
# We help people move forward with credit

2020 Annual Report
and Financial Statements

# Our purpose is to help people move forward with credit

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**Strategic Report**



**Governance**



**Financial Statements**



**Cautionary statement**
Please see page 121 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.

## CEO foreword

"I am pleased to present our 2020 Annual Report and Financial Statements. 2020 was a year that tested the strength and resilience of our business and I am proud to report that NewDay has come through this difficult year in good shape.

Many of our customers have been impacted by the COVID-19 pandemic (COVID-19). In line with our Customer Manifesto promises, we provided support in difficult times to these customers through a variety of payment relief and interest relief measures.

During the first UK-wide lockdown, the extent of the damage to the UK economy started to become apparent and, in response, we took measures to explicitly strengthen the Group's balance sheet. We tightened our risk appetite. We increased our provisioning for expected future credit losses. We fortified our cash and liquidity positions. We put in place extra help for our customers. These actions led to overall losses for the year with first half losses reflecting the deteriorating macroeconomic outlook associated with COVID-19.

The second half of the year saw a return to underlying profitability despite the macroeconomic outlook leading to an increased level of provisioning for potential future credit losses. We continued with a cautious approach to risk-taking and further strengthened our cash and liquidity position. As a result, we are well positioned to continue supporting our customers and our retail partners into 2021.

Our business operated seamlessly on an entirely remote-working basis during the pandemic with our colleagues adapting well to the challenges of working remotely. We continued to invest in great technology and hire great people. We continued to pursue our ambition to be the leading digitally enabled consumer finance provider in the UK, exciting our customers with constant innovation and a great customer experience.

We enter 2021 with a highly evolved digital and data platform. We are helping almost five million customers move forward with credit and I look forward to sharing our progress with you throughout the coming year."

**John Hourican**
Chief Executive Officer

# At a glance



An established **credit card and point-of-sale finance** business with a **heritage** in full spectrum underwriting and partnerships

A digital, brand agnostic and scalable business that drives innovation to create **best-in-class** customer journeys

**Trusted partner** with some of the most exciting brands in the UK

Our **Customer Manifesto** guides us in helping people move forward with credit

## Who we are

We are an established and leading consumer credit company serving almost five million customers through our diverse and highly digital business. We are powered by state-of-the-art technology and we partner with some of the UK's most exciting brands, including Amazon and AO.com.

We aim to be the UK's leading digitally enabled consumer finance provider, responsibly saying "yes" to more people. We develop innovative ways to help customers stay in control of their finances and access appropriate credit seamlessly.

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. This enables us to fulfil our purpose to help people move forward with credit.

## What we do

We have proven specialist capabilities in a full spectrum of underwriting credit across a range of products including our digital revolving credit product *NewPay*. Through our Own-brand business, we offer near-prime revolving credit to customers who may not have easy access to mainstream lenders. In our Co-brand business, we partner with retailers and online e-tailers to offer credit to their customers together with loyalty and other reward programmes.

Our business is built on an advanced digital platform that allows us to innovate and respond rapidly to changing customer and retail partner needs. Our access to and understanding of data allows us to generate in-depth customer insights.

# Our Customer Manifesto

Our purpose is to help people move forward with credit. We are guided by the four principles of our Customer Manifesto. These principles are informed by our belief in credit as a force for good

Our clear purpose and our Customer Manifesto guided us in supporting our customers through COVID-19

## Welcoming

We aim to responsibly say "yes" to as many people who apply for credit as possible, providing the right product at an appropriate rate.

We provide a great experience with simple, intuitive and useful products.

## Understanding

With the right support, credit helps customers advance their lives. We aim to build lifelong relationships with customers.

If things are not going quite to plan, we offer customer support, understandable solutions and agree appropriate actions for moving forward.

## Knowing

We know our customers have varying needs and want to move forward in life.

We provide a range of products and services to suit their different needs. We utilise our analytical expertise, combined with partner insight, to the benefit of customers.

## Rewarding

We reward customers for managing their credit well.

We provide benefits, such as lowering APRs as a result of paying on time and sticking to commitments made. We provide rewards for customers' loyalty.

# Our Customer Manifesto in action in 2020

**234,000**
customers provided support through a payment holiday or payment freeze

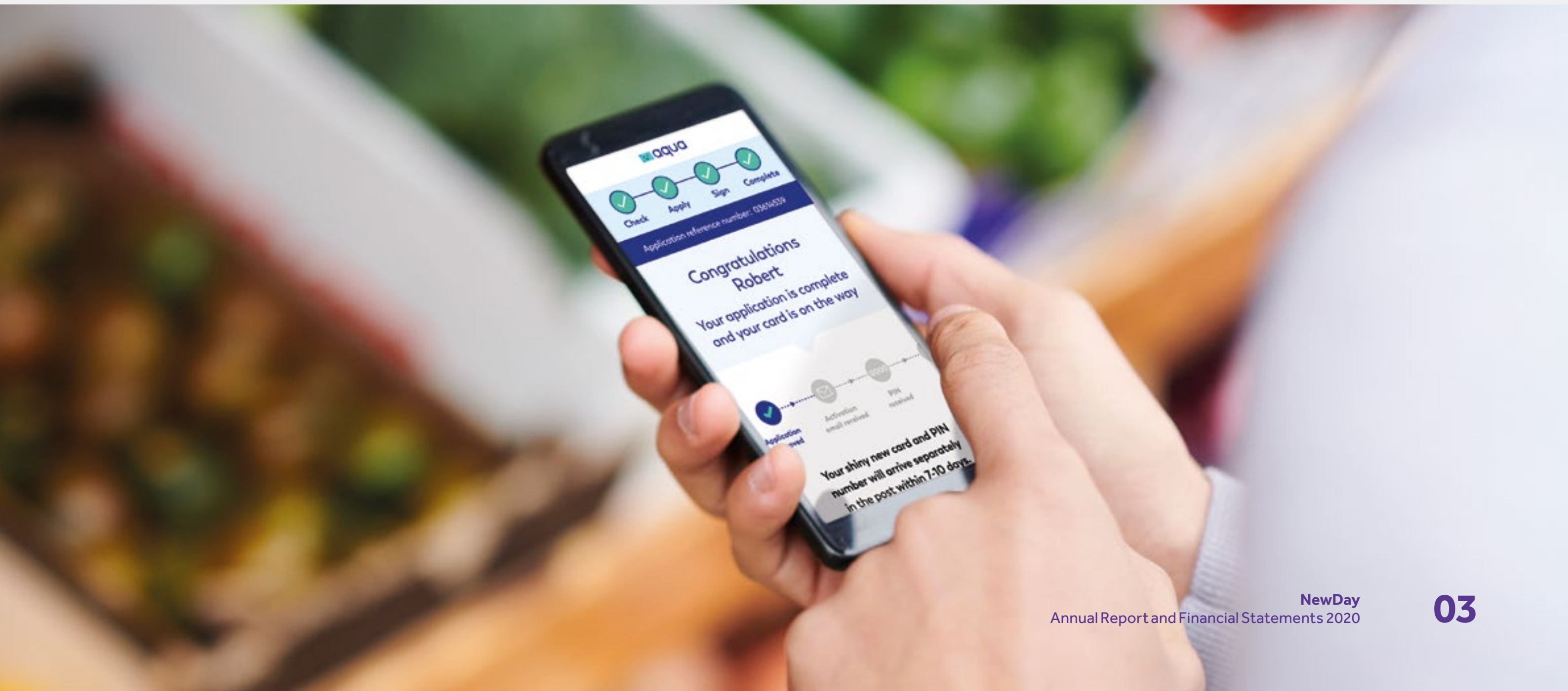
**1.9m**
customers helped to improve their credit score

**0.9m**
new customers we responsibly said "yes" to

**Over 100m**
customer service interactions

**226,000**
customers registered for digital wallets

**75,000**
customers registered for '*Aqua* coach', our financial education tool



# NewDay in numbers

## Our purpose resonated as the pandemic impacted our customers

Despite the fact that we deliberately tightened our underwriting criteria in 2020, we welcomed 0.9m new customers. Customer activity was naturally more subdued on our cards during 2020 and receivables remained broadly flat year-on-year at £2.8bn.

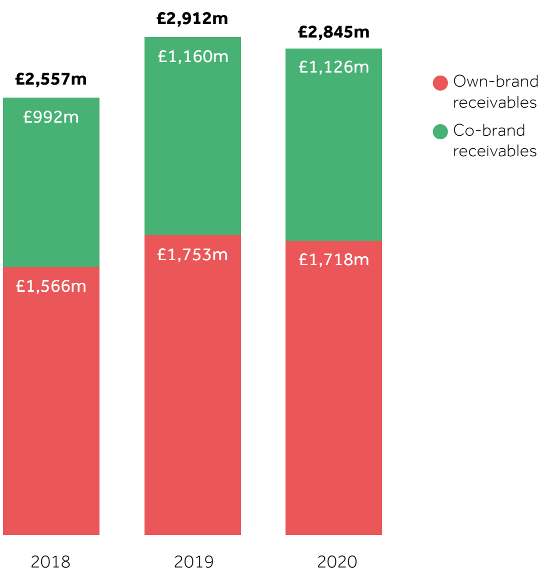
NewDay is a digital company. Our digital capabilities and highly skilled team of digital engineers allowed us to maintain an uninterrupted level of customer service and operate fully remotely during COVID-19. We offered enhanced support to customers during this period through our payment holiday and payment freeze solutions, with 234,000 customers taking a payment holiday or payment freeze in 2020. Our ongoing commitment to serving our customers is evident in our Net Promoter Score (NPS) which improved to +67 during this difficult economic period.

We strengthened our balance sheet by uplifting our provisioning and increasing our available liquidity. Our expected credit loss (ECL) allowance represents 19.3% of receivables at the year end, up 5.1 percentage points since the start of the year (excluding Unsecured Personal Loans (UPL)). We successfully secured £754m of additional funding during 2020 and finished the year with a record cash balance of £277m[1].

Our adjusted EBITDA loss for the year was £12m and our statutory loss before tax from continuing operations was £129m.

In 2020, we took the decision to cease new lending in our UPL business, which represents less than 5% of our total receivables, and subsequently sold the receivables portfolio to a third party in February 2021. Accordingly, all metrics from pages 01 to 77 of this report (including prior year comparatives) exclude UPL unless stated otherwise.

READ MORE IN OUR FINANCIAL REVIEW ON PAGE 32




**£2,845m**

**Group closing receivables**
(2019: £2,912m)

1 The £277m cash figure excludes funding overlaps and represents the total statutory cash balance of £521m less £244m of cash which will be used to settle asset-backed debt maturing in April 2021.

# 0.9m

**new customer accounts**
(2019: 1.2m)

# £5.0bn

**customer spend through our products**
(2019:£5.7bn)

# 84%

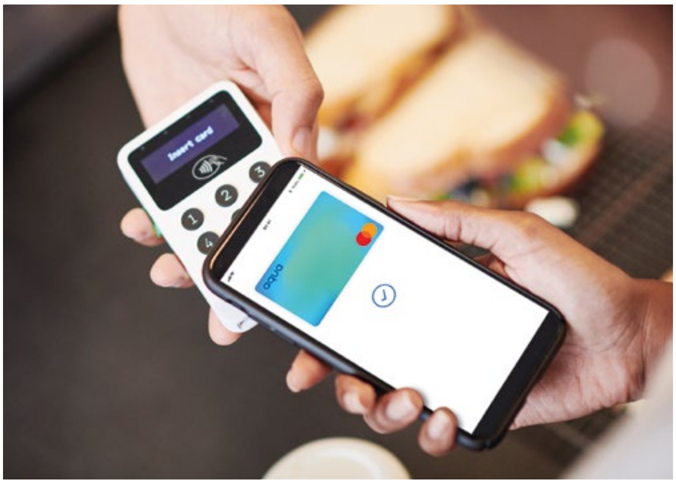
**of active customers registered for e-servicing**
(2019: 72%)

# +67

**transactional NPS**
(average customer feedback score when rating their experience on an interaction with us)
(2019: +66)

# £129m

**free cash flow available for Senior Secured Debt interest**
(2019: £67m)



# 19%

**of UK credit cards were issued by NewDay during 2020[1]**

# 4.7 ☆

**average app store rating**
(2019: 4.7 stars)

# £754m

**of additional funding secured**

1 Estimated based on eBenchmarkers data as at 31 December 2020.

# Who we work with

We are committed to building long-term relationships with our customers, suppliers and partners. We partner with companies that share our vision and help us to deliver exciting customer engagement

## Broad range of customers

We are powered by state-of-the-art technology, our Customer Manifesto and a long history of credit underwriting. These capabilities allow us to responsibly say “yes” to more customers.

Our Own-brand business serves customers who typically are employed but exhibit one or more additional characteristics such as a limited credit history or a history of adverse credit events that prevents them from easily accessing credit from mainstream credit providers.

Our Co-brand retail partners value our ability to serve a full range of prime and near-prime customers. We do this by offering a spectrum of credit products including *NewPay*, our digital revolving credit product. They also value our modern customer offering and the power that our offering brings to their online platforms in building customer loyalty, sales momentum and profitability.

## Innovative retail partners

We partner with some of the UK’s most exciting brands. Our partners share our passion for delivering a best-in-class customer experience. We work together to build brand loyalty and deliver value for both our partners and customers.

Our partners value the seamless integration and insight that our data science and modern technology offers. They also value our collaborative and open approach in delivering for them and their customers.

We partner with high street brands but our strategy has been to deliberately invest in digital capability to allow us to partner with some of the UK’s leading e-tailers.

As a result of challenges facing the high street in 2020, three of our high street partners entered administration in the year.

## Leading technology partners

Our in-house digital capability is built on infrastructure provided by leading technology organisations, including Microsoft and Amazon Web Services. Our platform affords us cloud-based scalability, high performance, low marginal cost and modern security advantages. Our transaction processing platform is currently outsourced to Fiserv, who remain an important partner for us.

## Diversified funding partners

Our broad base of international funding partners includes many of the world’s leading financial institutions. We adopt a very conservative approach to funding.

We regularly access securitisation markets to support our receivables growth with a relatively low, stable cost of funding from both the UK and US wholesale markets.

# Our portfolio

## Our portfolio is designed to meet a variety of consumer credit needs, helping more people move forward with credit. Our portfolio also reflects the growing credit and digital capability of NewDay, displayed through our own brands as well as partnerships with some of the UK's leading e-tailers and retailers

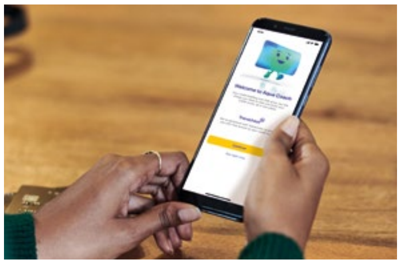
"Our portfolio offers a broad range of capabilities allowing us to serve a wide range of customer needs and deliver value-driving programmes with our partners which can adapt quickly to changes in the marketplace"

**Ian Corfield**
Chief Commercial Officer

In 2020, we continued to roll out enhanced capability to meet a wide range of credit and partner needs. A snapshot of our portfolio capability is shown on the next page.

aqua

**Leading credit building tools**



bip.

**Exclusively digital credit**

amazon

**Large scale card programme**

ao

**Revolving instalment credit**

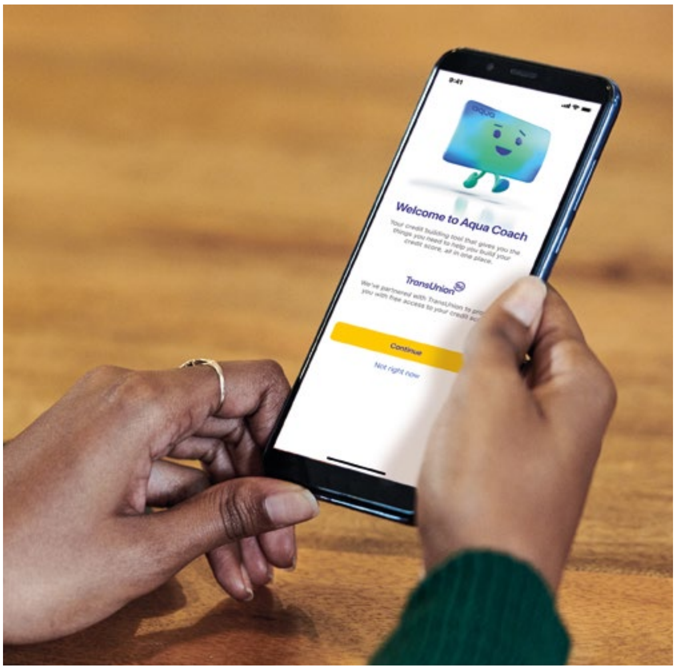
# A snapshot of our portfolio capability in action

## Helping our customers move forward with credit

We know that building a good credit score is not easy. That is why we designed and launched '*Aqua* coach', an integrated credit building capability built into the *Aqua* app. The tool gives *Aqua* customers direct access to their credit score alongside tips and indicators of their progress. '*Aqua* coach' is designed to help customers be better with credit. This innovation gives us the ability to continue to bring our credit expertise to life as we roll out more features and continually help customers move forward with credit.

> *Aqua* has given me the chance to prove my creditworthiness and trusted me to manage a credit card. Other lenders only look at a credit score, whereas it seems *Aqua* has a more holistic view"

**Nigel**
*Aqua* customer



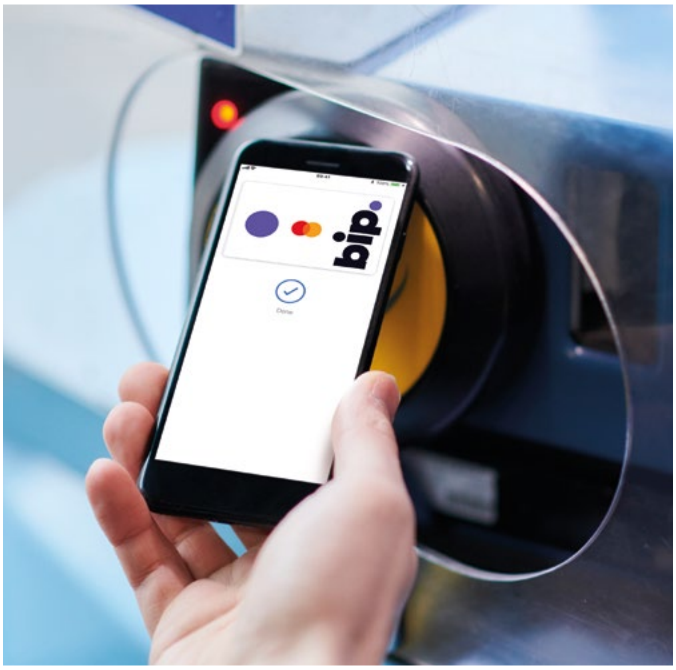

TO FIND OUT MORE
VISIT: **AQUACARD.CO.UK**

## Rollout of digital wallets at scale

In 2020, we rolled out Apple Pay and Google Pay across our estate. This capability allows our customers a fast and easy way to pay, allowing them to make secure transactions in-store, through our apps and online. In 2021, we are launching *Bip*, our truly cardless credit product, which provides credit that is entirely managed through our *Bip* app. In anticipation of the launch we opened a waiting list which has over 30,000 subscriptions. The large scale rollout of digital wallets reflects our seamless ability to launch new features at pace and scale.

> *Bip* is as simple as it sounds. It leverages our digital capabilities to provide completely cardless credit managed entirely through our app"

**Sanjay Sharma**
Chief Operating Officer



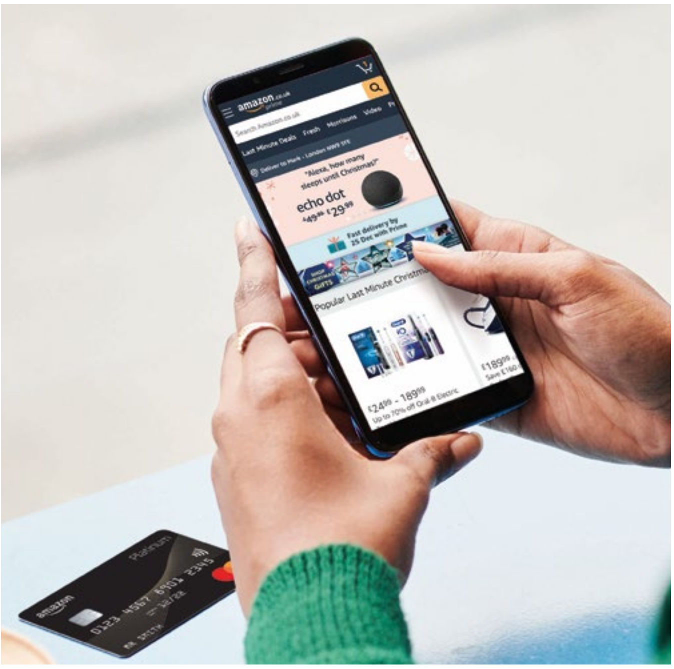

TO FIND OUT MORE
VISIT: **BIP.CREDIT**

## Driving a large scale card programme

Our Amazon relationship reflects our capability to drive growth-focused card loyalty programmes. As one of the largest co-branded card relationships in the UK market, the Amazon Mastercard products are tailored and provide credit automatically loaded into the Amazon wallet, enhancing the seamless Amazon shopping experience. In 2020, we launched an instalment feature for Amazon Mastercard customers, giving customers the ability to spread the cost of Amazon purchases.

> "This has been my go-to for day-to-day purchases, and who doesn't love a card that rewards you right back?"

**Dar'Nara**
Amazon customer




TO FIND OUT MORE
VISIT: **AMAZON.CO.UK**

## Scaling our instalment credit capability

Our AO.com partnership leverages revolving instalment credit through our *NewPay* capability. Branded as AO Finance, our *NewPay* product offers customers the ability to spread the cost of purchases using one flexible finance account. Customers have the ability to repeat purchase without needing to reapply. Since we launched the partnership in 2019, we have continued to see strong growth with AO.com.

> "Customers want options whilst shopping and AO Finance gives them lots of choices, way beyond what they have had before"

**David Lawson**
AO.com Managing Director


TO FIND OUT MORE
VISIT: **AO.COM**

# Our business model

Powered by leading-edge technology and an embedded Customer 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 knowledge in underwriting credit and our truly agile customer-centric technology platform to carefully pursue brand and product expansion in a digitising and growing UK marketplace. We identify opportunities to partner with customers to help them move forward with credit.

READ MORE ON PAGE 18

## Enablers

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

Helping customers move forward with credit and the principles of our Customer Manifesto remain 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 drive this vision through attracting top new 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 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 in-house enables us to innovate and respond rapidly to the changing needs of our customers, our partners and the wider marketplace.

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## 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 develop our long-standing customer relationships. Our deep understanding of customer behaviour gives us a high level of performance predictability.

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### Delivering strong controlled growth and high performance predictability

During a year of uncertainty, we deliberately strengthened our balance sheet. We increased our provision coverage. We increased our level of funding headroom to fund future growth and we remained cash generative.

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# How we create value

## Attractive market proposition
We focus on providing credit propositions that require specialist skills aligned with our core competencies and competitive strengths. We offer a suite of compelling products that allow us to serve our customers throughout their credit journey. We offer seamless integration with traditional retailers and e-tailers in serving the needs of our increasingly digital customers. We add power to merchant offerings.

## 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 Customer Manifesto commitment.

## Digital origination
Through both direct marketing 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 providers less easy.

## Leading customer service
We offer omni-channel 24-hour support. We are committed to continuous improvement and are engaged in ongoing dialogue with customers, with real-time feedback recorded through Net Easy Scores (NES) and transactional NPS. We continue to make great progress in digitally engaging our customers.

## Market-leading technology
Together with our customer insight, our in-house technology capabilities and agile operating model enable our data scientists and engineers to build better solutions faster and drive rapid digitisation in our customer journey and the business more widely.

