial Statements for the year ended 31 December 2022, on the basis that the Group has the power to direct relevant activities, is exposed to variable returns of the entities and is able to use its power to affect those returns. Within the master trust securitisations, there are also entities which are not consolidated into the Financial Statements of the Group on the basis that the Group does not have control over these entities because it is not exposed, or does not have rights, to variable returns of the entities. These entities are NewDay Partnership Securitisation Holdings Ltd in the Merchant Offering master trust securitisation and NewDay Funding Securitisation Holdings Ltd in the Direct to Consumer master trust securitisation.

Notes

Our owners
We are indirectly owned by funds advised by Cinven and CVC Capital Partners (CVC).

Cinven is a leading international private equity firm, founded in 1977. It has offices in London, Frankfurt, Guernsey, Luxembourg, Madrid, Milan, New York and Paris. Funds managed by Cinven acquire companies with a European focus that will benefit from Cinven's expertise of growing and building companies globally. Cinven uses a matrix of sector and country experience to invest in companies where it can strategically drive revenue growth. Cinven focuses on six sectors: Business Services, Consumer, Financial Services, Healthcare, Industrials, and Technology, Media and Telecommunications. Cinven has a long and differentiated track record of investment in the financial services sector where its track record in the UK includes the acquisitions of True Potential, Miller Insurance Services, Premium Credit, Partnership Assurance (now part of Just group) and Guardian Financial Services.

CVC Capital Partners is a leading private equity and investment advisory firm with a network of 25 offices throughout Europe, Asia, South America and the US, with approximately €137bn of assets under management. Since its founding in 1981, CVC has secured commitments in excess of €165bn from some of the world's leading institutional investors across its private equity and credit strategies. Funds managed or advised by CVC are invested in over 125 companies worldwide, which have combined annual sales of more than €100bn and employ more than 550,000 people. CVC's financial services team has invested over €6bn of equity capital in the financial services sector since the team's inception in 2008, including its historic and current portfolio companies, Paysafe, Pension Insurance Corporation, Skrill, Domestic & General and Brit Insurance in the United Kingdom, Avolon in Ireland, April in France, Republic Finance and Cunningham Lindsey in the United States, Fidelis in Bermuda, Cerved in Italy, Sun Hung Kai in China and Rizal Commercial Banking Corporation and SPi Global in the Philippines.

Cautionary statement
This report comprises the Annual Report and Financial Statements of NewDay Group (Jersey) Limited (the 'Company') for the year ended 31 December 2022. Underlying and adjusted metrics referred to on pages 01 to 77 exclude a number of non-recurring items as detailed on page 29. Definitions of key performance indicators are included on pages 26 to 27.

Notwithstanding the above, as set out on page 58, with the exception of the Directors' report set out on pages 76 to 77, the governance and risk framework described in this report relate to the governance and risk framework established for the Group's UK subsidiaries. References to the 'Board', 'Group', 'NewDay' and 'Company' should be construed accordingly (where appropriate).

The financial information contained in this report may not be directly comparable to any financial information published by Nemean Topco Limited, NewDay Group plc, Pay4Later Limited (trading as Deko) or any other entity not consolidated in the financial information contained in this report. In particular, the financial information contained herein excludes the financials of Pay4Later Limited (trading as Deko).

Certain financial data included in this report consists of 'non-IFRS financial measures'. These non-IFRS (International Financial Reporting Standards) financial measures, as defined by the Company, may not be comparable to similarly titled measures as presented by other companies, nor should they be considered as an alternative to the historical financial results or other indicators of the Company's cash flow based on IFRS. Even though the non-IFRS financial measures are used by management to assess the Company's financial position, financial results and liquidity and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as superior to or substitutes for analysis of the Company's financial position or results of operations as reported under IFRS. These non-IFRS financial measures have not been audited. The inclusion of such non-IFRS financial measures in this report or any related presentation should not be regarded as a representation or warranty by the Company, any member of the Group, any of their respective affiliates, advisers or representatives or any other person as to the accuracy or completeness of such information's portrayal of the financial condition or results of operations of the Company and should not be relied upon.

References to adjusted EBITDA throughout this Document have been calculated in accordance with UK IFRS at the relevant time and may differ significantly from "Consolidated EBITDA" as defined in the legal documentation relating to the Senior Secured Notes issued by NewDay BondCo plc between January 2017 and December 2022 (the Senior Secured Debt) and the Super Senior Revolving Credit Facility entered into by the Company on 25 January 2017 (the Revolving Credit Facility).

In addition, all ratios, baskets and calculations required under the terms of the (i) Senior Secured Debt issued in January 2017 and June 2021 are based on UK IFRS as in force as at 1 January 2021 (subject to certain adjustments permitted or required under the terms of the Senior Secured Debt which, amongst other things, disregard the impact of IFRS 9 'Financial Instruments' and IFRS 16 'Leases') and (ii) Senior Secured Debt issued in December 2022 or the Revolving Credit Facility are based on UK IFRS as in force as at 8 December 2022 (subject to certain adjustments permitted or required under the terms of the Senior Secured Debt or the Revolving Credit Facility). As a result, such ratios, baskets and calculations may differ significantly from any ratios or figures which are contained in this Document. In particular, except where otherwise expressly stated to be the case, references to "Senior Secured Debt to adjusted EBITDA" and "adjusted EBITDA to pro forma cash interest expense" contained in this Document have been calculated (subject to certain adjustments) in accordance with UK IFRS as in force as at 31 December 2022 (or, in respect of periods ending prior to 31 December 2022, UK IFRS at the relevant time). As a result, such figures will differ significantly from the calculation of Consolidated Senior Secured Net Leverage Ratio and Fixed Charge Corporate Debt Coverage Ratio (as defined under the terms of the Senior Secured Debt and Revolving Credit Facility).

Certain statements included or incorporated by reference within this report may constitute 'forward-looking statements' in respect of the Group's operations, performance, prospects and/or financial condition. All statements other than statements of historical fact included in this report are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. No responsibility is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast.

The information contained in this report should be considered in the context of the circumstances prevailing at the time and will not be updated to reflect material developments that may occur after the date of this report. The information and opinions in this report are provided as at the date of this report and are subject to change without notice. None of the Company, any member of the Group, any of their respective affiliates, advisors or representatives or any other person shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection with this report, or any action taken by you or any of your officers, employees, agents or associates on the basis of the information in this report.

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