## 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 funding base and securitisation technology, we have a stable funding capacity and a lower cost of funds.

# Our competitive strengths

## Trusted brands built on our Customer Manifesto
The strength of our portfolio of brands gives customers and partners confidence in what we stand for.

## Long-term strategic relationships with retail and e-tail partners
We are a trusted partner with some of the largest retail brands in the UK. We build long-term relationships to support their customers' credit journeys and help retailers profitably grow their business.

## Market-leading digital platform and technology partners
To continue to deliver a superior and competitive service to our customers, we have built an in-house digital engineering capability that ensures excellence and optionality. This is built on an infrastructure supported by leading technology partners.

## End-to-end digital product solutions
*NewPay*, our digital revolving credit product, offers frictionless customer journeys and simple integration for our retail partners. It offers instant access to credit and optionality through more ways to pay, including instalment plans, buy now pay later and other promotional options. It helps our retail partners increase online conversations, average basket size and customer engagement. In 2021, we plan to launch *Bip* which provides cardless credit run entirely from a customer's phone.

## Understanding and engagement with our customers
Strong and long-term relationships powered by a deep understanding of customer behaviour results in embedded portfolio value and predictable financial growth.

## Credit and collection capabilities
Our credit risk and collections expertise has been developed and honed over 19 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.

## 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.

# Chairman's statement

## Our focus in 2020 was to ensure our colleagues remained safe and our customers continued to get the support they needed during this unprecedented period of uncertainty

**Sir Michael Rake**
Chairman and Non-Executive Director

In 2020, the pandemic presented some very real challenges to our colleagues, our customers and our partners. Our people had to quickly adapt to the challenges of working remotely while continuing to serve our customers during a period when many of our customers were facing great personal economic challenges.

The impact of COVID-19 on our customers, our colleagues and our partners has been significant. We prioritised our response to ensure the safety of our colleagues, supporting our customers and fortifying our balance sheet to face economic uncertainty. NewDay did not receive any support from any UK Government initiative and we are well positioned to drive a growth agenda in 2021.

### Supporting our customers

Our Customer Manifesto is designed around being a welcoming, understanding, knowing and rewarding business. These pillars are embedded throughout our business and guide our day-to-day decision-making.

We offer innovative, digital and personalised credit solutions through our estate of own brands and in partnership with some of the UK's leading e-tail and retail brands. 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. I am proud that we have continued to welcome new customers throughout the pandemic, helping those who need access to the benefits and flexibility that responsible credit offers when they need it.

There has never been a period in our Company's history when our purpose was more relevant. NewDay exists to help people move forward with credit and, during the COVID-19 pandemic in 2020, many of our customers needed a little extra help from us.

Timely and proportionate support to those customers who found themselves in financial difficulties driven by COVID-19 was a key priority for us in 2020. Leveraging our modern, cloud-hosted infrastructure, in April 2020 we seamlessly transitioned our entire in-house contact centre to work entirely remotely. We maintained a strong operational tempo throughout the year and I was extremely pleased to see this reflected in our transactional NPS which improved in 2020 to +67 (2019: +66).

We designed and implemented numerous solutions to help those customers in financial difficulties through offering extended payment holidays and payment freezes to 234,000 customers during the year.

## Driving our digital capability

The Board regularly reviews the business's digital strategy. This remains a key priority and an important source of competitive advantage for NewDay. We understand the significant value that agile market-leading technology affords us and we continue to encourage innovation and agility at the core of our change programmes.

Our vision is to become the UK's leading digitally enabled consumer credit provider. In 2020, we delivered several key milestones on our journey to achieving this vision. We brought in-house the customer acquisition journey, removing our reliance on certain third party legacy systems – this is now 100% digital. We rolled out Apple Pay and Google Pay across our estate, enhancing our digital relevance in an increasingly e-wallet environment. We significantly extended our digital self-servicing capabilities to include more complex functions.

I was pleased to see that the great progress being made in our digital agenda received external recognition. Amongst other industry awards, we won gold and silver awards at the Digital Experience Awards in the categories of 'Digital Change and Transformation in Financial Services' and 'Use of Data Analytics' respectively. We also received a gold award for our digital collections programme at the Credit Strategy Collections and Customer Services Awards. These are but a few of the external accolades celebrating the success of our digital change programmes.

## Collaborating as colleagues

The Board recognises the importance of creating a work environment where colleagues feel valued and respected. We encourage an environment where all our colleagues can develop and thrive. Our colleagues interact daily with our customers and partners and they are best placed to drive continuous improvement in our products and services.

In 2020, we engaged the entire Company to reassess and re-energise our Company's core values. We rally around the four values of Do the right thing, Pull together, Aspire to extraordinary and Create tomorrow. It is clear to me that these values more accurately reflect the evolving and dynamic culture at NewDay. They align more closely to our strategy and our ambition.

During 2020, the Black Lives Matter movement brought it clearly to the public's attention the injustices and discrimination that many people continue to experience. We know that a diverse workforce where multiple perspectives are encouraged to flourish creates a better company. The Board continues to promote a culture that celebrates diversity in all its guises including ethnicity, gender, sexual orientation and opinion. We continue to actively create a conscious inclusion agenda at NewDay with improved training and an Inspirational Speaker Series that helps us continue this journey.

Our bi-annual, externally managed employee surveys demonstrate high levels of engagement at NewDay, despite the challenges of managing a remote workforce in 2020. Keeping our remote workforce collaborating effectively and focused on serving our customers effectively continues to be an important area of focus for the Board.

Lastly, it was extremely pleasing to see two of our colleagues picking up awards in the Women in Credit Awards this year as well as our internal communications team being recognised for its work during the pandemic. It makes me proud to see that NewDay is not just being recognised for what we do but how we go about doing it.

## Our Environmental, Social and Governance (ESG) agenda

We recognise the important role that our products play in society. Through our Customer Manifesto we strive to be a force for good in responsible lending. Treating customers fairly in good times and in times of difficulty is at the heart of our mission ***to help people move forward with credit***. We have paid particular attention to this in 2020 deploying new credit carefully and providing payment solutions to customers that needed help during the pandemic.

We also paid attention to our sustainability agenda in 2020. We engaged EcoVadis, an external sustainability consultancy firm, to help us identify our strengths and focus areas with respect to ESG strategy. They awarded NewDay a bronze medal award for sustainability, placing our business in the top 50% of companies surveyed. More importantly, we plan to use their findings to implement changes to strengthen our ESG credentials.

We continued to provide support to our charity partner, Family Action. It was particularly pleasing to see the additional effort our colleagues made this year to innovate and raise funds. A record level of donations to Family Action's Christmas toy appeal at a time when we were physically distant was a true testament to a beating heart at the centre of our Company.

## Regulation

Helping people move forward with credit is underpinned by positive customer outcomes. To deliver this our business works closely with regulators and industry bodies.

Our interactions with the Financial Conduct Authority (FCA) in 2020 focused on ensuring that customers experiencing temporary financial difficulties brought on by COVID-19 received the support they needed. This is central to our Customer Manifesto. We have embraced all guidance and implemented prescribed interventions, such as payment freezes, alongside our own pre-existing payment holiday solution tailored to the needs of our customers.

The issue of persistent debt remains a key consideration for the Board. We implemented all planned interventions in 2020 required to support customers who remained in persistent debt for 36 months.

## Outlook

I hope the worst of COVID-19 is now behind us with the strong rollout in the UK of vaccination programmes. The Board looks forward to a return to growth but is conscious of the continuing macroeconomic uncertainty. In 2021, the forecast increase in UK unemployment, the rise in retail partner insolvencies and how the UK adapts to Brexit will remain under constant review. The strength of our balance sheet, depth of digital capabilities and passion of our colleagues positions us well to return to growth and profitability in 2021.

2020 was a challenging year and we could not have navigated through it without the determination of everyone who works at NewDay. On behalf of the Board, I would like to thank all of our colleagues across the business for all of their efforts. They have charted safe passage for our business and our customers in unprecedented times.

**Sir Michael Rake**
Chairman and Non-Executive Director

# Chief Executive Officer's review

## 2020 was a year that tested the strength and resilience of our business. I am proud of the progress we made this year and the breadth of support we have given to our customers to help them through a period of unprecedented economic uncertainty

**John Hourican**
Chief Executive Officer

2020 was a year when our customers, retail partners, colleagues and our own business had to rapidly adapt to the challenges of the COVID-19 pandemic. Our overall strategy remained unchanged. We continued to welcome new customers throughout the year and we continued to invest in deploying market-leading digital capability.

Many of our customers were economically impacted by the COVID-19 pandemic and, in line with our Customer Manifesto promises, we provided strong support to these customers through a variety of payment relief and interest relief measures. We helped these customers move forward with credit in challenging and uncertain times.

During the first UK-wide lockdown, the extent of the damage to the UK economy started to become apparent. Customers responded by reducing spend and paying down their existing balances when able and this led to a reduction in our receivables. Our response in the first half of the year included taking a significant additional accounting charge to recognise the likelihood of increased credit losses in future periods. This additional provisioning led to our recognising first half losses. The second half of the year saw a return to underlying profitability despite the macroeconomic outlook leading to an increased level of provisioning for potential future credit losses. Our adjusted EBITDA loss for the full year was £12m (2019: £148m profit).

Our statutory loss before tax from continuing operations was £129m (2019: £55m profit), which includes items not representative of our underlying performance. A reconciliation to our statutory results is shown on page 33.

### Delivering for our customers

Our Customer Manifesto puts our customers at the heart of our business and every decision we take. We make a significant investment in each new customer we onboard at NewDay and we seek to create long-term relationships with them throughout the entire credit cycle. We believe in helping our customers positively move forward with credit, in good times and in challenging times.

To support our customers during the COVID-19 pandemic we focused our efforts on making engagement with NewDay as easy as possible. We invested to ensure that our contact centre agents could operate remotely without any interruption to the quality or breadth of customer service.

We expanded our e-servicing capability to allow our customers to more easily self-serve. We listened to our customers and implemented numerous solutions designed to help them through this unprecedented global health crisis.

We provided help in the form of payment holidays and payment freezes to 234,000 customers in 2020, suspending payments, and interest and fees where appropriate, for a period of time for each individual customer.

In 2020, we completed the migration of all customer account acquisition activity onto our in-house credit decisioning platform (NODE) and met the important milestone of 100% of customer acquisitions now being digital. Our customer acquisition and onboarding journey is no longer reliant on third party legacy systems allowing us to be more nimble, scalable and innovative. We also completed the rollout of Apple Pay and Google Pay across our estate, a timely addition to our customer arsenal in an increasingly digital world.

It was pleasing to see our business operate seamlessly on an entirely remote working basis during the pandemic. We continued to invest in great technology and hire great people. Our change agenda continued uninterrupted in 2020. Our colleagues have fully embraced our strategy to digitise everything we do, reinventing and simplifying our customer experience. Our digital e-servicing and mobile application platforms are proving highly effective for our customers with 84% of active customers now registered for e-servicing. It is pleasing to note that 98% of servicing transactions and 85% of collections transactions are now being processed through digital channels.

## Strengthening our balance sheet

A combination of reduced customer spend and our deliberate tightening of underwriting criteria restricted receivables expansion in 2020. We finished the year with receivables marginally behind 2019 at £2,845m (2019: £2,912m).

Throughout 2020, we took a deliberately cautious approach to risk-taking and separately ensured that our impairment provisioning adequately reflected the likely credit losses that we expect to incur in future periods should the deterioration in the UK economy materialise to the extent widely predicted. It is noteworthy that our actual credit performance and delinquency rates have not actually shown a significant deterioration from COVID-19. Our expected credit loss allowance increased by £136m in the year (excluding UPL) and was £550m as at 31 December 2020. This represents 19.3% of receivables at the year end, up from 14.2% as at 31 December 2019.

Our underlying cost-income ratio was stable at 33.3% (2019: 33.2%) as we continued to add to our digital capability and invest in our digital platform. Underlying costs were lower year-on-year, however the ratio was impacted due to less income resulting from lower receivables and the suspension of fee and interest income on customer accounts taking temporary payment holidays.

Although we reported an accounting loss for the year, our business generated £129m (2019: £67m) of free cash flow available for servicing Senior Secured Debt. As at 31 December 2020, we reported a record cash balance of £521m, or £277m excluding the cash held to refinance retiring wholesale deals.

In 2020, we were active in difficult capital markets. We explored every opportunity to strengthen our funding and liquidity position. We diversified our lending partners. In 2020, we raised £754m through publicly listed asset-backed term debt and bank-funded variable funding notes (VFNs). As at 31 December 2020, we had £0.9bn (2019: £0.6bn excluding UPL) of headroom on our funding facilities for future growth and an average maturity of two years (2019: two years). Additionally, our asset-backed term debt is structured so that we can choose to extend the maturity of each series by a further twelve months should access to capital markets be restricted.

## Supporting our Co-brand partners

The COVID-19 pandemic has accelerated the demise of the UK high street. Our strategy has been to support our high street partners where possible and also to deliberately invest in digital capability to allow us to partner with some of the UK's leading e-tailers. Our partnerships with Amazon and AO.com performed very well in 2020. Receivables on our e-tailer programmes increased by 55% in 2020 and helped offset some of the contraction in activity with the more traditional high street partners.

Three of our high street partners suffered serious trading issues during the COVID-19 pandemic. Laura Ashley entered into administration in March 2020 and ceased to trade shortly thereafter. Debenhams and Arcadia entered into administration in April 2020 and November 2020 respectively. Since then, Boohoo have acquired certain Debenhams assets (including the Debenhams brand) whilst Boohoo, ASOS and City Chic have each acquired certain Arcadia brands and associated assets. Despite these events, our customer agreements remain intact and we do not expect this to be impacted by the administrations and associated sale processes. We plan to reinvigorate our relationships with a large proportion of the impacted customers by offering them an own-branded *Pulse* Mastercard with exciting new benefits if we do not reach an agreement with the buyers of the relevant brands to continue to offer our existing products.

## A challenging outlook

The COVID-19 pandemic and its ongoing impact on our customers remains a significant risk into 2021. This risk is exacerbated by the added uncertainty of how the UK economy will respond post-Brexit. We will continue to be cautious in our approach to risk in 2021 but we are optimistic that the foundations we have laid in 2020 will present a springboard for us to create growth at the appropriate time in 2021.

In 2020, we successfully navigated an abrupt dislocation in economic activity. We increased our provisioning for expected future credit losses. We tightened our risk appetite. We fortified our cash and liquidity positions. We put in place extra help for our customers. These actions led to first half losses for the Group reflecting the deteriorating macroeconomic outlook associated with COVID-19. The second half of the year saw a return to underlying profitability despite the macroeconomic outlook leading to an increased level of provisioning for potential future credit losses. We continued with a cautious approach to risk-taking and further strengthened our cash and liquidity position. As a result, NewDay is well positioned to continue supporting its customers and its retail partners into 2021, despite the continuation of the COVID-19 pandemic and the uncertain effects of Brexit on the UK economy.

We also have a pipeline of exciting business opportunities, including a number of new retail partnerships, the proliferation of *NewPay* through Deko (a NewDay sister company) and the launch of our new cardless digital credit solution, *Bip*. We will continue to invest in our core product and digital capability, better customer journeys and our core purpose, ***helping people move forward with credit***.

I am optimistic for our future and I believe NewDay is well positioned in a rapidly changing retail and consumer ecosystem. We continue to pursue our ambition to be the leading digital consumer finance provider in the UK, exciting our customers with constant innovation and a great customer experience.

None of this would be possible without great people and I would like to call out and thank each and every colleague at NewDay. Everyone at NewDay is passionate about our customers and relentless in seeking improvements to our products and services. Our seamless transition to remote-working is a testament to the dedication of our colleagues who adapted well to the challenges of working remotely. We have a unique culture at NewDay that truly seeks to create a better tomorrow with our customers through aspiring to extraordinary innovation and customer service.

We enter 2021 with a highly evolved digital and data platform, helping almost five million customers move forward with credit. I look forward to sharing our progress with you throughout the coming year.

**John Hourican**
Chief Executive Officer

# Supporting our customers when they need it most

Our Customer Manifesto is embedded throughout our business and guides every decision we make. It is at the heart of our mission to help people move forward with credit

We understand that each and every customer is unique and that changes to personal circumstances can place stress on their finances when they least expect it. We are guided by our Customer Manifesto and we work with our customers to manage these 'bumps in the road'.

During COVID-19, we implemented additional short-term solutions to help our customers through an unprecedented period of disruption.

| Pre-existing support | Additional support through the COVID-19 pandemic | |
|---|---|---|
| **Collections toolkit** | **Payment freeze** | **Short-term payment plan** |
| We have a suite of interventions at our disposal which are offered to customers, if suitable, based on their individual circumstances. These range from a short-term temporary suspension of fees, interest and payments to longer-term more structured payment plans up to one year in length.<br><br>Throughout 2020, our pre-existing payment holiday solution has been pivotal in supporting customers experiencing financial difficulties brought on by the pandemic. This solution, which is most suitable for customers already experiencing difficulties with making payments, suspends interest, fees and payments for a period of up to three months and during this period any unused credit limit is temporarily suspended. In line with FCA guidance, those customers requiring further support are offered an extension to their payment holiday for up to a further three months should they need it and it be suitable for their individual circumstances. | This intervention suspends payments and certain fees for a period of three months. During this period a customer can continue to use and benefit from any unused credit limit.<br><br>Similar to payment holidays, this arrangement can be extended by a further three months should a customer's circumstances require it. | For those customers finding it difficult to pay most of their contractual minimum monthly payment after the completion of a payment holiday or payment freeze, this plan offers a significant reduction in their required monthly payment for a period of up to six months. During this period, interest and fees are suspended and any unused credit limit is also temporarily suspended. |

**In 2020, 234,000 customers have benefitted either from a payment holiday or payment freeze**

## Adapting to the needs of our customers

At the start of the pandemic, we initially saw a large spike in calls from customers worried about their personal finances and enquiring about temporary payment relief. This coincided with many of our own colleagues self-isolating in line with Government guidance. Keeping our contact centre open in a safe manner was our key priority and we opened our back-up disaster recovery site to enable us to split our team into two sites, across both our Own-brand and Co-brand portfolios, with the aim of de-risking our operations. Quickly after this, our IT team had completed configuring laptops for all our contact centre staff which resulted in our operations being fully remote and at maximum capacity by Easter time.

We sought to make it easier for our customers to self-serve to maintain their accounts for basic transactions, whilst leaving our associates free to handle customers who had found themselves in vulnerable circumstances or financial difficulty. At the beginning of the pandemic, we instigated a drive to get our customers using our mobile apps and online account management tools. In addition to this, we created a new channel for our customers to communicate with us through our mobile app using a chatbot supported by our digital messaging team.

During the year, we closely monitored customer feedback and operational metrics on our service quality and customer satisfaction levels. The commitment and dedication of all our contact centre colleagues resulted in limited adverse impact on the quality of our operations. We remained open for business throughout the most challenging periods brought on by COVID-19 and our customers were always able to talk to someone.

Leveraging our digital capabilities, during the year we also enhanced features to make it even easier for customers to service their accounts in a manner that suited their needs. In addition to introducing the ability to self-serve when setting up a payment freeze, we rolled out features including instant PIN view, the ability to freeze and unfreeze card accounts, e-statementing, online balance transfers and money transfers and online fee dispute resolution. We also simplified processes and reduced unnecessary contacts by listening to our customer insights and fixing any issues rapidly, winning a silver award for 'Use of Data Analytics' at the Digital Experience Awards.

"It is not often I get off the call from my creditors that I owe money to, and feel lifted, recharged and positive. The Customer Care team has honestly been incredible; you people always make me smile, and give me the drive to carry on"

"You listened carefully and genuinely tried to help. You made everything easy to understand, and explained all options available"

# Market overview

We operate within the increasingly digital unsecured consumer credit market, specialising in serving near-prime customers and partnering with retailers and e-tailers to serve their customers (both prime and near-prime)

### Products (selected)

- Credit cards or store cards
- Cardless credit accounts
- Point-of-sale financing
- Unsecured personal loans
- Overdrafts
- Catalogue credit
- Guarantor loans
- Payday loans
- Other high-cost credit products

### Customer type

- Prime
- Near-prime
- Sub-prime

### Distribution channels

- Direct (online and offline)
- Aggregators (online)
- Partnerships (online and offline)

NewDay

Products not offered by NewDay (other)

Products not offered by NewDay (suitable for customers with higher risk profiles)

## Our business

We offer a range of revolving credit and instalment-based products to serve the specific needs of our customers across our Own-brand and Co-brand businesses. We distribute through direct channels, third party aggregators and, in our Co-brand business, through retail partners (both online and offline).

### Despite COVID-19, NewDay has continued to grow its unsecured consumer credit market share

With 4.8% of total UK credit card receivables, up from 4.0% as at 31 December 2019, our market share is growing and there remains a sizeable market opportunity for NewDay and our digitally powered offering. We have also grown our market share of both spend and payments to 3.0%, up from 2.7% in 2019. With 4.7m customer accounts as at 31 December 2020 (with the 0.5m reduction in the year driven primarily by our strategy to periodically close inactive accounts), NewDay provides one in twelve UK credit card accounts.

During 2020, we ceased new lending in our UPL business and subsequently sold the receivables portfolio in February 2021.

**£203bn[1]**

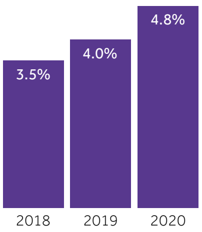
total UK outstanding consumer credit receivables

**19%[3]**

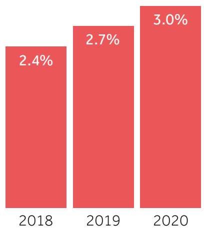
of UK credit cards were issued by NewDay during 2020

1 Bank of England data as at 31 December 2020. Market share metrics calculated as total NewDay volumes as a proportion of Bank of England data credit card volumes.
2 UK Finance (www.ukfinance.org.uk): UK Payment Markets 2020. Volumes based on 2019 data.
3 Estimated based on eBenchmarkers data as at 31 December 2020.

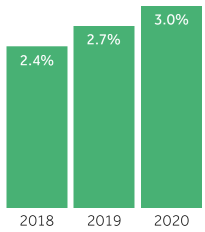
Market share of receivables as at the year end[1]




Market share of spend[1]



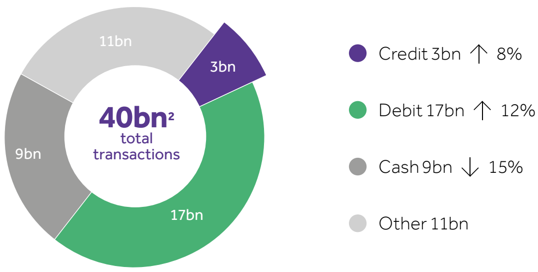

Market share of payments[1]




## Payment volumes

Cash usage continues to decline, accounting for 23% of payments during 2019 compared with 28% in 2018. This decrease is largely offset by growth in cards, bolstered by increasing popularity and availability of contactless technology.

With 125m transactions processed during 2019 (113m in 2020), we handled 4% of all credit card payments, leaving a substantial, growing, market opportunity.




## Our Own-brand lending

**1.5m**
customer accounts served

**£2.2bn**
spend processed

Near-prime customers are typically employed but may have a limited credit history or past adverse credit events which prevent them from easily accessing credit from mainstream lenders.

There is a natural movement of customers in and out of near-prime. This has grown over recent years driven primarily by improving credit profiles of sub-prime customers.

## Our Co-brand lending

**3.2m**
customer accounts served

**£2.8bn**
spend processed

Offering a credit product combined with rewards helps retailers and e-tailers build brand loyalty.

Department stores, supermarkets and fashion outlets have historically been the most popular providers of co-branded credit propositions.

Retail transaction finance has benefitted, and will continue to benefit, from increased e-commerce activity and technological change. We are increasing our presence in this digital e-commerce ecosystem through *NewPay* and our sister company Deko.

# Leveraging a leading digital platform

We continued our journey towards becoming the UK's leading digitally enabled consumer credit provider delivering several key milestones

## Our digital journey in 2020

We operate on a leading-edge cloud-based, scalable front-end digital acquisition and servicing platform for all credit products. Building this digital capability in-house enables us to innovate and respond rapidly to the changing needs of our customers, our partners and the wider marketplace.

In 2020, we continued to enhance our platforms and build on the upgrades delivered in recent years.

### January

**Application process save and return feature**
Significantly reduced application abandon rates

### April

Digital self-service for setting up a COVID-19 payment freeze

**COVID-19 response**
Clear messaging for customers and the ability to self-serve when setting up a payment freeze

**Enhanced digital payment arrangement functionality**
Self-serve capability allowing customers to digitally apply for payment holidays, payment plans and no fee arrangements when in financial difficulty

### May

**Card freeze functionality**
Allowing customers to block or unblock their card online and at the touch of a button

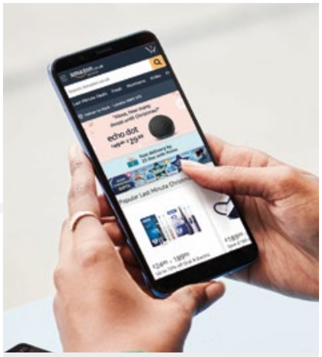
**Digital dispute resolution**
Self-service customer transaction disputes through app and online channels

### June

**NODE launch**
Migration to an in-house, 100% digital acquisition platform to increase decision speed and reduce referrals

**100%**
digital customer acquisition platform

### July



**Digital loyalty**
Implementation of digital loyalty functionality allowing customers to earn, manage and spend their loyalty points within their mobile app

### August

**Partial settlements**
Customers in arrears can make partial payments, maintaining a mutually beneficial relationship

## September

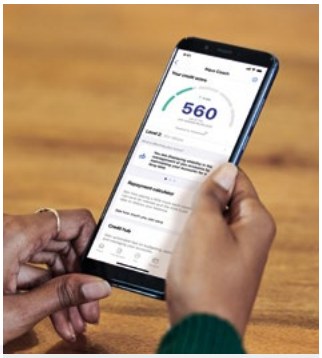
Apple Pay G Pay

**Digital wallets**
Implementation of Apple Pay and Google Pay across our estate

## October

**Digital balance and money transfers**
Customers can now apply for a balance transfer or money transfer during the onboarding process and be given an immediate decision

## December




***'Aqua* coach'**
Our financial education tool designed to allow customers to monitor their credit score and learn how to improve it through their app

## 2021 pipeline

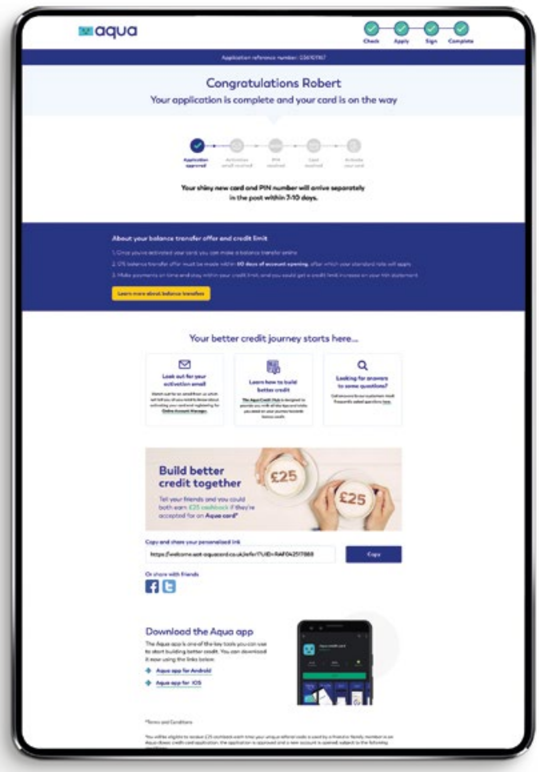
- Launch *Bip*, our completely cardless credit solution, into the marketplace and to our waiting list with over 30,000 potential customers already subscribed
- Expand *NewPay*, our digital revolving credit product, in partnership with Deko
- Launch a next generation credit model with new customer underwriting capabilities
- Rollout of customer intent detection on our digital messaging and chatbot channels
- '*Aqua* coach' enhancements to incorporate gamification
- Migrate all legacy data warehouses to a new cloud-hosted data platform
- Implement new collections and complaints capability in our digital platform

# NewDay Origination Decision Engine (NODE)

**Our digital platform in action:** a completely new in-house digital acquisition platform

Customer acquisition drives our growth strategy and is a key part of the customer journey. In 2020, we migrated our acquisition platform in-house to a new software as a service (SaaS) based decision engine and it is now 100% digital. This allows us to create significant value through:

- ensuring that we offer the right product to each customer that meets their exact needs – a personalised offering;
- making market-leading decisions on customer acceptance and credit limits using next generation models;
- creating a frictionless and engaging onboarding process so that each new customer can register for digital servicing and set up a direct debit as soon as their account is opened; and
- providing the customer with complete clarity on how the product can be of benefit to them and giving them the option on how we can communicate with them.




We have leveraged our specialist underwriting experience across the full spectrum of credit demographics in the UK to design a modern, cloud-hosted platform to meet five key objectives.

## Objectives

**1**
Create a dynamic, scalable, agile and modular system which is capable of meeting our growth ambitions

**2**
Enable the use of machine learning within the acquisition part of the customer journey

**3**
Allow rapid integration of new data sources to support improved decisions

**4**
Reduce decisioning elapsed times to absolute minimums

**5**
Reduce the third party costs and dependencies associated with decision engine and data changes

## Key Features

- Dual credit bureau capability to ensure maximum applicant coverage
- Integration with our machine learning capability to apply the most sophisticated data analysis for improved decisions
- Multiple flexible scorecards by product
- Multiple customer validation and fraud prevention interfaces
- Immediate account opening and spend capability
- Integrated communications via SMS and email to guide customers through the onboarding process
- Cloud-based, highly-resilient and scalable platform to guarantee round-the-clock availability to meet the needs of the modern consumer

# Acquiring new customers that create long-lasting relationships

We invest significantly to acquire new customers and build long-lasting relationships. There is significant profitability embedded in the receivables portfolio

INVESTMENT IN ACQUIRING NEW CUSTOMERS

## Acquiring new customers

We generally aim to have a consistent and stable level of investment in acquiring new customers and opening new accounts across our Own-brand and Co-brand businesses. By investing in onboarding new customers we can consistently grow our receivables.

## 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

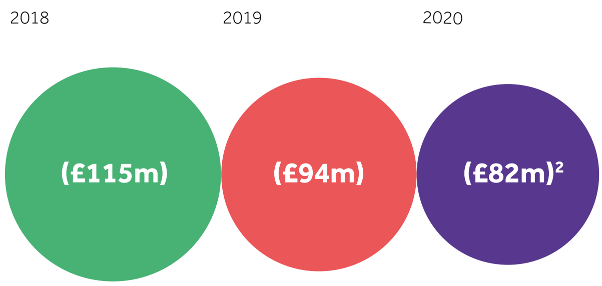
We are investing today to grow our receivables and deliver long-term profitability. This continuous investment in acquiring new customers aims to deliver sustainable year-on-year increases in receivables and returns from our established long-term customers

# Acquiring new customers

In 2020, whilst we continued to acquire new customers, we did so at a lower level than historically given the credit tightening in 2020. Our investment in acquiring new customers resulted in an adjusted EBITDA loss of £82m in 2020. Excluding the impact of the forecast deterioration in the UK economy on impairment provisioning, the adjusted EBITDA loss was £73m.

| | 2019 | 2020 |
|---|---|---|
| New customer accounts[1] | 1.2m | 0.9m |
| Receivables | £402m | £284m |

Adjusted EBITDA (loss)

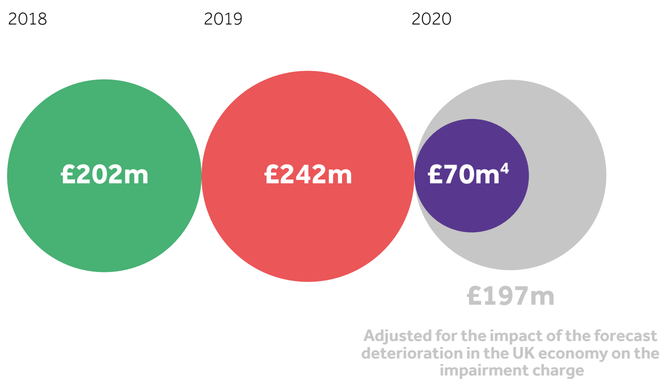



# Long-lasting relationships

Our pre-existing customers continued to generate profits despite absorbing a significant uplift in expected credit losses driven by the macroeconomic deterioration expected for the UK economy and the forgone interest from payment holidays. These relationships generated £70m of adjusted EBITDA during the year, or £197m excluding the impact of the UK economic outlook on impairment provisioning.

| | 2019 | 2020 |
|---|---|---|
| Existing customer accounts[3] | 4.0m | 3.8m |
| Receivables | £2,510m | £2,561m |

Adjusted EBITDA




1 New customer accounts represent accounts opened in the last twelve months.
2 This comprises total income of £68m (2019: £85m), impairment of £80m (2019: £102m) and total costs net of depreciation and amortisation of £70m (2019: £77m).
3 Existing customer accounts represent total accounts less new customer accounts opened in the last twelve months.
4 This comprises total income of £570m (2019: £577m), impairment of £367m (2019: £202m) and total costs net of depreciation and amortisation of £133m (2019: £133m).

# Our strategy

## 2020 delivery and future priorities

## Opportunity

### We evolve with our customers and partners to meet changing needs

**2020 highlights:**

- 0.9m new accounts
- Broadly stable receivables position at £2,845m
- 234,000 customers took a payment holiday or payment freeze, ending the year with £102m of credit card receivables on such an intervention
- Acquisition of Deko by our immediate parent company to expand *NewPay* distribution and explore wider, ecosystem opportunities
- Developed a new mobile credit product, *Bip*, ready for launch in 2021, removing friction to help customers apply and pay with credit more easily
- Rolled out Apple Pay and Google Pay across our estate of credit cards
- Launched '*Aqua* coach'

**Future priorities:**

- Continuing to expand the business and growing market share sustainably and responsibly, and continuing to offer innovative and varied products
- Expanding *NewPay* in partnership with Deko
- Exploring deployment of our core platform as a service to other financial institutions
- Expanding wider our Customer Manifesto programme

## Enablers

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

**2020 highlights:**

- Average app store rating of 4.7 stars
- Transactional NPS of +67
- Helped 1.9m customers improve their credit score
- Continued to support Family Action, our charity partner, providing £185k of contributions and our colleagues donated over 2,000 toys for their Christmas toy appeal
- Maintained NewDay as an employer of choice
- Refreshed our values to further align how we reward our colleagues with our vision

**Future priorities:**

- Keeping our Customer Manifesto at the heart of everything we do and the decisions we make
- Seeking new ways to further improve our customer experience

### We leverage a leading-edge digital platform to drive innovation

**2020 highlights:**

- Completed the migration to a 100% digital in-house acquisition and credit decisions platform for all brands (NODE)
- Launched Apple Pay and Google Pay across our estate of products
- 84% of active customers registered for e-servicing
- Enhanced digital self-serving capabilities for more complex payment arrangements
- Implemented digital loyalty functionality, allowing customers to earn, manage and spend their loyalty points within the mobile app
- 8m app logins on average each month
- Over a third of customer conversations handled by our chatbots
- 96% of new customer accounts originated digitally

**Future priorities:**

- Driving cost-efficiencies through further digital transformation
- Exploring opportunities for monetising our highly scalable, in-house digital platform
- Launching a next generation credit model with new customer underwriting capabilities

# Outcomes

### Acquiring new customers and creating long-lasting relationships

**2020 highlights:**
- Growth in market share to 4.8% of total UK credit card receivables
- Opened 0.9m new customer accounts and remained open for business throughout COVID-19, albeit with a tightened risk appetite
- Existing customers generated £70m of adjusted EBITDA and we incurred an adjusted EBITDA loss of £82m from acquiring 0.9m new customer accounts

**Future priorities:**
- Maintaining our position as a leading issuer of credit within the near-prime and co-brand segments of the UK consumer credit market
- Launching our completely cardless credit solution, *Bip*, appealing to a new market segment
- Further expanding *NewPay*
- Developing and broadening retail partnerships
- Exploring deployment of our core platform as a service to other financial institutions

### Delivering strong controlled growth and high performance predictability

**2020 highlights:**
- Increased expected credit losses primarily driven by the forecast worsening of the UK economy. The expected credit loss allowance as a proportion of receivables increased to 19.3% from 14.2% as at the start of the year
- £754m additional funding secured
- £0.9bn of VFN headroom to fund future growth
- £129m of free cash flow for Senior Secured Debt interest
- Record cash balance of £277m as at 31 December 2020 (excluding funding overlaps)
- Decision taken to suspend all originations for UPL and subsequently sold the receivables portfolio in February 2021

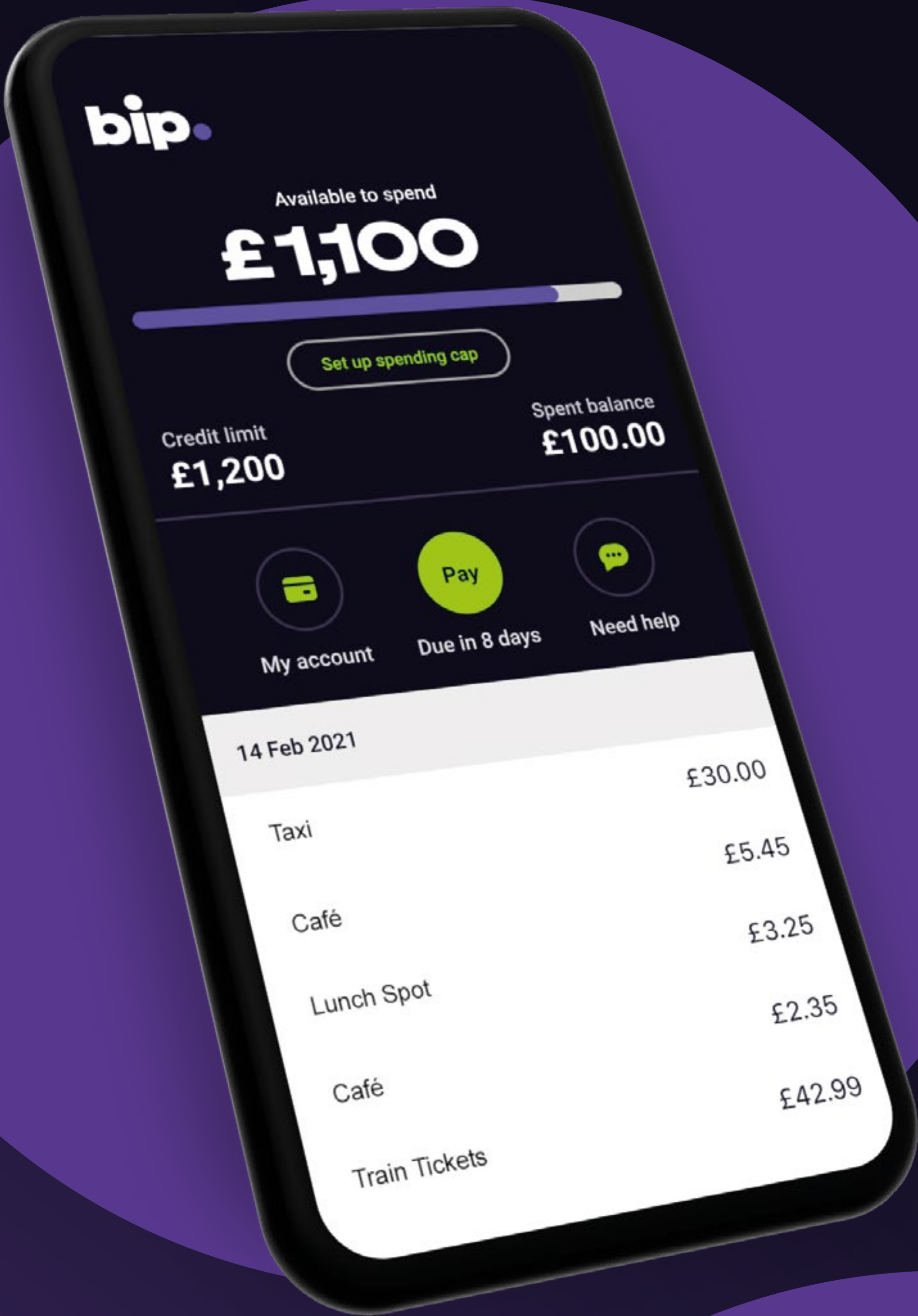
**Future priorities:**
- Using the strengthened balance sheet as a platform for a return to growth in 2021
- Maintaining our strong, diversified capital base and liquidity profile

"2020 was a year of great disruption for our customers, our partners and our industry. We took deliberate steps to strengthen our balance sheet and increase liquidity. NewDay is well placed to face into 2021"

**John Hourican**
Chief Executive Officer

# Taking the next exciting step in our digital journey – cardless credit

**Our digital platform in action:** *Bip*



In 2021, we plan to launch *Bip*, our latest digital credit product. *Bip* provides cardless credit run entirely from a customer's phone. Our waiting list already has over 30,000 subscriptions awaiting launch.

## Meeting new credit needs

*Bip* has been designed to meet the digital needs of customers looking for an alternative to physical credit cards. Leveraging NewDay's rollout of Apple Pay and Google Pay, *Bip* is credit that is as simple as it sounds. No fees, no card and only one interest rate. All managed from the *Bip* app on a customer's phone.


## Digital leading features

**No card:** Customers can transact through Apple Pay or Google Pay to spend in-store. A digital card sits inside the *Bip* app so they can spend online or in-app.

**Spending caps:** The ability to customise different spending caps, setting up either a monthly warning or freeze cap to help customers budget.

**Instant fulfilment:** Applicants will get an instant decision from NewDay and, if approved, can access and manage their *Bip* account instantly and in real-time.

**One interest rate and no fees:** Only one interest rate that applies to all transaction types and with no other fees.

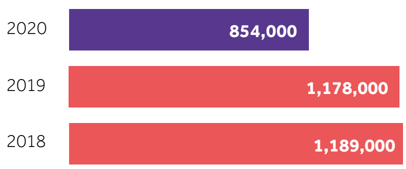
**Help and support:** *Bip* customers will be able to self-serve digitally and they can access support directly through the app.

# Key Performance Indicators

We track our progress using a number of financial and non-financial Key Performance Indicators (KPIs)

## New customer accounts

**0.9m**
(2019: 1.2m)




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

**Performance:** New account volumes were significantly impacted by the COVID-19 pandemic. We continued to open new accounts throughout COVID-19 with tighter credit underwriting criteria and welcomed 367,000 new Own-brand accounts (2019: 426,000) and 487,000 new Co-brand accounts (2019: 752,000). 96% of accounts were originated digitally (2019: 77%).

## Customer retail spend through digital channels

**£1.7bn**
(2019: £2.0bn)


**Definition:** The amount of retail spend transacted through a digital channel.

**Performance:** Total spend in the year has reduced due to COVID-19 which subsequently resulted in lower digital spend.

## Transactional Net Promoter Score (NPS)

**+67**
(2019: +66)


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

**Performance:** Our NPS improved in the year through the continued focus on delivering our Customer Manifesto to drive positive customer outcomes. We continue to enhance our leading digital platform which has led to an improvement in our Net Easy Score to +72 (2019: +70).

## Underlying cost-income ratio

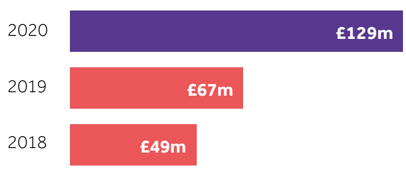
**33.3%**
(2019: 33.2%)


**Definition:** Underlying costs (servicing, change, marketing and partner payment costs, collection fees, salaries, benefits and overheads) (£212m)/total income (£637m).

**Performance:** Underlying costs reduced year-on-year, however the ratio to total income remained stable due to lower income resulting from less spend and the temporary suspension of interest and fees on accounts extended a payment holiday as a result of COVID-19.

## Free cash flow for Senior Secured Debt interest

**£129m**
(2019: £67m)

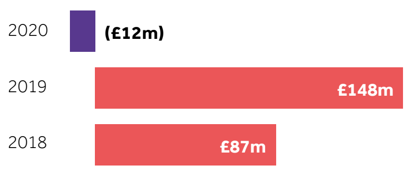



**Definition:** Adjusted EBITDA (£12m loss) adding back the movement in the ECL allowance during the year (£136m) less changes in working capital, PPI provision utilisation, capital expenditure, tax expense and exceptional costs (£45m), plus cash generated from receivables (£67m), less net financing cash flows (£18m).

**Performance:** Although we reported an accounting loss in the year, we generated £129m of free cash flow for Senior Secured Debt interest. Overall cash increased by £125m to £277m excluding funding overlaps (2019: £152m).

## Adjusted EBITDA

**£12m loss**
(2019: £148m profit)




**Definition:** Risk-adjusted income (£191m) less underlying costs (£212m) adjusted for depreciation and amortisation (£10m).

**Performance:** Adjusted EBITDA was materially impacted by the COVID-19 pandemic. We reported a significantly higher impairment charge driven predominantly by higher expected credit losses arising from the forecast worsening of the UK economy as a result of COVID-19.

## Closing receivables

# £2,845m

(2019: £2,912m)

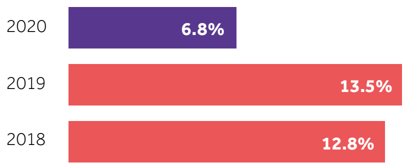

**Definition:** Gross customer balances outstanding at the year end (excluding UPL).

**Performance:** A combination of reduced spend, particularly during lockdowns, and tightening of credit underwriting criteria resulted in a contraction in receivables. Customer payments reduced due to the lower spend but by proportionately less. Own-brand contracted 2% and our partnerships with some of the UK's leading e-tailers partly offset the challenges on the high street resulting in a 3% reduction in our Co-brand portfolio.

## Risk-adjusted margin

# 6.8%

(2019: 13.5%)



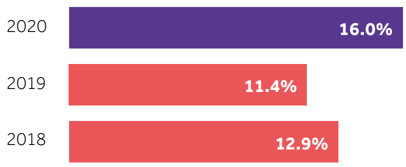

**Definition:** Risk-adjusted income (total income less impairment) (£191m)/average gross receivables (£2,787m).

**Performance:** Our risk-adjusted margin reduced to 6.8% primarily as a result of the higher impairment charge driven predominantly by the forecast worsening of the UK economy as a result of COVID-19 and its subsequent impact on our expected credit losses.

## Impairment rate

# 16.0%

(2019: 11.4%)



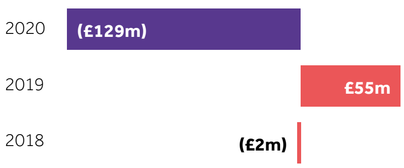

**Definition:** Impairment (£447m)/average gross receivables (£2,787m).

**Performance:** Our impairment charge was significantly impacted by COVID-19 and its subsequent impact on future credit losses, which was primarily driven by the forecast deterioration in the UK economy. As at 31 December 2020, we reported an ECL allowance as a proportion of closing receivables of 19.3%, up 5.1 percentage points from the start of the year excluding UPL (2019: 14.2%).

## Loss before tax from continuing operations

# £129m loss

(2019: £55m profit)




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

**Performance:** COVID-19 significantly impacted our performance. Total income was 4% lower than 2019 as a result of lower spend and interventions offered to customers which temporarily suspended interest and fee income. Operating and personnel expenses were well-controlled. However, the higher impairment charge driven by expected credit losses resulting from COVID-19 was the main driver of the loss before tax from continuing operations in the year.

## Employee engagement

# 80%

(2019: 77%)

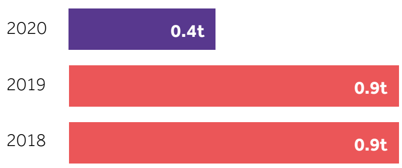

**Definition:** Results of our most recent Pulse engagement survey.

**Performance:** Following feedback from our colleagues we updated our core values to more closely align our day-to-day behaviours with our purpose and vision. This, along with other initiatives focussing on maintaining engagement with our purpose and strategy when many of our colleagues were working remotely, resulted in an improvement in our employee engagement score in 2020.

## Carbon footprint

# 0.4 tonnes of $CO_2e$ per average FTE employee

(2019: 0.9 tonnes of $CO_2e$ per average FTE employee)




**Definition:** The amount of scope 2 (purchased electricity) and scope 3 (employee rail travel between our two sites) $CO_2$ greenhouse gas emissions consumed by the business during the year (455 tonnes of $CO_2e$)/average number of full time equivalent (FTE) employees (1,141). Our $CO_2$ emissions do not include $CO_2$ consumed by our suppliers on services directly related to our business.

**Performance:** As a digitally-oriented financial services business, our carbon footprint is naturally low. In 2020, our colleagues spent large parts of the year working remotely in response to COVID-19 which further reduced our impact on the environment.

# Financial review

Whilst our results for 2020 were significantly impacted by COVID-19 I am pleased with our performance in what was a challenging year. Receivables reduced marginally in the year due to lower spend and a targeted tightening of credit underwriting criteria, both driven by COVID-19

Our adjusted EBITDA loss of £12m incorporates a significant uplift in our ECL allowance, which increased by 5.1 percentage points in the year to finish at 19.3%, driven primarily by a forecast deterioration in the UK economy. Our existing customers remained profitable generating £70m of adjusted EBITDA

Strengthening our funding position and increasing liquidity was a key objective during COVID-19. We raised £754m of new funding in 2020, finished the year with £0.9bn of headroom to fund future growth, generated £129m of free cash flow available for Senior Secured Debt interest and reported record cash of £277m excluding funding overlaps

**Paul Sheriff**
Chief Financial Officer

# **2020** highlights

- Receivables finished the year at £2,845m (2019: £2,912m)
- 0.9m new accounts opened (2019: 1.2m), of which 96% were originated online (2019: 77%)
- Adjusted EBITDA loss of £12m (2019: £148m profit). The main driver of this loss is the increased impairment charge which incorporates our expectations of future credit loss based on the forecast deterioration in the UK economy driven by COVID-19
- Statutory loss before tax from continuing operations of £129m (2019: £55m profit)
- ECL allowance as a proportion of receivables of 19.3%, up 5.1 percentage points from the start of the year excluding UPL (2019: 14.2%). Whilst our impairment charge increased in the year, our charge-off rate reduced to 10.6% (2019: 11.0%) with strong underlying collections performance
- Existing customers continued to generate profit reporting an adjusted EBITDA of £70m (2019: £242m), or £197m excluding the impact of the UK economic outlook on provisioning
- Total income of £637m (2019: £662m)
- Underlying cost-income ratio remained broadly flat at 33.3% (2019: 33.2%) due to lower income offsetting the reduction in costs
- Free cash flow available for Senior Secured Debt interest of £129m (2019: £67m)
- £754m of new funding raised during 2020. Finished the year with VFN headroom of £0.9bn available to fund future growth (2019: £0.6bn excluding UPL)
- Record closing cash of £277m excluding funding overlaps (2019: £152m)
- Ceased new lending in our UPL portfolio and sold the receivables portfolio in February 2021

2020 was a challenging year dominated by unprecedented levels of uncertainty and change driven by COVID-19. We used this as an opportunity to ensure our balance sheet was strengthened and appropriately covered the future credit losses we expect to incur should the forecast deterioration in the UK economy materialise. This is reflected in our reported results with a £12m adjusted EBITDA loss recognised in the year (2019: £148m profit).

Whilst spend was restricted due to the Government lockdown we continued to open new accounts throughout the entire year, albeit with tightened credit underwriting criteria, and receivables finished the year at £2,845m (2019: £2,912m). Income growth was limited by lower spend since the start of the pandemic and the payment holidays extended to customers which suspend interest and fees for the duration of the holiday. Our impairment charge increased by 47% to £447m (2019: £303m) primarily as a result of the uplift in our ECL allowance for future credit losses we anticipate to incur as a result of COVID-19 and subsequent deterioration in the UK economy. Whilst our impairment charge increased in the year, our charge-off rate reduced to 10.6% (2019: 11.0%) with strong underlying collections performance. Costs remained well-controlled with the lower income driven by COVID-19 being the driver of the broadly stable underlying cost-income ratio of 33.3% (2019: 33.2%).

We reported a statutory loss before tax from continuing operations of £129m for the year (2019: £55m profit). The statutory result before tax from continuing operations includes a number of items, explained below, which do not represent the Group's underlying performance.

| | 2020 £m | 2019 restated[1] £m |
|---|---|---|
| **Statutory (loss)/profit before tax from continuing operations** | **(128.9)** | **54.6** |
| Senior Secured Debt and associated facilities interest and related costs | 34.1 | 33.9 |
| Customer refund provision | – | 0.2 |
| Fair value unwind | (0.7) | (0.3) |
| Payment protection insurance (PPI) | 7.7 | – |
| Debenhams asset write-off | 7.4 | – |
| Depreciation and amortisation including amortisation of intangibles arising on the Acquisition[2] | 63.4 | 60.0 |
| Impairment of customer and retail partner relationships intangible assets arising on the Acquisition | 5.5 | – |
| **Adjusted EBITDA (loss)** | **(11.5)** | **148.4** |

1 In 2020, our UPL business was held for sale and subsequently classified as a discontinued operation. Accordingly, the comparative information throughout this report has been restated to show our UPL business as a discontinued operation unless stated otherwise, see note 4 of the Financial Statements for further details.
2 On 26 January 2017, NewDay Group (Jersey) Limited acquired NewDay Group Holdings S.à r.l. and its subsidiaries (the Acquisition).

Senior Secured Debt interest and related costs include the interest charge and other costs associated with the issuance and servicing of £425m Senior Secured Notes by NewDay BondCo plc on 25 January 2017 (the Senior Secured Debt) and the Super Senior Revolving Credit Facility entered into by the Company on 25 January 2017 (the Revolving Credit Facility) which was fully drawn in March 2020. This debt does not finance the Group's receivables and consequently it has been excluded from underlying performance. The Revolving Credit Facility was repaid in full in January 2021.

The customer refund provision was a 2019 item and resulted from an operational incident which arose due to our Group receiving incomplete information from a third party. The expense represented the expected costs to be refunded to customers, net of contributions received from the third party.

# Financial review
continued

Fair value unwind reflects the amortisation of fair value adjustments on our acquired portfolios and debt issued.

PPI primarily reflects the uplift to the PPI provision following information received from a third party that our share of redress costs for customer complaints which are processed by the third party will be higher than initially estimated.

The Debenhams asset write-off represents a one-off charge for previously capitalised costs relating to our retail partnership with Debenhams that will no longer be recovered following further developments to Debenhams' administration in December 2020. The asset was originally being amortised over the life of our contract with Debenhams.

Depreciation and amortisation primarily includes costs related to the amortisation of the purchase price that was attributed to intangible assets arising on completion of the Acquisition.

Impairment of customer and retail partner relationships intangible assets arising on the Acquisition primarily represents a write-down of the carrying value of the Group's retail partner relationship with Laura Ashley following its administration. Whilst Debenhams and Arcadia entered into administration in 2020, no impairment was required on the value of these retail partner relationships intangible assets. See note 2.3 of the Financial Statements for further details of the impairment assessments performed on the customer and retail partner relationships in 2020.

## Group performance

Group receivables reduced by 2% to £2,845m with a reduction in spend driven by the lockdown and a deliberate tightening of credit underwriting criteria limiting growth. We remained open for business during the pandemic and continued to open new accounts throughout the entire year with 0.9m new customer accounts opened in 2020 (2019: 1.2m), of which 96% were generated through online channels (2019: 77%). We continued to support customers during COVID-19 through the extension of payment holidays and payment freezes to 234,000 customers. As at 31 December 2020, £102m of receivables remained on a payment holiday or payment freeze. 75% of expired payment holiday balances and 84% of expired payment freeze balances that went on to the relief measure from an up-to-date status have an up-to-date status as at 31 December 2020.

Interest income reduced marginally by 1% to £653m (2019: £657m). Income growth was limited by both lower spend since the start of COVID-19 and the payment holidays extended to customers which suspend interest and fees for the duration of the holiday.

Funding costs reduced by 1% to £60m (2019: £61m). This was primarily driven by reductions to the Bank of England base rate in the year.

Fee and commission income reduced by 33% to £44m (2019: £66m) primarily due to lower spend in the year reducing fee earning activity and the suspension of fees on accounts that were extended short-term interventions during the pandemic such as payment holidays and payment freezes.

The impairment charge increased by £143m, or 47%, and was £447m for the year (2019: £303m). Underlying collection performance remains strong and we are yet to see any notable worsening of charge-off rates driven by COVID-19 with charge-off rates for the year of 10.6% (2019: 11.0%). The impairment charge increase is driven primarily by the forecast worsening of the UK economy as a result of the COVID-19 pandemic and its subsequent impact on ECL. Our customer demographic is weighted towards those aged 35 or over, a group less impacted by COVID-19 related unemployment than those in younger age groups.

As at 31 December 2020, our reported ECL allowance was £550m (excluding UPL), being an increase of £136m since the start of the year. This represents 19.3% of receivables as at the year end, up from 14.2% as at 31 December 2019. The movement in the ECL allowance was driven by: i) a £136m uplift resulting from the forecast worsening of the UK economy; ii) a £23m uplift from lower expected recovery rates from debt sales; iii) a £10m decrease resulting from the reduction in receivables since the year end; and iv) a £13m decrease resulting from other underlying movements. As a result, the impairment rate increased by 4.6 percentage points to 16.0% (2019: 11.4%).

Servicing costs increased by 4% to £98m (2019: £94m), which is broadly in line with 5% growth in average receivables during in the year.

Change costs increased by 6% to £39m (2019: £37m) as the Group continues to invest in its digital capabilities with the aim of becoming the UK's leading digitally enabled consumer finance provider.

Marketing and partner payment costs reduced by 21% to £47m (2019: £60m) primarily due to fewer new accounts being originated in both portfolios and lower profit share payments in the Co-brand portfolio as a result of the reduced profitability of the co-branded card programmes.

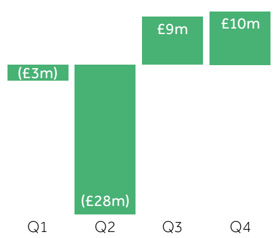
Collection fee income reduced by 13% to £26m (2019: £29m). This was due to lower collection activity arising from temporarily suspended customer payments as a result of the payment holidays and payment freezes extended to customers following the COVID-19 pandemic.

Total underlying costs reduced year-on-year, however less income primarily driven by COVID-19 resulted in our underlying cost-income ratio remaining broadly flat at 33.3% (2019: 33.2%).

As a result of these factors, we reported an adjusted EBITDA loss of £12m (2019: £148m profit) which, after including items that do not represent our underlying performance, resulted in a statutory loss before tax from continuing operations of £129m (2019: £55m profit).

Additionally in 2020, we discontinued our UPL business following a strategic review of the Group and began a process to sell the remaining receivables which concluded in February 2021 with a sale to a third party. See note 4 of the Financial Statements for further details.

2020 quarterly
adjusted EBITDA progression




In the first half of 2020, and following the outbreak of COVID-19, we reported an adjusted EBITDA loss driven primarily by uplifts to our ECL allowance for expected future credit losses. Adjusted EBITDA returned to profitability in the second half of the year albeit at lower levels than anticipated due to lower receivables, additional ECL build and continued support to customers experiencing financial difficulty through the extension of payment holidays.

## Management basis income statement

| £m | 2020 Own-brand | 2020 Co-brand | 2020 Group | 2019 restated[1] Own-brand | 2019 restated[1] Co-brand | 2019 restated[1] Group |
|---|---|---|---|---|---|---|
| Interest income | 446.1 | 207.3 | 653.4 | 456.5 | 200.5 | 657.0 |
| Cost of funds | (37.4) | (22.8) | (60.2) | (41.1) | (19.4) | (60.5) |
| **Net interest income** | **408.7** | **184.5** | **593.2** | **415.4** | **181.1** | **596.5** |
| Fee and commission income | 27.5 | 16.7 | 44.2 | 45.1 | 20.8 | 65.9 |
| **Total income** | **436.2** | **201.2** | **637.4** | **460.5** | **201.9** | **662.4** |
| Impairment losses on loans and advances to customers | (348.0) | (98.6) | (446.6) | (257.1) | (46.2) | (303.3) |
| **Risk-adjusted income** | **88.2** | **102.6** | **190.8** | **203.4** | **155.7** | **359.1** |
| Servicing costs | (45.4) | (52.2) | (97.6) | (43.1) | (50.6) | (93.7) |
| Change costs[2] | (23.3) | (15.8) | (39.1) | (21.7) | (15.1) | (36.8) |
| Marketing and partner payments | (11.7) | (35.5) | (47.2) | (13.8) | (45.7) | (59.5) |
| Collection fees | 15.1 | 10.4 | 25.5 | 18.6 | 10.6 | 29.2 |
| **Contribution** | **22.9** | **9.5** | **32.4** | **143.4** | **54.9** | **198.3** |
| Salaries, benefits and overheads | | | (54.0) | | | (58.9) |
| **Underlying (loss)/profit before tax from continuing operations** | | | **(21.6)** | | | **139.4** |
| Add back: depreciation and amortisation | | | 10.1 | | | 9.0 |
| **Adjusted EBITDA** | | | **(11.5)** | | | **148.4** |
| Senior Secured Debt interest and related costs | | | (34.1) | | | (33.9) |
| Customer refund provision | | | – | | | (0.2) |
| Fair value unwind | | | 0.7 | | | 0.3 |
| PPI | | | (7.7) | | | – |
| Debenhams asset write-off | | | (7.4) | | | – |
| Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition | | | (63.4) | | | (60.0) |
| Impairment of customer and retail partner relationships intangible assets arising on the Acquisition | | | (5.5) | | | – |
| **(Loss)/profit before tax from continuing operations** | | | **(128.9)** | | | **54.6** |

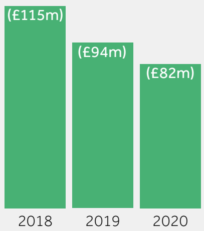
1 See footnote 1 on page 33.
2 From 2020, the costs related to our Value Creation Plan implementation are presented within change costs as these projects are reaching their conclusion and are no longer monitored separately within our internal reporting. This presentation change has been applied throughout this report.

In preparing the management basis income statement, cost recoveries have been presented as a component of servicing costs rather than as income (a reconciliation to the statutory income statement is detailed in note 3). Additionally, receivables disclosed in this section are gross receivables (customer balances excluding any impairment provision and effective interest rate adjustments).

# Financial review
continued

## Acquiring new customers that create long-lasting relationships

### Acquiring new customers adjusted EBITDA loss




We generated an £82m adjusted EBITDA loss in acquiring 0.9m new customer accounts in 2020 (2019: £94m), this incorporates an additional £9m impairment charge driven by the forecast worsening of the UK economy.

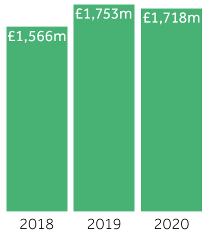
### Existing customer adjusted EBITDA profit


Despite the additional impairment charge driven primarily by the forecast worsening of the UK economy, which accounted for a £127m adjusted EBITDA loss in 2020, our long-term relationships with existing customers generated £70m of adjusted EBITDA (2019: £242m).

FOR FURTHER DETAILS SEE PAGE 24

## Own-brand performance

### Closing receivables




Our Own-brand portfolio opened 367,000 new customer accounts in the year (2019: 426,000) and reported a 2% contraction in receivables to £1,718m (2019: £1,753m). A targeted tightening of credit underwriting and lower customer spend driven by COVID-19 resulted in the contraction of receivables since the start of the pandemic.

Net interest income reduced to £409m (2019: £415m). This was driven by the contraction in receivables since March 2020 and payment holidays extended to customers, which suspends interest and fees for the duration of the holiday.

Fee and commission income decreased by 39% to £28m (2019: £45m) primarily due to the suspension of fees on accounts that were extended short-term interventions during the pandemic, such as payment holidays and payment freezes, and lower spend in the year reducing fee earning activity.

The impairment charge increased by £91m, or 35%, to £348m in the year (2019: £257m). Underlying collection performance remains strong and the portfolio has yet to see any notable worsening of charge-off rates driven by COVID-19 with charge-off rates for the year of 13.9% (2019: 15.1%). The impairment charge increase is driven primarily by a £111m charge arising from the forecast worsening of the UK economy as a result of COVID-19 and its subsequent impact on ECL. As at 31 December 2020, the portfolio reported an ECL allowance of £457m for potential future credit losses (2019: £363m), being an increase of £94m from the start of the year. This represents 26.6% of receivables as at the year end, up from 20.7% as at 31 December 2019. As a result, the portfolio's impairment rate increased by 4.9 percentage points to 20.5% (2019: 15.6%).

Servicing costs increased by 5% to £45m (2019: £43m) which is driven in part by a revision to the methodology used to allocate costs between segments in 2020.

Change costs of £23m (2019: £22m) increased by 7% to deliver enhancements to our digital capabilities.

Marketing costs decreased by 15% to £12m (2019: £14m) primarily as a result of lower new account volumes and our drive to target more cost-efficient channels to onboard new customers.

Collection fees reduced by 19% to £15m (2019: £19m). This was due to lower collection activity arising from temporarily suspended customer payments as a result of the payment holidays and payment freezes extended to customers following the COVID-19 outbreak.

As a result of the factors above, the portfolio reported contribution of £23m for the year (2019: £143m).

## Co-brand performance

Closing receivables


Our Co-brand portfolio opened 487,000 new accounts in the year (2019: 752,000) and reported a 3% reduction in receivables to end the year at £1,126m (2019: £1,160m). New account volumes and receivables growth were limited by COVID-19 and subsequent temporary store closures, however this was partly offset by the portfolio's digital originations and partnerships with leading e-tailers.

The difficult trading conditions of the UK high street were heightened by COVID-19 and subsequent lockdown resulting in three of our foundation partners succumbing to those pressures with Laura Ashley, Debenhams and Arcadia entering administration. Laura Ashley has since ceased trading and certain assets of Debenhams and Arcadia have been acquired by Boohoo, ASOS and City Chic. Our credit agreements with customers are unlikely to be affected by the insolvency of any of our retail partners and, as such, we would not expect to see a significant impact on the recoverability of the receivables balance. The timing of both Debenhams' and Arcadia's insolvencies meant that the impact on the portfolio's risk-adjusted income in 2020 was limited, however the ongoing impact on performance from lower receivables will be significant. To reduce this impact and in addition to our pipeline of new business opportunities, in circumstances where we are unable to reach an agreement with the buyer of the relevant brand to continue offering our existing products, we plan to issue a Mastercard under a new brand, *Pulse*, to certain affected customers. The *Pulse* brand is targeted exclusively to those customers who have a relationship with us through a retailer that is no longer active in our co-branded card programme with the aim of maintaining our relationship with such customers. Additionally, in the year we mutually agreed with TUI to end our co-branded card programme since its performance was not meeting our expectations.

Net interest income increased by 2% to £185m (2019: £181m) with growth limited by lower spend since the start of the pandemic as well as forgone interest on accounts that took payment holidays.

Fee and commission income decreased by 20% to £17m (2019: £21m) primarily due to lower spend in the year reducing fee earning activity.

The impairment charge increased by £52m, or 113%, to £99m in the year (2019: £46m). Charge-off rates for the year increased to 5.5% (2019: 4.3%) primarily as a result of our targeted shift to online-originated accounts which have an associated higher risk compared to store-originated accounts. The impairment charge increase is driven primarily by a £25m charge arising from the forecast worsening of the UK economy as a result of COVID-19 and its subsequent impact on ECL. As at 31 December 2020, the portfolio reported an ECL allowance of £93m for potential future credit losses (2019: £51m), being an increase of £42m from the start of the year. This represents 8.3% of receivables as at 31 December 2020, up from 4.4% as at 31 December 2019. As a result, the portfolio's impairment rate increased by 4.5 percentage points to 9.1% (2019: 4.6%).

Servicing costs of £52m (2019: £51m) and change costs of £16m (2019: £15m) are broadly consistent with prior year.

Marketing and partner payment costs reduced by £10m to £36m (2019: £46m) reflecting the lower profit share with retail partners driven in part by the higher impairment charge.

Collection fees of £10m were broadly in line with 2019 (2019: £11m).

As a result of the factors above, Co-brand contribution reduced by 83% to £10m (2019: £55m).

# Financial review
continued

## Capital and liquidity

Our business continues to generate cash with free cash flow available for Senior Secured Debt interest of £129m in the year (2019: £67m). Excluding £244m of cash raised from funding deals in 2020 which will be used to settle asset-backed securities maturing in April 2021, overall cash increased by £125m to £277m (2019: £152m).

The following table reconciles adjusted EBITDA to the net increase in cash.

| | 2020 £m | 2019 restated[1] £m |
|---|---|---|
| Adjusted EBITDA | (11.5) | 148.4 |
| Change in impairment provision | 136.0 | 14.6 |
| **Adjusted EBITDA excluding change in impairment provision** | **124.5** | **163.0** |
| Change in working capital | (14.4) | (22.2) |
| PPI provision utilisation | (12.3) | (15.1) |
| Capital expenditure | (11.6) | (9.6) |
| Tax paid | (6.3) | (10.0) |
| **Free cash flow available for growth and debt service** | **79.9** | **106.1** |
| Decrease/(increase) in gross loans and advances to customers | 66.6 | (374.4) |
| Net financing cash flow (excluding funding overlap and Revolving Credit Facility drawdown) | (17.9) | 334.8 |
| **Free cash flow available for Senior Secured Debt interest** | **128.6** | **66.5** |
| Senior Secured Debt interest paid | (31.7) | (31.7) |
| Revolving Credit Facility drawdown | 30.0 | – |
| Return paid on loan from immediate parent company | (10.3) | – |
| Funding overlap | 244.3 | – |
| Cash generated from/(used in) discontinued operation | 7.9 | (16.7) |
| **Net increase in cash** | **368.8** | **18.1** |
| Ratio of net corporate Senior Secured Debt including Revolving Credit Facility (excluding funding overlaps) to adjusted EBITDA | (15.5)x | 1.8x |
| Ratio of adjusted EBITDA to pro forma cash interest expense | (0.4)x | 4.7x |

1 See footnote 1 on page 33.

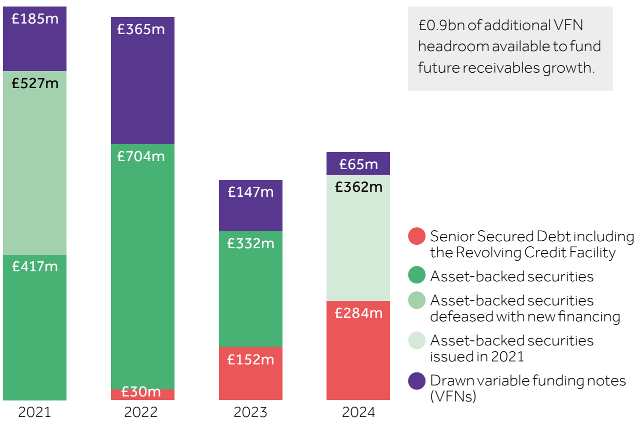
## Funding

Ensuring we are adequately funded through the current period of uncertainty remains a key focus area despite the numerous funding deals we delivered in the year. Since the start of the pandemic we successfully diversified our banking partners and raised £754m through issuances of new publicly listed term debt and VFNs. Our financing transactions performed in the year delivered:

- a £400m increase in VFN capacity across our Own-brand and Co-brand portfolios;
- a £350m issuance of asset-backed securities (of which £19m was retained internally within our Group) from our Co-brand securitisation programme. This funding will be used to settle £244m of bonds due to mature in April 2021;
- a £30m drawdown on our Revolving Credit Facility, which was subsequently repaid in January 2021;
- a sale of bonds within our Own-brand securitisation programme, which were previously retained within our Group, raising £23m; and
- an agreed one-year extension to the maturity of $243m of bonds in our Own-brand portfolio that were originally due to mature in 2020.

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 (with the exception of £244m bonds within our Co-brand programme expiring in April 2021 which the Group has already extended).

### Debt maturity profile (including accrued interest)




In February 2021, we successfully completed a financing transaction which raised £400m of asset-backed debt from our Own-brand securitisation programme (of which £38m was retained within the Group), including $135m raised from US capital markets. Part of the proceeds from this deal will be used to refinance £281m of bonds which mature in August 2021.

Following our decision to close the UPL portfolio to new lending, an optional amortisation for our UPL VFN was agreed with our lender during the year which resulted in the facility being repaid over time as the underlying loans and advances to customers are collected rather than the original maturity date of February 2021. In February 2021, the VFN was subsequently repaid in full using the proceeds from the sale of the UPL portfolio.

As at 31 December 2020, we reported VFN headroom of £0.9bn and, after adjusting for the refinancing transactions in October 2020 and February 2021 and the repayment of the Revolving Credit Facility in January 2021, 19% of our borrowings will be due for repayment in less than one year, 36% will be due in one to two years and 45% will be due in over two years. The average maturity of the Group's funding facilities was two years as at 31 December 2020 (adjusting for the impact of the refinancing transactions in October 2020 and February 2021 and Revolving Credit Facility repayment).

Our receivables are funded primarily through debt and our blended advance rate as at 31 December 2020 (being the total asset-backed securities and drawn VFNs as a proportion of closing receivables), excluding UPL and the overlap in funding following the October 2020 refinancing, was 87.7% (2019: 86.7%), with Own-brand at 83.9% (2019: 83.0%) and Co-brand at 93.5% (2019: 92.3%).

## Cash flows

The following table summarises the Group's cash flows during the year (including UPL):

| | 2020 £m | 2019 £m |
|---|---|---|
| Net cash generated from/(used in) operating activities | 160.1 | (335.8) |
| Net cash used in investing activities | (11.6) | (9.6) |
| Net cash generated from financing activities | 220.3 | 363.5 |
| **Net increase in cash and cash equivalents** | **368.8** | **18.1** |
| Cash and cash equivalents at the start of the year | 152.1 | 134.0 |
| **Cash and cash equivalents at the end of the year** | **520.9** | **152.1** |

Net cash generated from operating activities was £160m (2019: £336m used in operating activities) and was primarily driven by the reduction in receivables in the year as a result of COVID-19 and our response to it including deliberate tightening of credit underwriting.

Net cash used in investing activities of £12m (2019: £10m) represents investment in intangible assets and property and equipment.

Net cash generated from financing activities of £220m (2019: £364m) primarily consists of issuances and repayments of asset-backed securities and drawdowns of VFNs to fund receivables growth. Additionally in 2020, we: i) made a payment to our immediate parent company, Nemean MidCo Limited, of £10m which was used by Nemean MidCo Limited to fund its purchase, and other related costs, of a controlling interest in Pay4Later Limited (which trades as Deko); and ii) made a £30m drawdown of our Revolving Credit Facility which was subsequently repaid in full in January 2021.

Net cash generated from financing activities in 2020 included funding raised in October 2020, of which £244m will be used to settle the bonds due to mature in April 2021.

## 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 2020, the levels of capital for NewDay Ltd exceeded the minimum capital requirement with headroom of £16m.

The Group is 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 the Group's key stakeholders, their material interests, how we engage with them and key outcomes delivered for each group in 2020.

| Stakeholders and their material interests | How we engage | 2020 key deliverables |
|---|---|---|
| **Customers**<br>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 Customer Manifesto is at the heart of our decision-making<br>• Feedback through transactional NPS and NES metrics to track customer satisfaction<br>• Customer issue resolution programmes using customer and colleague feedback to improve processes<br>• Collections toolkit to support customers who encounter difficulties<br>• Credit education tools to support improving credit scores<br>• Servicing messages and alerts<br>• Customer KPIs in monthly Board reporting | • Transactional NPS increased to +67 and NES increased to +72<br>• Supported 234,000 customers with payment holidays and payment freezes. For further details of the support offered to customers throughout COVID-19 see page 16<br>• Supported 1.9m customers to improve their credit score<br>• Brought in-house the customer acquisition journey so that it is now 100% digital, offering a seamless and frictionless on-boarding journey<br>• Launched '*Aqua* coach'<br>• Launched Apple Pay and Google Pay<br>• Implemented all planned persistent debt interventions |
| **Colleagues**<br>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<br>• Bi-annual employee surveys with follow-up actions<br>• Programme of activities throughout the year covering inclusion and diversity, mental health and wellbeing<br>• Continuous all-colleague communication programme<br>• Online learning and development tool<br>• Independent whistleblowing helpline | • Engagement scores increased from 77% to 80%<br>• Engaged colleagues in refreshing our values<br>• Launched NewWork, our flexible remote working policy<br>• Provided free chairs and desks to all colleagues who required them to facilitate a safe home working environment<br>• Inspirational Speaker Series of events and promoted discussions of important emerging matters such as the Black Lives Matter movement |

| Stakeholders and their material interests | How we engage | 2020 key deliverables |
| --- | --- | --- |
| **Retail partners**<br>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<br>• Monthly performance meetings with our partners<br>• Provision of data insight and performance analytics<br>• Working with our partners to develop marketing strategies and offers | • Implemented 100% digital customer acquisition journey removing reliance on third party legacy systems and creating a frictionless onboarding journey<br>• Worked with partners to develop credit solutions that meet the needs of their customers, including buy now pay later, interest-free promotional periods and instalment plans |
| **Shareholders**<br>Building a sustainable, ethical, strong, customer-centric and viable 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<br>• Ongoing investor dialogue through their Board representatives' investor meetings<br>• Monthly performance reporting – both financial and non-financial | • Strengthened our balance sheet with an ECL allowance representing 19.3% of receivables as at 31 December 2020 and a record cash balance of £277m (excluding funding overlaps), providing a platform for a return to growth<br>• Generated free cash flow available for Senior Secured Debt interest of £129m<br>• Raised £754m of new financing to fund future growth<br>• Continued delivery of digital capabilities and maintained focus on delivering our strategy. For further details see page 26 |
| **Investors (asset-backed securities and high yield bond (HYB))**<br>Delivering sustainable and safe returns on their financial investments. | • Monthly securitisation investor reporting<br>• Quarterly HYB investor reporting and presentations<br>• Investor roadshows and open investor relations dialogue | • Generated free cash flow available for Senior Secured Debt interest of £129m<br>• Raised £754m from our asset-backed term debt securitisation programme<br>• Diversified funding partners |
| **Regulators**<br>Active engagement and alignment of our approach to meet regulatory requirements and delivering on our Customer Manifesto. | • We believe credit is a force for good and we believe good regulation reinforces this<br>• Member of industry bodies to ensure active engagement in industry-wide discussions<br>• Open and transparent reporting<br>• Proactive engagement and collaborative approach with regulators and Government | • Implemented all guidance issued by the FCA aimed at helping customers in financial difficulties during COVID-19, see page 16 for further details of the support we have offered to customers during COVID-19<br>• Implemented all planned persistent debt guidance |
| **Community**<br>Socially responsible management including promoting financial inclusion and good credit behaviours. Delivering environmentally friendly practices. | • Attendance at industry-wide meetings<br>• Partner directly with Family Action and Demos<br>• ESG KPIs in Board reporting<br>• Member of environmental organisations to share best practice | • Donated £185k in our ongoing partnership with Family Action, our charity partner<br>• Our colleagues donated over 2,000 toys to Family Action for their Christmas toy appeal<br>• Awarded a bronze medal award from EcoVadis for sustainability, placing our business in the top 50% of all businesses surveyed<br>• Alignment of ESG reporting to Sustainability Accounting Standards Board (SASB) |

Our Board and its committees consider the needs and concerns of all stakeholders regularly. An example of a decision taken and how the views of stakeholders were considered is the closure of our UPL portfolio to new lending. At the start of the COVID-19 pandemic, we performed a strategic review to ensure our business was appropriately positioned to meet the needs of all our stakeholders against the backdrop of significant challenges and uncertainty arising from COVID-19. As part of this review, the Board assessed the performance of the UPL portfolio and the weighed the benefits to shareholders, debt investors and customers from keeping this portfolio open to new lending. The Board subsequently made the decision to close the UPL portfolio to new lending to limit credit risk and the variability of returns for shareholders and debt investors. Since the UPL portfolio was lending to existing Own-brand customers, the Board considered that NewDay was best placed to serve potential new UPL customers through their existing credit card rather than a new loan.

# Operating responsibly

"For our business to be successful we must build long-term and mutually beneficial relationships with all our stakeholders. We have increased our focus on ESG reporting to ensure sustainability and our impact on all stakeholders remains an important consideration in our decision-making"

**Sir Michael Rake**
Chairman and Non-Executive Director

## Our ESG approach

**Environmental**
- Energy efficiency
- Waste and emissions reductions
- The Green Organisation member
- Colleague-led environmental forums

READ MORE ON PAGES 47–48

**Social**
- Responsible lending
- Employee engagement and wellbeing
- Changing ways of working
- Inclusion and diversity
- Community support

READ MORE ON PAGES 44–47

**Governance**
- Supply chain governance
- ESG governance framework
- Wates Corporate Governance Principles
- Appropriate external disclosures

READ MORE ON PAGES 57–59

## 2020 highlights

**0.4**
**tonnes of $CO_2e$ per average FTE employee**
(2019: 0.9 tonnes of $CO_2e$ per average FTE employee)

**80%**
**employee engagement index**
(2019: 77%)

**£223k**
**donated to charity**
(2019: £208k)

**Bronze medal for sustainability from EcoVadis**

**0.79**
**complaints per 1,000 active accounts**
(2019: 1.05)

**49%**
**of colleagues are female**
(2019: 51%)

**0**
**anti-bribery and corruption related incidents**
(2019: 0)

**0**
**accidents reported**
in accordance with Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013
(2019: 0)

# Our ESG journey

In 2020 we continued to enhance our ESG reporting framework, including further alignment with the SASB. We also commissioned an external assessment by EcoVadis in which we were awarded a bronze award, placing NewDay in the top half of all companies surveyed. Our ESG journey continues.

## Pre-2020 highlights

- Embedded our Customer Manifesto to help achieve our purpose
- Financially supported Demos to launch their Good Credit Index
- Partnered with Family Action and provided financial support to help them launch FamilyLine
- Green Apple Environment Awards 'green world ambassador' in 2019, building on three awards won in 2018
- Moved to a new, energy efficient London office in 2017 which received an award for its renovation
- 1-star accreditation by Best Companies based on the Sunday Times Best Places to Work list
- Established a formalised ESG reporting process

## 2020

- EcoVadis bronze medal award for sustainability
- Second year of financial support for Demos to deliver their second Good Credit Index and Good Credit Project
- Increased support for Family Action and record levels of colleague support through their annual toy appeal
- Launched NewWork policy, giving more flexibility to colleagues on where and how they choose to work
- Continued to build on our inclusion and diversity agenda
- Further development of ESG reporting including alignment to SASB

## 2021 ambitions

- Undertake feasibility studies to implement EcoVadis improvement recommendations
- Continued support and investment in key Customer Manifesto partnerships including Family Action and Demos
- Expand wider our Customer Manifesto programme
- Assess the impact of Task Force on Climate-related Financial Disclosures (TCFD) on the business and what actions to take
- Implementation of new supplier onboarding process
- Work towards ISO 27000 compliance

# Operating responsibly
continued

234,000

customers supported with payment holidays or payment freezes

+67

transactional NPS
(2019: +66)

0.79

complaints per 1,000 active accounts
(2019: 1.05)

## Being a responsible lender

Our Customer Manifesto is at the heart of everything we do. We are committed to helping customers move forward with credit through our foundations of being a welcoming, understanding, knowing and rewarding 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.

To support our customers during COVID-19, we focused our efforts on ensuring our contact centres were at maximum operational capability to assist with queries and, where appropriate, provide financial support. Supporting customers who found themselves in financial difficulties due to a change in their personal circumstances driven by COVID-19 was one of our key priorities. Accordingly, we implemented numerous solutions designed to help them through COVID-19 and we have offered payment holidays and payment freezes to 234,000 customers in 2020 suspending payments and, where appropriate for each individual customer, interest and fees for a period of time.

Payment holidays were a pre-existing measure within our collections toolkit. We continue to offer a wide range of interventions that allow us to work with customers when their personal circumstances change and support them if they fall into arrears irrespective of COVID-19. Our contact centre colleagues are trained to identify potentially vulnerable customers and a specialist team is in place to provide those customers with the support they need.

Our strategy has remained unchanged throughout COVID-19. We continue to lend responsibly through the deployment of our 'low and grow' strategy, offering our 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 supported by our robust scorecards built on 19 years of experience and data analytics. In 2020, we also introduced '*Aqua* coach' which is a financial education tool designed to help customers monitor their credit score and learn how to improve it. We also implemented card freeze optionality giving customers more control of their unused credit.

We embraced industry guidance aimed at helping customers whose accounts are defined as being in or near to persistent debt and implemented all planned interventions in the year aimed at supporting customers who have been in persistent debt for 36 months.

Our objective as a responsible lender is always to do the right thing by our customers. This is monitored through a number of KPIs that are reported to the Board monthly. Our transactional NPS of +67 (2019: +66) evidenced that customers value the service they received from us and customer complaints of 0.79 per 1,000 active accounts decreased in the year (2019: 1.05 per 1,000 active accounts). Additionally, we helped 1.9m customers improve their credit scores in the year (2019: 2.0m).

## Supporting our communities

We believe that we have a responsibility to local communities and society in general. We know that our purpose extends beyond our products and services and that we have a role to play in supporting the communities we serve.

### Family Action

We are proud to have partnered with Family Action for over five years. 2020 was a year when their services, providing practical, emotional and financial support to those who are experiencing poverty, disadvantage and social isolation, were needed more than ever.

In April, there was a surge in demand for their FamilyLine service, with 90% more call traffic reflecting the extensive economic and social impact of COVID-19. We provided additional financial support to help ensure an extension of the FamilyLine service and two other strategic initiatives. This included Family Action's national grant scheme that helps families regain independence following a crisis. During 2020, we supported over 350 families with an Open Doors grant, with additional funding ensuring that more families could access direct emergency grants throughout the pandemic. We also provided support for HeadStart, who partner with young people preparing for interviews, supporting them with CV writing, interview practice and internships at leading companies.

Our colleagues believe in our partnership with Family Action. Throughout the year our colleagues engaged in numerous fundraising activities to support our charity partner and donated over 2,000 toys through Family Action's Christmas toy appeal. We increased our support and impact by donating 1,000 activity packs for primary school aged children, which were sent to several Family Action centres across the UK, and our colleagues purchased items on Family Action's gift list, providing essentials to vulnerable families.

We are extremely proud of our partnership with Family Action and we are energised by the impact we are creating together. For more information about the support that Family Action provides, visit their website at www.family-action.org.uk.

### Charity Committee

Our Charity Committee promotes and organises fundraising initiatives throughout the year and oversees the matched funding scheme to which all colleagues are invited to apply. The matched funding scheme provides funding for employee-led charity activities. During the year colleagues took part in a variety of activities to support their nominated charities. In 2020, £223k was donated to local community charities, including charities supported by our colleagues.

### The Good Credit Index

During 2020, we continued to deliver our Customer Manifesto programme by supporting the Good Credit Index through Demos, a leading UK think tank. The Good Credit Index maps access to 'good credit' measured at a local level and provides location-based strategies for building better credit around the country. By bringing together data variables, the Demos team have pioneered a granular and comprehensive credit map of the UK to identify credit havens and deserts.

Since supporting Demos to launch the original index in 2019, we have continued to provide financial backing to help the Demos team refresh the Good Credit Index with new data. The data has been used to inform policy-making across the UK, encouraging metro mayors and local authorities to take positive steps to improve financial resilience in the communities they serve. For more information about the Good Credit Index, visit demos.co.uk/project/the-good-credit-index-2020.

### The Good Credit Project

During 2020, we amplified our support for Demos by funding a targeted location-based initiative in South Yorkshire. This enabled Demos to work with stakeholders across the region, helping people to access fair credit, reducing the need for unaffordable borrowing and improving the local credit environment. South Yorkshire has several credit deserts (such as Barnsley and Doncaster, where poor credit provision meets high credit need), highlighting many of the credit challenges faced by people in the UK. Demos engaged local stakeholders, including the mayor of Sheffield City Region, to build on good practice and to identify gaps. They also partnered with local media outlets to raise awareness of the issues and promote activity, including a consumer campaign to raise awareness of good credit options.

As part of the project, Demos ran the South Yorkshire Financial Inclusion Awards 2020 to kick-start innovation and celebrate local people and organisations making a difference in their communities. Four organisations were awarded grants of up to £5k to scale-up their support services and equip them to deliver online in light of the pandemic.

The work in the Sheffield City Region has changed stakeholder perceptions about the need for financial inclusion and the role they could play, helping to sow the seeds for longer-term impact and support the region's economic recovery from COVID-19. Demos produced a toolkit to share learnings, setting out five steps to equip local leaders to think differently about the added value to be gained, from social return on investment to streamlined service delivery and use. The Demos toolkit is cited in Sheffield City Region's post-COVID-19 economic recovery plan, and has been promoted at a national level by the Local Government Association, New Local Government Network, National Housing Federation, Northern Housing Consortium, Chartered Institute of Housing and the British Chambers of Commerce.

For more information about the Good Credit Project in the Sheffield region, including the toolkit and guides for specific audiences, visit goodcreditindex.co.uk.

# Operating responsibly continued

## Our people and culture

Guided by our purpose. Powered by our people. Motivated by our ability to create impact. When we move as one, we are unstoppable.

### Engaging and inspiring our colleagues

We are proud that during a difficult year, our colleagues pulled together and helped us achieve our highest engagement index result ever of 80% (2019: 77%), measured through colleague feedback in our annual Pulse survey.

### Our colleague-related response to COVID-19

Our rapid response to COVID-19 prioritised the safety and wellbeing of our colleagues and enabled us to support our customers by keeping our contact centres open. The move to fully remote working for all colleagues was a truly collaborative effort.

Strong internal communication meant that we increased access and visibility to our Management Committee, allowing messaging to be in the moment and personal. Our focus on effective communication kept colleagues connected and we listened and acted on our colleagues' feedback throughout the year.

During May, we ran a survey focused on how our colleagues were adapting to their new working environment, how they were feeling and what support they needed. We were also keen to know how they felt about how the Company responded to the pandemic. The survey results showed that our handling of the pandemic made 94% of colleagues prouder to work at NewDay.

We understood that manager capability would be critical in supporting our colleagues given that many were not experienced in managing a team remotely. We ran a people coaching programme through the summer helping them to lead and motivate their teams. 95% of colleagues said their manager had actively helped them adapt to working remotely, a testament to the support put in place.

### Evolving our culture

In a year of challenge and uncertainty we undertook a review of our values and looked at what makes us unique. Rather than a 'top-down' approach, we wanted to know what our colleagues thought of NewDay and its DNA. This resulted in an exciting and refreshed articulation of who we are and how we behave.

This revitalised expression of who we are is authentic, recognisable and reflects what we do every day for our customers, partners and colleagues.

We are **NewDay**

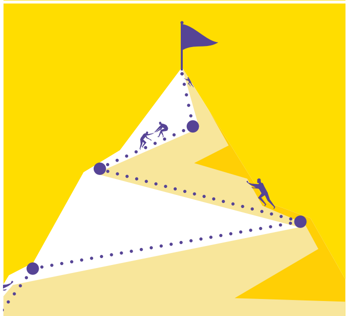
**Do the right thing**


We are guided by our responsibility towards our customers and to each other.

**Pull together**

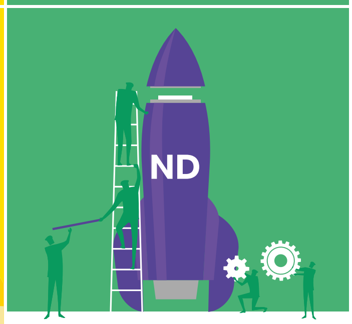
We take collective accountability.
We support one another.
We are stronger together.

**Aspire to extraordinary**



We aim high. We have the courage to challenge ourselves and each other.

**Create tomorrow**




We build for the future.
We push to create, adapt and change.

> "Our values are more than words on a page. They are clear. They are actionable. They are ambitious and purposeful. We want them to be front of mind with our colleagues as we build our Company and serve our customers"

**Damaris Anderson-Supple**
Chief People Officer

### New ways of working

We believe that our offices are an essential part of the heartbeat of our culture. Prior to COVID-19 we were already looking at future ways of working arrangements for our colleagues to make sure they could balance home and work life. Our mid-year Pulse survey allowed us the opportunity to gather insight from our colleagues and we took feedback that most of them wanted to balance time in the office with time at home. NewWork was born. This is our new flexible working approach, encouraging colleagues to share their time between remote working and the office, giving them room to flex.

### Staying well and healthy

This year we expanded our approach to colleague wellbeing, regularly hosting events and creating content aimed at supporting our colleagues during difficult times.

A NewDay care package was created as a central place for colleagues to turn should they need any support with their mental and physical health.

We provided all colleagues with the opportunity to get equipment and furniture to make sure their workspaces were as comfortable as possible whilst at home.

### Inclusion and diversity (I&D)

No matter where we work in NewDay we want to create a space where everyone is valued and feels that they belong. We are proud that we have a culture where everyone is able to be themselves.

In 2020, our I&D agenda continued to build and diversify with a focus across gender, faith, sexual and gender orientation and race. This is measured through our I&D index, which for 2020 held steady at a strong 82% (2019: 82%). This is a positive score representing the energy and commitment of highly engaged colleagues active in our Inclusion Network, which is representative of all our minority communities, driving our I&D agenda.

We provided opportunities for colleagues to learn about the importance of I&D through our new inclusion awareness e-learning module and through our rich events programme throughout the year focusing on sexual orientation, faith, gender and race. One success story is our Inspirational Speaker Series which is now a regular part of life at NewDay and tackles a number of issues head on with a focus most notably on race this year.

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

As at 31 December 2020, the proportion of our 1,163 colleagues (2019: 1,221) that were female was as follows:

| | 2020 females | 2019 females |
|---|---|---|
| Colleagues | **49%** | 51% |
| Management Committee | **13%** | 13% |
| Board | **10%** | 9% |

# 88%

**of colleagues said the culture at NewDay is one in which people with diverse personal styles, experiences and backgrounds can contribute and thrive**

# 95%

**of colleagues said their manager had actively helped them adapt to working remotely**


## Protecting the environment

Minimising our impact on the environment is important to us and our carbon footprint is low. We actively monitor and manage carbon emissions associated with the business based on the energy consumption of our operations.

Our reporting is broken down into direct and indirect emissions in accordance with the Greenhouse Gas Protocol. As we have fewer than three Company-owned vehicles and as we do not generate any of our own power, our scope 1 emissions are low. Owing to the nature of our business, we focus on managing general energy consumption across our Leeds and London sites (scope 2 emissions) and also business travel between sites, mainly via train (scope 3 emissions). In 2020, we consumed 0.4 tonnes of $CO_2$ emissions per average FTE employee (2019: 0.9 tonnes of $CO_2$ emissions per average FTE employee) across electricity usage and business-related rail travel.

Several reasons have contributed to the reduced emissions in 2020. Since the start of the pandemic there has been limited travel between our Leeds and London sites and our buildings have been less occupied, reducing energy needs. Additionally, we have continued with our programme of reviewing overall consumption and replaced lighting, IT equipment and updated our building management system. In 2020, we also introduced our new remote working policy, NewWork, which allows colleagues to work up to half of their time away from the office. We continue to optimise our sites to support our growth plans with less physical space needed per colleague and therefore a lower impact on the environment.

# Operating responsibly continued

## Promoting green issues with our customers and colleagues

In 2020, we focused on engaging with our customers and colleagues on green issues, building on our focus of external benchmarking in 2018 and 2019. We are a member of The Green Organisation, an independent international, non-profit, non-political environmental group dedicated to recognising, rewarding and promoting environmental best practice around the world. Through The Green Organisation membership they planted 541 trees on our behalf under the Green Earth Appeal and the United Nations Billion Tree Campaign. The trees are planted where the need is greatest around the world to provide benefits such as food, fuel, shelter and farming opportunities. Further to this, as part of a customer initiative to promote paperless statements, 30,000 customers agreed to move to e-statementing resulting in 30,000 trees being planted on their behalf. This continues to be an area of focus for us into 2021.

During the first COVID-19 lockdown, our colleague-led Green Forum created a photography competition open to all our colleagues and their families focussing on 'nature around us'. We had a panel of colleagues supported by our senior leaders who picked the best photos. Prizes were given to the best entries and several of the photos are prominently displayed across both our sites. The competition was a great success over the lockdown and supported our enhanced focus on health and wellbeing. Following the success of the competition, we also used the photographs to create a 2021 calendar to sell to our colleagues with all proceeds going to our charity partner Family Action. We continue to build a Company-wide consideration of green issues.

## Working with our colleagues and third parties across our offices on environmental opportunities and connectivity to nature

Across both offices, we continued to work in partnership with our colleagues, landlords, facilities and catering partners to deliver activities to reduce our environmental impact. We worked with our onsite contractors to monitor and review our energy consumption via enhanced real-time monitoring. We continued to work towards reducing our plastic waste whilst still focussing on our green approach throughout the pandemic. Our colleague-led Green Forum in Leeds continued to promote recycling, waste reduction and any green-related matters.

Throughout 2020, we ensured that any changes to our buildings were done with the aim of improving engagement with our colleagues and their wellbeing whilst in the office. Additional green spaces were key across our Leeds and London sites. For London, we redesigned both the ground floor and main office floor. Additional biophilic designs were incorporated with more plants and hanging baskets as well as installing a natural lighting system in the ground floor. The changes focused on creating more informal gathering areas that supported colleague engagement with soft seating and feature rich furniture statement pieces. In Leeds, we added more social seating outside as well as repurposing any furniture from London to limit waste.

## Governance in our supply chain

In line with internal supplier qualification and ongoing monitoring processes, we ask new and existing suppliers to self-attest their compliance against key principles relating to corporate social responsibility. Our Supplier Code of Conduct, found on our website at newday.co.uk positions our due diligence and contractual requirements in this regard.

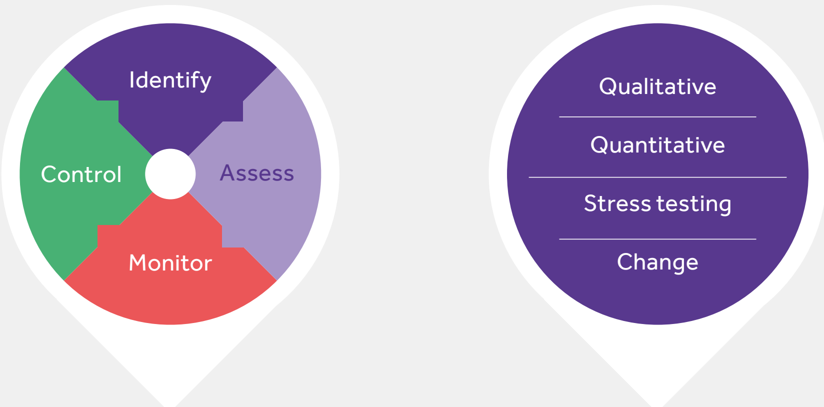
Our Modern Slavery and Human Trafficking Statement is available on our website at newday.co.uk.

# Risk management

NewDay provides credit solutions to meet the evolving needs and expectations of our customers. Our products are designed to provide positive outcomes for our customers. Our risk management framework helps us to achieve these objectives by providing strong oversight, challenge and assurance over our internal control environment

**The overarching risk management framework comprises six core components:**

1. Risk appetite statements
2. Risk governance
3. Risk processes and methodologies




Aggregated risk reporting

4. Risk data and IT systems
5. Risk management skills, resources and culture
6. Risk management framework validation

**Underpinning the overarching risk management framework, the Group has five sub-frameworks:**

| | | | | |
|---|---|---|---|---|
| Credit risk framework | Financial control framework | Liquidity, funding and cash management risk framework | Operational risk framework | Conduct risk framework |

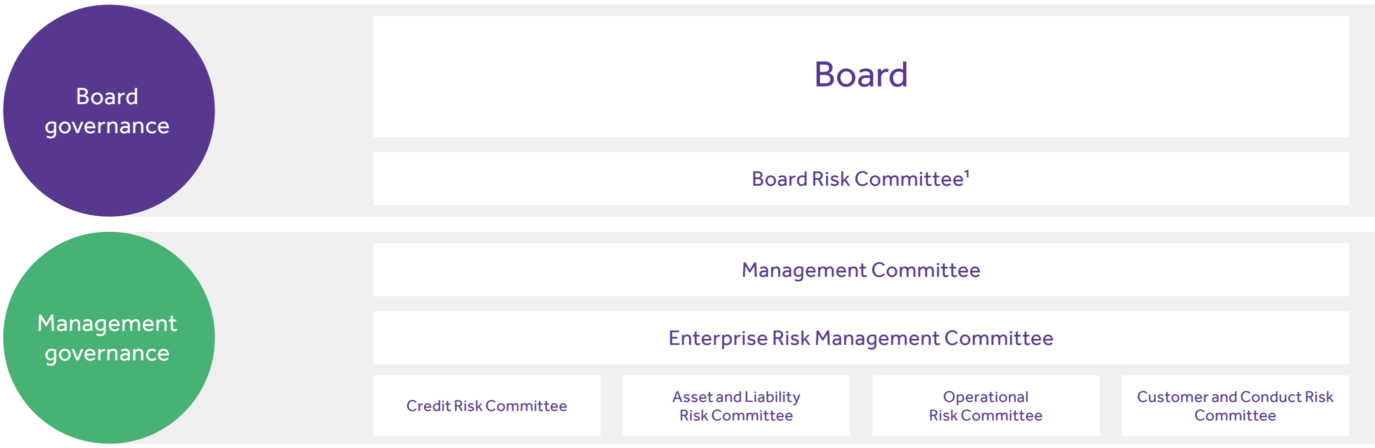
# Our risk governance structure

The Board is ultimately accountable for risk and the oversight of risk management. It considers the appropriateness of the risk management framework in line with risk appetite and Group strategy. The Board considers the most significant risks facing the business, informed by risk and controls reporting, and uses quantitative and qualitative measures to monitor and challenge performance. The Board delegates responsibility for risk management oversight to the Board Risk Committee. The Board articulates its approach to risk management via the Board Risk Management Policy, which is reviewed annually.

The Chief Executive Officer chairs the Management Committee, which is responsible for the day-to-day management of the business and 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.

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 (ERMC).

Business level risk committees provide management with a structure to ensure appropriate focus is applied to the oversight and management of specific risk types: credit risk; market risk; financial risk; operational risk; and conduct risk. Strategic risk is managed by the Management Committee. The table below details the risk governance structure in place across the Group:




## Four risk appetite pillars underpin the delivery of our strategic objectives

| Credit risk | Financial strength | Operational performance (includes operational risk) | Business conduct (includes legal, regulatory and conduct 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. | Our objective is to 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 NewDay's desired financial profile, whilst complying with funding covenants and regulatory requirements. This will apply for planned growth in normal conditions and navigating stressed environments. | Our objective is to 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. | Our objective is to 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 three lines of defence model

## Robust risk management is essential to both NewDay's ongoing success and to ensure we remain within our risk appetite. Fundamental to our approach to risk management is a three lines of defence model

| | Name | Activity |
|---|---|---|
| 1st line of defence | **Business**<br>The leaders of each business area have primary accountability for the performance, operation, compliance and effective control of risks affecting their respective business areas. | **Risk/reward management**<br>Executes the business strategy as set by the Board. Undertakes day-to-day business within the parameters of the defined risk appetite and risk management framework. Applies controls in day-to-day business activities, managing and validating controls. |
| 2nd line of defence | **Enterprise Risk**<br>The Enterprise Risk function is an independent risk management capability, reporting to the Chief Risk Officer. The Chief Risk Officer reports to the Chief Executive Officer and independently to the Chair of the Board Risk Committee. The Chief Risk Officer also has independent access to the business and Board members, as appropriate. | **Framework oversight and objective testing**<br>Provides independent oversight, challenge and advice over the risk profile of the business and operation of the risk management framework, including objective testing of the controls operated by the first line of defence. |
| 3rd line of defence | **Assurance (internal audit)**<br>Assurance is provided by the internal audit function which is independent of both the business and the Enterprise Risk function, and reports to the Chair of the Board Audit Committee. | **Independent assurance**<br>Provides independent assurance on the design, operation and effectiveness of the control framework, including activities performed by the first and second lines of defence. |

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 ERMC and the Board Risk Committee, with appropriate actions being taken where triggers have been breached. Risk appetite is approved by the Board which sets risk appetite thresholds 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.

# Mapping our risks

Our principal risks have been under regular review by the Board and the Board Risk Committee throughout 2020. 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

"The COVID-19 pandemic was an unexpected event that meant we had to flex across a number of different risk responses. Amongst other things, we changed our approach to underwriting risk and to customers in financial difficulty, responding to the FCA agenda around payment deferral support tools. We changed our ways of working to allow us to continue to service customers whilst safeguarding our colleagues. Having a clear view of our risk environment has been a core strength in making those decisions. It is a fundamental part of how we consider future potential credit losses under IFRS 9 and remains under constant consideration by our macroeconomic panel.

2020 has not just been about COVID-19. We continually monitor the risks we face across a range of areas such as changes in how fraudsters operate, the impact of Brexit and the challenges facing the high street impacting some of our retail partners. We actively reflect on the cyber attacks that impact market participants, on the resilience of NewDay's cyber defences and thereby the protection offered to our customer data. We have made significant strides by implementing new credit model building techniques and source data sets to drive our credit decisioning. We remain watchful of the risks from climate change, and consider this through our emerging risks process.

Our overriding objective is to use our risk management insights to inform the debate and to provide the right service to our customers and partners"

**Mark Eyre**
Chief Risk Officer

# Principal risks

## Strategic risk

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

### Example ramification

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

### Risk factors in-year and key mitigants

Challenging high street conditions for our foundation partners have remained prominent during the year (additional strategic risks are also considered within the macroeconomic, credit and financial principal risks).

#### We have managed the risk through the use of the following controls/mitigants:

- pursuit of business development strategy and diversification in terms of potential new partners;
- launch of *NewPay* digital credit product;
- diversification through online partners;
- working with partners to expand our presence online;
- launch of Apple Pay and Google Pay;
- business strategy and annual/dynamic review process;
- Group budgets defined, allocated and monitored to align with strategic objectives;
- daily settlement routines enhanced with partners experiencing difficulties;
- risk appetite aligned with strategic objectives and business planning; and
- monitoring publicly available information and other gathered information with regard to trading performance of retailers.

### Improvements in 2020 and future focus

- We continued to develop and improve the functionality of our e-servicing apps, provided a better customer offering and strengthened our business
- In 2021, we will look to expand our footprint and add new Co-brand partnerships with new retail partners

## Macroeconomic risk

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

### Example ramification

- 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 also result from a macroeconomic downturn

### Risk factors in-year and key mitigants

The continued uncertainty around post Brexit trading, the effects of COVID-19 and challenges surrounding economic growth. COVID-19 continues to impact us on an ongoing basis, for our customers via furlough, unemployment and reductions in disposable income, for our retail partners with stores closed and lower spend and for NewDay itself via access to funding markets.

#### We have managed the risk through the use of the following controls/mitigants:

- performed regular impact assessments and stress scenarios with predetermined mitigating actions;
- macroeconomic panel meets on a quarterly basis to review and agree stress scenarios, and considers 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;
- tightened our risk-taking in response to the economic changes;
- engaged with funding partners in relation to COVID-19 related impacts;
- monitored and refined macroeconomic dashboard in response to Brexit-related impacts;
- diversification of Co-brand partners and product offerings; and
- ability to deploy multiple levers from new business growth, customer credit limit management and cost controls.

### Improvements in 2020 and future focus

- Our macroeconomic response strategies continued to develop, including mapping them to our macroeconomic triggers. We have a clear corporate view of what levers to use in different situations under different stressed scenarios
- In 2021, we will continue to refine our approaches where needed and continue to monitor the external environment closely, with particular attention to the ongoing impact of COVID-19 and of measures such as mass vaccinations to normalise economic activity

# Principal risks continued

## Credit risk

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

### Example ramification

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 increases in both first party and third party fraud losses.

### Risk factors in-year and key mitigants

Considerable uncertainty in the UK economy as a result of the pandemic and Brexit negotiations. Customer behaviour was impacted through a series of national and regional lockdowns implemented across the country, Government support for both business and individuals, lower customer spend, introduction of payment deferrals and rising unemployment – not only as measured in the official figures. Regulatory changes were implemented at short notice.

#### We have managed the risk through the use of the following controls/mitigants:

- performance of credit and collections strategies monitored daily with regulatory and business changes made throughout the pandemic;
- the ability to modify credit and collections strategies, and validate outcomes, at short notice;
- macroeconomic environment closely monitored by the Management Committee and Board. Tightened risk appetite accordingly to reflect prevailing macroeconomic risks;
- significant investment in data science capabilities with new origination models deployed which leverage leading-edge credit reference agency data to give us the confidence to continue lending throughout the pandemic;
- regular monitoring of impairment performance with a deliberately conservative approach to provisions to reflect the risk of higher future losses;
- improvements to both creditworthiness and affordability assessments both at origination and in customer management;
- focus on collections operations performance to ensure customers' needs were met and the right outcomes were being achieved;
- Credit Risk Committee overseeing the execution of the credit risk management framework; and
- regular review of the effectiveness of credit risk strategies, policies and procedures.

### Improvements in 2020 and future focus

- In 2020, further improvements were made to both our creditworthiness and affordability policies and assessments
- Introduced payment freezes and offered more payment holidays to help customers deal with COVID-19 effects on their ability to pay
- IFRS 9 provisioning methodology was closely monitored and improvements were made
- Model governance process was strengthened throughout the year
- Bolstered our debt collection capability, lessening dependence on debt sale markets
- Investment in enhanced data updates from external sources
- In 2021, we will continue to mature the credit risk management framework, enhancing our capability to assess affordability and deliver improvements to our models and credit decisioning strategies

## Regulatory risk

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

### Example ramification

- 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

### Risk factors in-year and key mitigants

Ensuring regulatory change is understood and implemented compliantly. Additional regulatory change in relation to payment deferrals because of COVID-19, as well as increased risk around data security (see operational risk). Additional compliance costs will continue into 2021.

#### We have managed the risk through the use of the following controls/mitigants:

- monitoring the impacts and costs of regulatory change and ability to enact and respond to them;
- delivering PSD2 programme for the development of compliant solutions for e-servicing and contactless cards;
- finalising remedies for persistent debt to meet regulatory requirements;
- reviewing and enhancing the conduct risk management framework;
- monitoring of regulatory radar for upcoming regulatory developments and external horizon scanning cascaded internally;
- responding to consultation papers through trade bodies; and
- policies and procedures reviewed to remain up to date, compliant and adhered to and to ensure that appropriate processes and controls are in place.

### Improvements in 2020 and future focus

- Continued to update existing debt strategies and develop persistent debt remedies in accordance with the FCA's requirements
- In 2021, we will continue to focus on the regulatory environment, managing change for regulatory driven initiatives
- Complete delivery of PSD2 solutions for e-commerce, e-servicing and contactless cards
- Update existing processes once the final version of the ePrivacy Directive is released and continue to monitor the changing data protection landscape
- Evaluate systems and controls aligned to changes made demonstrating resilience throughout NewDay business

## Operational risk

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

### Example ramification

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

- cyber attacks;
- pandemics;
- loss of customer data;
- internal and external fraud;
- human errors in manual processes; or
- lack of suitably skilled resources or system failures at third parties.

### Risk factors in-year and key mitigants

The scale and pace of transformation (including digital and data-led projects, use of cloud-based services and automation of manual processes). Reliance on third party controls in the provision of systems, data services and contact centre capabilities. An ever-changing cyber threat, as well as the threat of data leakage. The impact of COVID-19 led to emerging risks around staff working from home using remote access.

#### We have managed the risk through the use of the following controls/mitigants:

- the Operational Risk Committee oversees control frameworks in relation to information security, business continuity, and supplier management;
- implementing and adapting business continuity plans (BCP), alongside developing new ways of working to protect staff members and data which included new training to agents on working remotely and using customer data as well as enhancing laptop security protocols;
- change governance and dedicated project management resources;
- IT general controls including physical security, penetration testing and cyber security;
- recruitment, remuneration and performance management; and
- testing existing resilience capabilities across systems and processes and applying further enhancements.

### Improvements in 2020 and future focus

- In 2020, we have continued to mature our approach to penetration testing, supplier assurance, business continuity provision and testing
- We have completely revamped our view and approach to BCP and operational delivery in light of learnings from COVID-19
- We have remained alert to the ever-changing threat from cyber activity and continued to invest in security design as we have developed our architecture, infrastructure, and threat awareness capabilities
- We continued to invest in rolling out robotic process automation and intelligent automation where viable opportunities existed
- We enhanced our customer digital journeys
- In 2021, we will continue to consider and ensure our resilience capabilities and application of resilience controls continue to meet regulatory requirements and industry standards
- We will aim to implement a new collections system which will reduce our reliance on manual processes
- We will develop our in-house IT development capabilities and increase resources accordingly

## Conduct risk

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

### Example ramification

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.

### Risk factors in-year and key mitigants

Ensuring we lend responsibly and in an affordable way to customers.

#### We have managed the risk through the use of the following controls/mitigants:

- Customer and Conduct Risk Committee overseeing conduct risk management framework;
- reviewed and enhanced our conduct risk management framework;
- our Customer 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;
- Executive-led steering committee to manage implementation of Credit Card Market Study initiatives;
- increased focus on agent recruitment, retention, training and performance management and reward in light of changed ways of working;
- monitoring of effectiveness of policies and processes for vulnerable customers;
- review of responsible lending and affordability across the Group and a review of past and current affordability processes undertaken in order to determine any systemic issues and/or adversely impacted customers; and
- monitoring emerging new sources of complaints from individuals and claims management companies, and have continued to enhance processes and management of complaints.

### Improvements in 2020 and future focus

- We reviewed and enhanced our complaints management model
- We progressed our remedies for customers considered in persistent debt
- We refreshed our values in year
- We looked at affordability throughout the year and engaged with relevant regulatory industry reviews
- Our Customer Manifesto also continued to be a key area of focus during the year
- In 2021, we will continue to stay abreast of the regulatory environment. Our focus on responsible lending and customer outcomes will remain high and we will continue to ensure that our marketing and complaints processes deliver effectively for the customer
- We will look at customers' behaviour patterns and in particular how they access credit

# Principal risks continued

## Financial risk

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

### Example ramification

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;
- 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. If there is insufficient cash this could impact the Group's ability to meet ongoing financial commitments, invest in new business or pay Senior Secured Debt interest. Insufficient funding for receivables would impact the Group's ability to support customer spending and receivables growth.

### Risk factors in-year and key mitigants

Increased risk of lower business growth, higher levels of customer forbearance and higher customer default resulting in a short-term reduction in both income and cash flow as a result of COVID-19. Uncertainty within the funding markets leading to delays in funding for business growth, new products and retailers, and maintenance of cash levels. Customer behaviour and regulatory forbearance impacts could combine and impact key funding triggers.

We have managed the risk through the use of the following controls/mitigants:

- execution of funding deals and deals extended where appropriate;
- measures taken to increase levels of cash held to ensure the business met its current and future requirements;
- revised forecasts and stress tests prepared taking into account the significant change of circumstances as a result of COVID-19;
- annual completion of stress scenario analysis;
- risk appetite measures reassessed and approved by the Board;
- daily cash reports and forecasts of the Group's daily cash balance;
- enhanced monitoring of funding triggers to ensure all requirements met;
- monitoring of retail partner performance by the Asset and Liability Risk Committee;
- financial control framework governing processes and procedures across Finance; and
- first, second and third line of defence supplemented by external audit of the Annual Report and Financial Statements.

### Improvements in 2020 and future focus

- Regular reforecasting of financial performance, including funding covenants and cash liquidity
- Our stress testing capability continued to develop and effective and proportionate scenario stress tests were completed regularly throughout the year to assess the potential impact of COVID-19
- In 2021, we will enhance our securitisation reporting to improve control and reduce manual input with the introduction of an enhanced automated system

## Market risk

Although NewDay is not exposed to trading risk, NewDay is 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.

### Example ramification

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.

### Risk factors in-year and key mitigants

The economic environment leads the Bank of England to increase base rates that would increase funding costs.

The wider macroeconomic situation influences funding markets and we remained reliant on these markets being open and available during the year.

We have managed the risk through the use of the following controls/mitigants:

- reduced 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);
- funding strategy executed and improved VFN flexibility and capacity; and
- having headroom on funding facilities to fund future receivables growth.

### Improvements in 2020 and future focus

- We executed our 2020 funding strategy, achieving further diversification and increasing our securitisation funding
- We reviewed our funding metric thresholds taking into account the impacts of COVID-19

# Chairman's introduction to corporate governance

## We are committed to maintaining high standards of corporate governance with the aim of ensuring growth is delivered in a controlled and compliant manner. This is actively endorsed by Cinven, CVC and all members of management to ensure the business is operated in the interests of all stakeholders

**Sir Michael Rake**
Chairman and Non-Executive Director

The last twelve months has provided unprecedented challenges to businesses across the globe. This underlines the importance of ensuring appropriate governance arrangements are in place to allow organisations to respond rapidly to the changing macroeconomic environment. The swift actions taken by the Group as the potential impact of the COVID-19 pandemic emerged has ensured that all stakeholder interests have been protected with appropriate oversight at Board level.

Whilst no significant changes have been made to the Group's strong governance framework during 2020, the Directors continue 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 2020 were:

- oversight of the Group's response to the COVID-19 pandemic with a particular focus on ensuring appropriate support for our customers, minimal disruption on operations and service levels, tightening credit underwriting and maintaining appropriate levels of funding;
- reviewing our strategy as a result of the macroeconomic conditions (including those associated with the COVID-19 pandemic and Brexit) to ensure our strategy is fit for purpose and the Group is well positioned for growth in 2021 and beyond;
- following a strategic review, taking the decision in March 2020 to close the UPL portfolio to new lending;
- continuing 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;
- regularly reviewing customer outcomes and progress against our Customer Manifesto; and
- closely monitoring other regulatory developments to ensure we are aware of matters on the regulatory horizon and are adequately prepared for them (in particular, the implementation of the Group's payment freeze tool in line with the FCA's guidance on payment deferral support alongside the Group's pre-existing use of payment holidays to offer appropriate support to customers where required).

In addition, in March 2020 and after a decade of service, Sir Malcolm Williamson stepped down as a member of the Board. Sir Malcolm was NewDay's Chairman from 2010 to 2018 and for the last two years continued to serve as a Non-Executive Director. The Board is deeply grateful to Sir Malcolm for his highly valued leadership and guidance over the past ten years.

## Governance framework

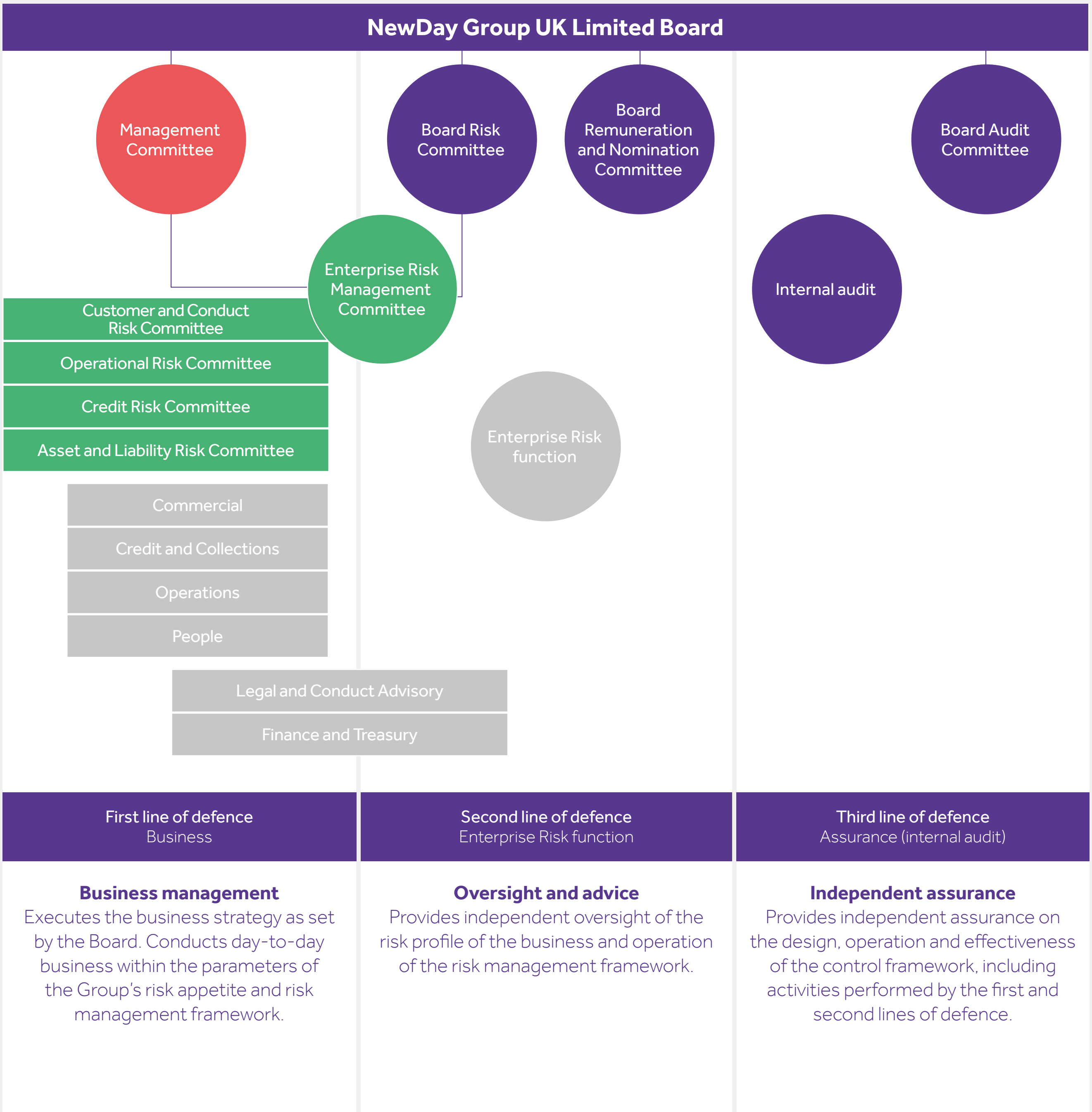
During 2020, the commercial aspects of the Group's UK subsidiaries were managed by the Board of NewDay Group UK Limited (the Board), a wholly owned subsidiary of NewDay Group (Jersey) Limited, the Jersey-based parent company.

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 2020, 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 Customer Manifesto. Detailed disclosures regarding our Customer Manifesto and strategy can be found on pages 02 and 26.

## 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 with the aim of achieving our vision of becoming the UK's leading digitally enabled consumer finance provider. The Board also receives regular ESG updates to ensure success is delivered in a sustainable manner, see page 42 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 40.

# Board of Directors

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

Sir Michael Rake, knighted in 2007, is Chairman of Great Ormond Street Hospital (since 2017), Phoenix Global Resources (since 2017) and Majid Al Futtaim Holdings LLC (since 2010). Sir Michael is also a senior adviser for Chatham House.

Sir Michael's former principal roles include Chairman of BT Group Plc, Chairman of KPMG (both UK and international), Chairman of easyJet, Chairman of Worldpay Group plc, Chairman of the International Chamber of Commerce UK, President of the Confederation of British Industry, Deputy Chairman of Barclays and Director of the Financial Reporting Council.

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

John Hourican has almost thirty years of global financial services experience. John began his career at Price Waterhouse working in Dublin, Hong Kong and London before moving to Royal Bank of Scotland in 1997. During his time at Royal Bank of Scotland, John held a number of senior posts including serving 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. John was named Euromoney's Banker of the Year in 2015. John is a fellow of the Institute of Chartered Accountants in Ireland.

**Paul Sheriff**
Executive Director and Chief Financial Officer

Paul Sheriff has over twenty five 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

Alison Reed has extensive business knowledge and experience gained from her previous senior business roles, including as CFO at Marks and Spencer Group plc and CFO at Standard Life Assurance Company and Standard Life plc, where she led the Company's listing on the London Stock Exchange. Alison currently serves as a Non-Executive Director and Deputy Chairman of British Airways plc, a Non-Executive Director of CGI Group Inc. and a Member of the Council of Exeter University. Alison was previously a Non-Executive Director at Darty plc and HSBC Bank plc. Alison is a member of the Institute of Chartered Accountants in England and Wales.

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

Rupert Keeley was the General Manager for PayPal's businesses in Europe, Middle East & Africa (EMEA), an Executive Vice President of PayPal (Holdings) Inc. and Chief Executive Officer of the PayPal Europe bank until June 2018. Rupert has more than thirty years of banking and payments experience and was formerly Visa Inc.'s Group Executive and President of the Asia Pacific and CEMEA regions, and a Section 16 Officer of the company. He held a number of management roles including Global Head of Strategy and Corporate Development. Prior to joining Visa in 1999, Rupert held a number of senior management positions with Standard Chartered plc based in London, Singapore and the Middle East. He started his career at Girobank plc in London. Rupert holds an MBA in Marketing from the City University Business School, London and a B.Sc. (Hons) in Management Sciences from the University of Manchester.

**James Corcoran**
Non-Executive Director

James Corcoran has over thirty years of global financial services experience with large multinational 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 for over twenty years. He has run credit card businesses for First USA/Bank One and Amex and at HBOS his final role was CEO of the Distribution, Retail and Insurance Division. Prior to that, he was Head of HBOS' 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. In 2019, James stepped down as NewDay's CEO after ten years' service, and remains on the Board as a Non-Executive Director.

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

Caspar Berendsen is a Partner at Cinven and leads the Financial Services Sector team. Prior to this, Caspar worked at J.P. Morgan in London advising Dutch and Belgian clients across a variety of sectors. Caspar holds an Ir 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.

Caspar has extensive experience of investing across various financial services industries. He has worked on numerous transactions, including Avolon, Compre, Eurovita, Guardian Financial Services, Maxeda, Miller, Partnership Assurance, Premium Credit, Viridium and Ziggo. Caspar is or has been regulated by more than a dozen regulators across European jurisdictions.

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

Peter Rutland 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. Prior to working at Advent International, Peter worked for 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 (a leading Lloyd's insurance and reinsurance company), Avolon (a global aircraft leasing company), Skrill (the second largest provider of online payment solutions in Europe), Domestic & General (a leading provider of product protection and warranty insurance in Europe), Pension Insurance Corporation (a leading pension annuity provider in the UK), Paysafe (a global leading provider of online payment solutions) and April Group (a leading insurance broker based in France). A number of these portfolio companies are also PRA/FCA regulated.

# **Board of Directors** continued

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

David Giroflier is a Senior Principal at Cinven. Prior to joining Cinven, David worked in the Investment Banking Division of HSBC in Paris, advising on M&A transactions across a range of sectors including industrials, aerospace and consumer. David also advised the French government on various transactions. David graduated from the HEC School of Management in Paris with an MSc in Business Administration. David is an experienced private equity investor, having been involved in a number of Cinven's transactions including Viridium Group, Mas Movil, Tractel and Visma.

David currently sits on the Board of Viridium Group (BaFin regulated). David also has significant knowledge and understanding of the financial services industry, having diligenced a number of businesses in the past six years.

**Robin Peveril Hooper**
Investor Director (CVC Capital Partners)

Pev is a Managing Partner and Co-Head of CVC UK. Pev joined CVC in 2003. He currently sits on the boards of Premiership Rugby, Domestic & General and the RAC. Pev was also responsible for CVC's prior investments in SkyBet, Merlin Entertainments and Virgin Active, and has sat on the board of these and other CVC portfolio companies.

Prior to CVC, Pev worked in mergers and acquisitions at Citigroup and Schroders. He holds an MA degree from Oxford University.

# 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.

**Sanjay Sharma**
Chief Operating Officer

Sanjay joined NewDay in 2013. Sanjay has nearly thirty years' 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. Damaris joined to lead the People team at NewDay from Hill and Knowlton Strategies UK, where she was Chief Operating Officer and where talent strategy was a key priority.

**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, Mark worked at Barclays for seventeen 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, Rob worked for HBOS, Capital One and PwC in a career spanning over twenty 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, Stephen 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 meetings attended | Board Audit Committee meetings attended | Board Risk Committee meetings attended | Board Remuneration and Nomination Committee meetings attended |
|---|---|---|---|---|
| Sir Michael Rake | 11/11 | N/A | N/A | 2/2 |
| John Hourican | 11/11 | N/A | N/A | 2/2 |
| Paul Sheriff | 11/11 | N/A | N/A | N/A |
| Alison Reed | 11/11 | 7/7 | 7/7 | N/A |
| Rupert Keeley | 11/11 | N/A | N/A | 2/2 |
| Sir Malcolm Williamson[1] | 1/3 | N/A | N/A | 1/1 |
| James Corcoran | 9/11 | N/A | N/A | N/A |
| Caspar Berendsen | 11/11 | N/A | 7/7 | 2/2 |
| Peter Rutland | 11/11 | 7/7 | 6/7 | 1/2 |
| David Giroflier | 11/11 | 6/7 | N/A | N/A |
| Pev Hooper | 9/11 | N/A | N/A | N/A |

1 Sir Malcolm Williamson resigned as a Director on 31 March 2020.

## 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

Four of our ten Board members are Investor Directors (two 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 ten years' 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.

With effect from 31 March 2021, Rebecca Abrey will be appointed to the Board as a Cinven Investor Director.

## Training

Directors have access to relevant training courses during the year. To continue to ensure that Board members are up to date on the latest developments and maximise their effectiveness, during 2020 training focused on the outcome of the Group's 2019 Hackathon, the FCA's Senior Managers and Certification Regime and NewDay's response to the FCA's Credit Card Market Study.

## 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 each appointed two 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, the Independent Non-Executive Directors and Non-Executive Director).

Engagement with Cinven and CVC is encouraged through attendance at Board meetings and, in months in which there is no Board meeting, specific investor meetings are arranged. As part of this process, 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 2020, the Company did not acquire any of its own shares.

# Board Audit Committee

## The COVID-19 pandemic presented significant challenges and changes to our business. This required the Committee to critically assess whether the Group's governance and control framework remain fit for purpose as we continue to navigate through this unprecedented period of uncertainty

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

### Chair's overview

2020 presented significant challenges and changes to the way in which our business operates. Accordingly, the Committee responded to this by spending much of its time assessing whether the Group's control environment remained fit for purpose against the rapidly changing backdrop. The Committee also explicitly sought to ensure that the key accounting considerations were appropriately supported in an unprecedented period of uncertainty. I am pleased to report that our business has adapted well in respect of this.

Whilst the areas of significant judgement within the Group's financial reporting remained largely unchanged from 2019 the risk of material misstatement was heightened as a result of COVID-19. All significant judgement areas were regularly reviewed during the year with our focus on those areas most impacted by COVID-19, being: (i) the adequacy of the Group's provision for expected credit loss (ECL); and (ii) the carrying value of goodwill and acquired intangible assets. The Committee also reviewed regular assessments of the Group's ability to continue trading as a going concern against the backdrop of COVID-19 uncertainty. See note 2.1 for further details of the Group's going concern assessment.

The Committee provided robust 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 against the rapidly changing backdrop driven by COVID-19.

### Committee composition, skills and experience

The following Directors are members of the Board Audit Committee:

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

Alison Reed is the Chair of the Committee and has significant accounting and financial reporting experience.

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 to 62) enable us to fulfil the Committee's remit, as set out in the terms of reference, which are reviewed annually.

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 and to ensure compliance with accounting policies and standards and ensure 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 2020

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

- reviewed the 2019 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;
- regularly reviewed and approved the Group's ECL provision including the significant judgements included within it to ensure they were appropriate and supportable given the uncertainty over potential credit losses arising from COVID-19;
- assessed the impact of COVID-19 on the UK high street and the Group's co-branded retailer relationships to approve the carrying value of the Group's acquired intangible assets and goodwill;
- 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 assessing the effectiveness of both 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 including those significantly impacted by COVID-19;
- assessed the Group's compliance with certain provisions of the UK Corporate Governance Code;
- reviewed the adequacy of the Group's ESG reporting;
- 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 and approved the Group's tax strategy and received regular updates on tax-related matters;
- reviewed the effectiveness of the Financial Control Framework function and ensured it remained fit for purpose during the pandemic; and
- reviewed regular updates on whistleblowing.

## Financial reporting

The main areas of judgement we considered in relation to the Financial Statements for the year ended 31 December 2020 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**<br>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.<br><br>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. In 2020, the risk of inadequate provisions was heightened due to the unprecedented period of uncertainty arising from the COVID-19 pandemic.<br><br>The ECL allowance recorded by the Group as at 31 December 2020 was £457m for the Own-brand portfolio, £93m for the Co-brand portfolio and £13m for the UPL portfolio (2019: £363m, £51m and £11m respectively).<br><br>Refer to note 2.3 for further details on the judgements inherent within the ECL allowance. | The Committee regularly reviews and challenges 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 we reviewed the rationale and impact of variations to each of the key assumptions.<br><br>The Committee assessed the credit performance of the Group's portfolio in light of COVID-19 and the interventions offered by the Group aimed at helping those customers experiencing financial difficulties as a result of it. The Committee reviewed and approved the forward-looking information incorporated in the ECL allowance to ensure the credit performance observed on the portfolio and the likely estimates of future performance were appropriately reflected.<br><br>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'.<br><br>The Committee was satisfied that the ECL allowance was appropriate. |
| **Impairment of goodwill and acquired intangible assets**<br>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 with the carrying value prior to impairment.<br><br>The COVID-19 pandemic and its subsequent impact on customer spend, ECL and retail partner relationships resulted in regular impairment reviews in 2020. Following the reviews, a £6m impairment charge was recognised on certain customer and retail partner relationships. The carrying value of goodwill was fully supported by the value in use assessments.<br><br>As part of the impairment reviews performed in the year, the useful economic lives of certain customer and retail partner relationships were also reduced.<br><br>As at 31 December 2020, the Group reported acquired intangible assets post-impairment of £191m and goodwill of £280m (2019: £250m and £280m respectively).<br><br>Refer to note 2.3 for further details on the judgements inherent within the impairment assessment on goodwill and acquired intangible assets. | The Committee deemed the impact of COVID-19 and the subsequent ongoing uncertainty for the UK economy to be sufficient to warrant numerous impairment reviews during the year on all acquired intangibles as well as goodwill.<br><br>The Committee reviewed and challenged quarterly impairment reviews performed on goodwill and all the 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 with regard to retail partner performance and the ongoing value of customer relationships derived from retail partners which are now in administration or similar.<br><br>The Committee was satisfied that the impairment charge recognised and reported carrying value of goodwill and acquired intangible assets were appropriate. The Committee was also satisfied the shortening of the useful economic life of certain assets was 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**<br>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.<br><br>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.<br><br>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.<br><br>The Group has recognised an EIR adjustment to loans and advances to customers in respect of interest-free periods of £33m as at 31 December 2020 (2019: £23m).<br><br>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. 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.<br><br>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. |
| **Other provisions including PPI provision**<br>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.<br><br>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.<br><br>Although the FCA's deadline for a customer to raise a complaint directly with a PPI provider, which can be considered by the Financial Ombudsman Service, passed in August 2019 the Group still incurs PPI-related costs primarily on claims processed by third parties. As at 31 December 2020, the Group reported a PPI provision of £5m (2019: £10m).<br><br>Refer to note 2.3 for further details on the judgements inherent within the PPI provision.<br><br>In 2020, the Group concluded a review of a specific non-customer related regulatory incident and a provision is no longer required (2019: £5m).<br><br>As at 31 December 2020, including the PPI provision, the Group reported provisions totalling £11m (2019: £21m). Refer to note 21 for further details. | The Committee has understood the basis for determining the other provisions and, where relevant, has reviewed legal and accounting guidance in determining the appropriate amount of provision.<br><br>Having reviewed the information available to determine what was both probable and could be reliably estimated, the Committee agreed that the level of provision at the year end was appropriate. |

# 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 twelve months from the date of approval of the Financial Statements and confirmed to the Board that it was appropriate for the Group's 2020 Financial Statements to be prepared on a going concern basis.

### Assessment of fair, balanced and understandable reporting

The Committee provided robust challenge to the integrity and accuracy of the 2020 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 2020 as well as ensuring there was equal prominence given to relevant statutory and adjusted measures.

## Internal audit

Our 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 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.

We monitored progress and delivery against the 2020 internal audit plan throughout the year, including assessing the scope of work performed, and evaluating coverage of the internal audit plan and the level of resources and training of the internal audit function.

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

- enterprise risk management;
- telephony operations including identified vulnerable customers;
- governance of end-user developed applications;
- IT general controls;
- customer credit acceptance including affordability;
- third party supplier management and supplier payment processes;
- liquidity management including cash management;
- collections management including identified vulnerable customers;
- customer complaints identification and outcomes;
- technology – data protection and data security; and
- credit bureau usage and reporting.

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

Having reflected on the achievements of the 2020 internal audit plan, the Committee endorsed the internal audit plan for 2021 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 Deloitte.

## External audit

The Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor. KPMG LLP is the auditor of the Group and had been the auditor of the Predecessor Group 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. We have 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 we reviewed the findings of the external audit including key judgements and the level of challenge provided. We assess the performance of the external auditor on an ongoing basis, including their ability to adapt to a fully remote audit as a result of COVID-19, to ensure we are 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 us.

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 2021.

**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 2020, 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 2020, the Committee provided oversight of the Group's risk management framework and ensured that our risk profile is aligned to the risk appetite set by the Board. The Committee managed the agenda to cover the risks we are facing, including our COVID-19 response and impacts, our credit risk profile, payment deferral and customer outcomes, cyber security, IR35 and funding and liquidity

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

## Chair's overview

2020 was a challenging year dominated by unprecedented levels of uncertainty and change driven by COVID-19.

Much of our time this year was focused on the mitigation of emerging risks related to the impact of COVID-19 on the macroeconomic environment, credit risk, customer outcomes, funding availability and the operational challenges of the rapid shift to home working.

The effectiveness of the risk management framework was monitored throughout the year to ensure the principal and emerging risks are identified and appropriately managed within the parameters of the Board's agreed risk appetite. The Board performed a mid-year review of risk appetite in light of the rapidly changing external environment.

The Committee reflected carefully on the various cyber attacks that impacted other market participants and in light of those attacks we reflected on the resilience of our cyber defence and the protection offered to our customer data. Finally, the business made significant strides forward in the year, implementing new credit model building techniques and source data sets to drive our credit decisioning which the Committee discussed with the Chief Credit and Collections Officer.

We continue to manage our regulatory requirements whilst monitoring the horizon for emerging regulatory risks. During 2020, the business deployed changes relating to the FCA's COVID-19 payment deferral guidance. In line with this guidance, we have offered payment relief interventions such as payment holidays and payment freezes to customers experiencing temporary financial difficulties as a result of COVID-19. We have continued to monitor regulatory developments and evolving guidance, including the FCA's subsequent extensions of support packages to March 2021 and additional guidance issued by the FCA in September 2020.

In addition, 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 has overseen the maturation of the three lines of defence 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 and 61) 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 a number of times 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 function;
- 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 2020

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

- reviewed the risk management framework and associated policy to ensure it remained appropriate and fit for purpose for NewDay;
- considered the effectiveness of both the risk management framework and the Board Risk Committee, and reviewed the structure and resource of the Enterprise Risk function which resulted in an internal restructure of resources;
- reviewed and challenged the proposed risk appetite statements and metrics, to ensure they were in line with our strategic objectives, and subsequently renewed them at the half-year in light of the emerging impact of COVID-19;
- reviewed and challenged the risk profile of the business using the principal risk radar and focus on the management of risks and issues within the business (in particular credit risk);
- provided oversight and ongoing challenge to management's approach to managing credit risk alongside customer outcomes, particularly in relation to the changes put in place as a result of COVID-19 lockdowns and macroeconomic impacts;
- reviewed and approved plans within our underwriting to reduce exposure to high risk and marginal accounts, and to respond to both our customers' needs and the regulator in terms of providing access to payment freezes and payment holidays in light of COVID-19;
- regularly assessed performance against risk appetite, and monitored any breaches or trends towards breaches, challenging management to deliver action plans to improve when appropriate;
- assessed management plans to maintain liquidity and access to funding in the short and medium term both in light of COVID-19's impact on funding markets and our own receivables and cash position;
- provided oversight of the regulatory horizon and management response to regulation and legislation, including customer outcomes in relation to the new payment deferrals regime, and in respect of vulnerable customers and customers in persistent debt;
- reviewed and challenged new product approvals to ensure that proposals were in line with NewDay aims;
- challenged management on delivery risk in relation to major projects and programmes, including our new collections platform, improved data and modelling capabilities on credit risk, and information security and data governance; and
- considered updates in relation to other matters during the year to understand management's plans, for example our response to IR35.

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

# Board Remuneration and Nomination Committee

## In 2020, the Committee reviewed and agreed the Group's remuneration policy and other people-related policies and matters – setting the overall direction of employee remuneration and people practices

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

### Chair's overview

The Board Remuneration and Nomination Committee's main roles and responsibilities are set out in its terms of reference which are reviewed regularly. Responsibilities include supporting the Chair in reviewing and recommending changes to the composition of the Board and its various committees.

The Committee also plays a role in reviewing and confirming changes to the composition of the Management Committee and senior management teams, helping ensure that they have the appropriate mix of experience, expertise and diversity needed to lead the Group.

Finally, the Committee oversees our remuneration policy and other people-related policies and matters. It also reviews business performance targets which, once approved by the Board, are used to finalise annual bonuses and remuneration awards. A balanced scorecard of metrics is discussed annually and recommended to the Board for approval, ensuring that rewards reflect achievement against a broad range of performance and risk-related goals, helping to ensure the long-term health and success of our business.

In 2020, the Committee reviewed and agreed the remuneration policy and other people related policies and matters – setting the overall direction of employee remuneration and people practices. This included a revised approach to salary reviews and variable pay for employees for 2020 in light of the business challenges and the impact on Company performance caused by COVID-19.

### 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 61) 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 as Secretary.

## 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 approval of the Board, candidates for appointment to the Board and reviewing the process undertaken in relation to such appointments; and
- recommending for the approval of the Board, suitable candidates for the role of Senior Independent Non-Executive Director, membership of each Committee of the Board and matters relating to the continuation in office of any Director.

## Key activities of the Board Remuneration and Nomination Committee in 2020

During the year the Committee delivered the following key outcomes:

- reviewed and evaluated management performance in 2019;
- recommended performance objectives for 2020 to the Board for approval;
- reviewed and updated the remuneration policy; and
- reviewed and approved a number of senior appointments and associated compensation.

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

# Directors' report

## The Directors of the Company present their Annual Report and Financial Statements for the year ended 31 December 2020

### Group business review and results
The Group's business model is outlined on page 10 and the KPIs and financial review on pages 30 to 39 contain highlights of the financial performance and capital structure for the year. The Group reported a loss before tax from continuing operations for the year ended 31 December 2020 of £129m. A reconciliation of the statutory profit to adjusted EBITDA, referred to throughout the Strategic Report, is provided on page 33.

The Chief Executive Officer's review on page 14 and the strategic priorities on page 26 provide details of future business developments.

We do not propose the payment of a dividend for the year ended 31 December 2020.

### Principal risks and management
The principal risks and management thereof are described on pages 53 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 30 to 39 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 the impact of COVID-19 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 customer receivables as well as fund future growth. During the year, we raised £754m of funding from our securitisation programmes and we aim to refinance all maturing debt within the next twelve 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 (with the exception of £244m bonds within our Co-brand programme expiring in April 2021 which the Group has already extended). As at 31 December 2020, we reported a cash balance of £521m (£277m excluding funding overlaps).

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 twelve months following the approval of the Financial Statements. Whilst the UK's economic outlook as a result of COVID-19 remains uncertain, we have considered the impact to the Group including conducting severely stressed but plausible scenario analysis of the potential impact of COVID-19 on profitability and the capital markets and assessing our ability to refinance in such a scenario. 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 twelve 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 these resources. For further details see page 42.

### 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 40.

### 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;
- Carl Hansen (appointed on 4 May 2020);
- Keith Mallet;
- Daryl Pilcher; and
- James Culshaw (resigned on 4 May 2020).

Keith Mallet and Daryl Pilcher are alternate Directors to Grant Collins.

## 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 EU.

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 auditor accepts no responsibility for any changes that may have occurred to the Financial Statements or the audit report since 10 March 2021. The auditor has carried out no procedures of any nature subsequent to 10 March 2021 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

10 March 2021

# Independent auditor's report

to the members of NewDay Group (Jersey) Limited

## Opinion

We have audited the Financial Statements of NewDay Group (Jersey) Ltd ('the Company') for the year ended 31 December 2020 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 as adopted by the EU, of the state of the Group's and parent Company's affairs as at 31 December 2020 and of the Group's and 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 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 usual 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 goodwill and acquired intangibles. We also identified a fraud risk related to estimation of expected credit losses ('ECL'), valuation of the Co-brand cash generating unit ('CGU') goodwill 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;
- 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;
- challenging the cash flow estimates used in the value in use calculation which supports the carrying value of the Co-brand CGU goodwill by reference to the Group's historical performance, its budget, and potential retention of retail partners; and
- challenging the assumptions and cash flow estimates used in the value in use calculation which supports the carrying value of the acquired intangibles by reference to the Group's historical performance and a range of severe but plausible scenarios (including an accelerated run-off of the loan receivables related to the Co-brand CGU).

### 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.

S. Ryder

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

10 March 2021

# Income statements and statements of comprehensive income

| | Note | Group Year ended 31 December 2020 £m | Group Year ended 31 December 2019 restated[1] £m | Company Year ended 31 December 2020 £m | Company Year ended 31 December 2019 £m |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Interest and similar income | 5 | 654.6 | 659.8 | 68.5 | 47.4 |
| Interest and similar expense | 6 | (95.3) | (98.0) | (34.2) | (33.9) |
| **Net interest income** | | **559.3** | **561.8** | **34.3** | **13.5** |
| Fee and commission income | 7 | 68.8 | 94.4 | – | – |
| Impairment losses on loans and advances to customers | 12 | (449.6) | (303.9) | – | – |
| **Risk-adjusted income** | | **178.5** | **352.3** | **34.3** | **13.5** |
| Personnel expense | 8 | (87.4) | (89.9) | – | – |
| Other operating expenses | 9 | (220.0) | (207.8) | (0.4) | (0.2) |
| **Total operating expenses** | | **(307.4)** | **(297.7)** | **(0.4)** | **(0.2)** |
| **(Loss)/profit before tax from continuing operations** | | **(128.9)** | **54.6** | **33.9** | **13.3** |
| Tax income/(expense) | 10 | 4.8 | (9.9) | – | – |
| **(Loss)/profit after tax from continuing operations** | | **(124.1)** | **44.7** | **33.9** | **13.3** |
| **Discontinued operation** | | | | | |
| Loss after tax from discontinued operation | 4 | (4.5) | (4.7) | – | – |
| **(Loss)/profit after tax** | | **(128.6)** | **40.0** | **33.9** | **13.3** |
| **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 | | (10.4) | (17.4) | – | – |
| Net income statement transfer from hedging reserve | | 13.3 | 13.8 | – | – |
| **Other comprehensive income/(expense)** | | **2.9** | **(3.6)** | **–** | **–** |
| **Total comprehensive (expense)/income** | | **(125.7)** | **36.4** | **33.9** | **13.3** |

1 In 2020, the Group's Unsecured Personal Loans (UPL) business was held for sale and subsequently classified as a discontinued operation. Accordingly, the comparative information has been restated to show the UPL business as a discontinued operation, see note 4 for further details.

The notes on pages 84 to 120 form an integral part of these statutory Financial Statements.

# Balance sheets

| | Note | Group 31 December 2020 £m | Group 31 December 2019 £m | Company 31 December 2020 £m | Company 31 December 2019 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans and advances to banks | 11 | 584.6 | 205.7 | 47.1 | 25.6 |
| Loans and advances to customers | 12 | 2,404.2 | 2,709.8 | – | – |
| Other assets | 13 | 50.8 | 56.6 | 573.2 | 538.6 |
| Current tax assets | | 1.8 | 0.7 | – | – |
| Deferred tax assets | | 2.1 | 0.4 | – | – |
| Property and equipment | 15 | 19.8 | 22.3 | – | – |
| Intangible assets | 16 | 210.4 | 266.2 | – | – |
| Investment in subsidiaries | 17 | – | – | 511.4 | 511.4 |
| Goodwill | 18 | 279.9 | 279.9 | – | – |
| Loans and advances to customers held for sale | 4 | 69.2 | – | – | – |
| **Total assets** | | **3,622.8** | **3,541.6** | **1,131.7** | **1,075.6** |
| **Liabilities** | | | | | |
| Debt issued and other borrowed funds | 19 | 3,246.8 | 3,020.5 | 458.0 | 425.6 |
| Other liabilities | 20 | 77.8 | 82.8 | 0.1 | – |
| Derivative financial liabilities | 14 | 27.5 | 17.0 | – | – |
| Current tax liabilities | | 0.1 | 4.9 | – | – |
| Provisions | 21 | 11.1 | 20.9 | – | – |
| **Total liabilities** | | **3,363.3** | **3,146.1** | **458.1** | **425.6** |
| **Net assets** | | **259.5** | **395.5** | **673.6** | **650.0** |
| **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 | 20.2 | 30.5 | 20.2 | 30.5 |
| Hedging reserve | 22 | (2.1) | (5.0) | – | – |
| Retained (losses)/profits | 22 | (352.5) | (223.9) | 59.5 | 25.6 |
| **Total equity** | | **259.5** | **395.5** | **673.6** | **650.0** |

The notes on pages 84 to 120 form an integral part of these statutory Financial Statements.

The Financial Statements on pages 80 to 120 were approved and authorised for issue by the Board of Directors on 10 March 2021 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 2019** | **–** | **593.9** | **30.5** | **(1.4)** | **(263.2)** | **359.8** |
| Adjustment on initial application of IFRS 16 | – | – | – | – | (0.7) | (0.7) |
| **Adjusted balance as at 1 January 2019** | **–** | **593.9** | **30.5** | **(1.4)** | **(263.9)** | **359.1** |
| Total comprehensive income/(expense) for the year: | | | | | | |
| Profit after tax | – | – | – | – | 40.0 | 40.0 |
| Other comprehensive expense | – | – | – | (3.6) | – | (3.6) |
| **As at 31 December 2019** | **–** | **593.9** | **30.5** | **(5.0)** | **(223.9)** | **395.5** |
| Return paid on loan from immediate parent company[1] | – | – | (10.3) | – | – | (10.3) |
| Total comprehensive (expense)/income for the year: | | | | | | |
| Loss after tax | – | – | – | – | (128.6) | (128.6) |
| Other comprehensive income | – | – | – | 2.9 | – | 2.9 |
| **As at 31 December 2020** | **–** | **593.9** | **20.2** | **(2.1)** | **(352.5)** | **259.5** |

| Company | Share capital and share premium £m | Equity instruments £m | Capital contribution £m | Retained profits £m | Total equity £m |
|---|---|---|---|---|---|
| **As at 1 January 2019** | **–** | **593.9** | **30.5** | **12.3** | **636.7** |
| Total comprehensive income for the year: | | | | | |
| Profit after tax | – | – | – | 13.3 | 13.3 |
| **As at 31 December 2019** | **–** | **593.9** | **30.5** | **25.6** | **650.0** |
| Return paid on loan from immediate parent company[1] | – | – | (10.3) | – | (10.3) |
| Total comprehensive income for the year: | | | | | |
| Profit after tax | – | – | – | 33.9 | 33.9 |
| **As at 31 December 2020** | **–** | **593.9** | **20.2** | **59.5** | **673.6** |

1 The Group (and Company) paid a return of £10.3m to Nemean MidCo Limited, its immediate parent, which was used by Nemean MidCo Limited to fund its acquisition of a controlling stake in Pay4Later Limited (which trades under the name Deko). 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 120 form an integral part of these statutory Financial Statements.

# Statements of cash flows

| | Note | Group Year ended 31 December 2020 £m | Group Year ended 31 December 2019 restated[1] £m | Company Year ended 31 December 2020 £m | Company Year ended 31 December 2019 £m |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| (Loss)/profit after tax | | (128.6) | 40.0 | 33.9 | 13.3 |
| Reconciliation of (loss)/profit after tax to net cash generated from/(used in) operating activities: | | | | | |
| Tax (credit)/expense | 10 | (4.8) | 9.9 | – | – |
| Interest and similar expense | 6 | 95.3 | 98.0 | 34.2 | 33.9 |
| Interest and similar expense from discontinued operation | 4 | 2.3 | 3.0 | – | – |
| Depreciation of property and equipment | 15 | 5.4 | 5.0 | – | – |
| Charge on disposal of property and equipment | 15 | 0.2 | – | – | – |
| Amortisation and impairment of intangible assets | 16 | 58.0 | 55.3 | – | – |
| Impairment and charge on disposal of intangible assets | 16 | 6.2 | – | – | – |
| Impairment and charge on disposal of intangible assets from discontinued operation | 4 | 0.5 | – | – | – |
| Impairment losses on loans and advances to customers | 12 | 449.6 | 303.9 | – | – |
| Impairment losses on loans and advances to customers from discontinued operation | 4 | 16.4 | 14.6 | – | – |
| Changes in operating assets and liabilities: | | | | | |
| Increase in restricted cash | | (10.1) | (3.6) | – | – |
| Increase in loans and advances to customers including those held for sale | | (229.6) | (725.0) | – | – |
| Decrease/(increase) in other assets | | 5.8 | 1.4 | (34.6) | 9.3 |
| (Decrease)/increase in other liabilities | | (2.4) | (20.5) | 0.1 | (0.1) |
| Decrease in provisions | | (6.8) | (12.0) | – | – |
| Interest and similar expense paid | | (91.0) | (95.8) | (31.8) | (31.7) |
| Tax paid | | (6.3) | (10.0) | – | – |
| **Net cash generated from/(used in) operating activities** | | **160.1** | **(335.8)** | **1.8** | **24.7** |
| **Cash flows from investing activities** | | | | | |
| Purchases of property and equipment | 15 | (2.7) | (2.0) | – | – |
| Investment in intangible assets | 16 | (8.9) | (7.6) | – | – |
| **Net cash used in investing activities** | | **(11.6)** | **(9.6)** | **–** | **–** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from debt issued and other borrowed funds | 19 | 1,012.5 | 1,035.0 | 30.0 | – |
| Repayment of debt issued and other borrowed funds | 19 | (778.6) | (668.0) | – | – |
| Payment of principal element of lease liabilities | | (3.3) | (3.5) | – | – |
| Return paid on loan from immediate parent company | | (10.3) | – | (10.3) | – |
| **Net cash generated from financing activities** | | **220.3** | **363.5** | **19.7** | **–** |
| Net increase in cash and cash equivalents | | 368.8 | 18.1 | 21.5 | 24.7 |
| Cash and cash equivalents at the start of the year | | 152.1 | 134.0 | 25.6 | 0.9 |
| **Cash and cash equivalents at the end of the year** | 11 | **520.9** | **152.1** | **47.1** | **25.6** |

1 See footnote 1 on page 80.

The notes on pages 84 to 120 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 European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

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 2020 were approved by the Board of Directors on 10 March 2021.

### Going concern
As at 10 March 2021, the Group has the following debt maturing in the next twelve months:
- £723.6m (including £354.1m through cross-currency interest rate swaps) and £244.3m of asset-backed term debt principal within the Own-brand and Co-brand securitisation programmes respectively; and
- £106.5m and £21.5m of principal drawn from variable funding notes (VFNs), on commitments totalling £325.0m and £175.0m, within the Own-brand and Co-brand securitisation programmes respectively.

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 and 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, with the exception of £244.3m of debt due to mature in April 2021 within the Co-brand programme in respect of which the Group has already exercised such right. In October 2020, the Group raised £331.5m of cash from the issuance of asset-backed term debt in the Co-brand securitisation programme. It is the Directors' intention to use this cash to settle the debt due to mature in April 2021. In February 2021, the Group raised £362.4m of cash from the issuance of asset-backed term debt in the Own-brand securitisation programme. It is the Directors' intention to use this cash to settle £281.4m of debt due to mature in August 2021. As at 10 March 2021, the Group has undrawn principal on VFNs of £324.7m and £386.7m within the Own-brand and Co-brand securitisations programmes, respectively, with a maturity in excess of twelve months which can be used to fund future growth and refinance maturing debt (subject to sufficient headroom).

Following the decision to close the UPL portfolio to new lending, an optional amortisation for the UPL VFN was agreed with the lender on 30 June 2020. Following this, the facility commenced paying down over time as the underlying loans and advances to customers were collected and the original scheduled maturity date in February 2021 is therefore no longer applicable. In February 2021, the Group agreed to sell its UPL loans and advances to customers to a third party. The cash received from this sale was used to settle the UPL VFN outstanding balance in full on 17 February 2021.

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 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.

Based on the assumptions contained therein, the stress scenarios predict that in a severe but plausible downturn (which assumes a peak unemployment rate of 10.5%) where there is no ability to raise new financing, the Group could continue to operate with the financing available under its existing facilities and covenants (with mitigating management intervention if necessary), and in the event that there is limited headroom on the Group's financing, the Directors also have the ability to alter the Group's growth plans to maintain adequate headroom.

The Directors also considered the impact of Brexit and the COVID-19 pandemic on the Group including conducting scenario analysis of the potential impact on profitability and the capital markets and assessing the Group's ability to refinance in this scenario. Considering the scenario analysis and the Group's current funding position, the Directors are satisfied that the Group and the Company have the resources necessary to continue in business for a period of at least twelve months after the approval of the Financial Statements and are of the opinion that the Group and the Company continue to be a going concern. Therefore, the Financial Statements have been 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 (with the exception of loans and advances to customers held for sale). 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 2020. 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, with the exception of NewDay Funding 2019-2 Plc and NewDay Partnership Funding 2020-1 Plc which have elected to apply long periods of account for their first Financial Statements, from 12 July 2019 and 3 December 2019 respectively to 31 December 2020 and NewDay Funding Master Issuer Plc which was incorporated on 5 May 2020 with a first reporting period to 31 December 2020.

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 assets meet the hedge accounting requirements of IFRS 9, which the Group has elected to apply, and are classified as FVOCI.

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.

Financial liabilities are held either as fair value or amortised cost depending on the nature of the underlying instrument.

*(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 as detailed in note 11.

*(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.

# Notes to the Financial Statements continued

## 2. Accounting policies continued

### 2.2 Summary of significant accounting policies continued

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.

### (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; 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 (in the case of payment freezes they are arrangement solutions mandated by the FCA). 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. As at 31 December 2020, the Group reported a £54.7m asset (2% of loans and advances to customers), in line with the requirements of IFRS 9, for the incremental and directly attributable transaction costs deferred through the EIR method (31 December 2019: £51.8m). 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 fees or 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.

In 2020, and in response to the COVID-19 pandemic, the Group has extended additional 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 2020, the total loans and advances to customers (including UPL balances held for sale) that were on a payment holiday was £75.2m (with a further £32.5m on a payment freeze). In the year ended 31 December 2020, the Group reported a loss on modification of £21.2m (2019: £nil) on balances totalling £397.5m at the point of modification. £14.7m has been recorded within interest and similar income and £6.5m within impairment losses on loans and advances to customers (reflecting the amount arising on modifications resulting from financial difficulties of the customer).

### *(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 store and credit card 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 card 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 year 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 other fees received which includes insurance commission and profit shares along with merchant transaction fee commission.

### *(iii) Customer cashback programmes*

On some of the Group's credit card products customers earn cashback on qualifying card spend through cashback programmes. Expenses incurred in relation to these programmes are accrued within fee and commission income in the income statement when the relevant card spend is incurred on the customers' accounts.

# Notes to the Financial Statements continued

## 2. Accounting policies continued

### 2.2 Summary of significant accounting policies continued

*(iv) Loyalty programmes*

Loyalty points and vouchers costs 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 are 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 cross-currency interest rate swaps, to manage the interest rate and foreign exchange rate risks arising from the Group's foreign currency denominated 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.

### (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 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.

# Notes to the Financial Statements continued

## 2. Accounting policies continued
### 2.2 Summary of significant accounting policies continued
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 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. As detailed in note 2.3, as a result of the challenging conditions of the UK high street, the Group performed a review of its useful economic lives in the year and revised down the estimated useful economic lives of its acquired customer and retail partner relationships in its Co-brand portfolio from between 12 and 13 years to between 6 and 8 years.

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.

See note 2.3 for further details of the significant accounting judgements, estimates and assumptions that affect certain provisions.

### (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 declared and are therefore 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.

In 2020, following a strategic review of the Group's operations, the Group closed its UPL portfolio to new lending and subsequently put in place plans to sell the outstanding loans and advances to customers. Subsequently, in February 2021, the Group sold the loans and advances to customers held for sale to a third party. Consequently, the results of the UPL portfolio are presented in the Group's Financial Statements as a discontinued operation and the prior year comparatives have been restated to reflect this.

## 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:

### ECL on loans and advances to customers (including those held for sale)
The following judgements, estimates and assumptions are made in determining the Group's ECL under the requirements of IFRS 9:

# Notes to the Financial Statements continued

## 2. Accounting policies continued

### 2.3 Significant accounting judgements, estimates and assumptions continued

*(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 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 2020 £m | 31 December 2019 £m |
|---|---|---|
| +/-5% relative change in the PD | +/-19.0 | +/-13.4 |
| +/-1 pence movement per pound of receivable on recoveries assumed in the LGD | -/+3.4 | -/+3.0 |

*(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 would therefore be moved to 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; 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 is moved back to stage 1 when it no longer meets these criteria for a period of three consecutive months.

Following the outbreak of the COVID-19 pandemic and the subsequent FCA guidance, the Group has extended additional short-term arrangements, being payment holidays and payment freezes, to customers which temporarily suspends the requirement for them to make their contractual monthly payment. With the exception of purchased or originated credit impaired accounts, accounts that are on their first payment holiday or payment freeze or have finished one within the last three months and are currently up-to-date are reported in stage 2 for the purposes of impairment provisioning unless they are in default (and are therefore reported in stage 3). As at 31 December 2020, the Group reported £43.6m of loans and advances to customers (including those held for sale) in stage 2 due to them being on a first payment holiday or payment freeze and £52.3m in stage 2 for those accounts that have finished one within the last three months and are currently up-to-date. Both these amounts are adjustments over and above the underlying modelled ECL staging for such accounts.

As at 31 December 2020, 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 £2.3m reduction or £3.5m increase in the Group's ECL allowance respectively (31 December 2019: £2.5m reduction or £3.7m increase).

*(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 (excluding payment holidays and payment freezes extended in 2020 which are classified separately depending on whether they are on a first or second arrangement).

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 twelve consecutive months for accounts that were in default through forbearance measures, it transitions out of stage 3.

Additionally, accounts that have taken a second payment holiday or payment freeze following the COVID-19 pandemic are deemed to be credit-impaired and are therefore reported in stage 3. As at 31 December 2020, the Group reported £42.7m of loans and advances to customers (including those held for sale) in stage 3 due to them being on a second payment holiday or payment freeze.

*(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 2020, 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 all based on a panel of external forecasts taken from HM Treasury. 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.

| Group | UK unemployment rate forecast over five-year outlook period % | | | ECL allowance assuming 100% probability weighting £m | Probability weighting used in reported ECL allowance % |
|---|---|---|---|---|---|
| | Peak | Minimum | Average | | |
| **31 December 2020** | | | | | |
| Upside | 6.9 | 3.8 | 4.9 | 490.0 | 5 |
| Base | 8.6 | 4.6 | 6.0 | 541.1 | 60 |
| Downside 1 | 10.2 | 5.5 | 7.1 | 590.5 | 30 |
| Downside 2 | 12.7 | 5.5 | 8.0 | 680.0 | 5 |
| **31 December 2019** | | | | | |
| Upside | 3.8 | 3.6 | 3.7 | 384.7 | 9 |
| Base | 4.2 | 3.8 | 4.1 | 399.8 | 59 |
| Downside 1 | 5.4 | 3.8 | 5.0 | 428.1 | 24 |
| Downside 2 | 6.7 | 3.8 | 6.0 | 473.0 | 8 |

As at 31 December 2020, the unemployment rate is the sole forward-looking economic variable used in the Group's provisioning model. As at 31 December 2019, the gross domestic product (GDP) growth rate was also used in the Group's ECL provisioning model (specifically for its Co-brand loans and advances to customers), however this is no longer used and the Group moved to a single factor model as this is deemed more accurate based on the movements seen in 2020. A summary of the assumptions in each scenario is as follows:

- the upside scenario assumes a shock to the economy as a result of the third UK-wide lockdown with the unemployment rate peaking at 6.9% in June 2021 for two months. The scenario assumes a successful rollout of COVID-19 vaccination programmes and a smooth transition to new post-Brexit trade deals. From this peak, the rate gradually recovers to 3.8% by the end of 2024 where it remains throughout 2025, which represents a return to pre-pandemic levels;
- the base scenario assumes a lasting shock to the UK economy as a result of the third UK-wide lockdown. The unemployment rate is forecast to peak at 8.6% in June 2021 for two months as the Government starts unwinding the furlough scheme. From this peak, the rate gradually recovers to 4.6% by the end of 2024 where it remains throughout 2025, still not reaching pre-pandemic levels;
- the downside 1 scenario assumes a significant shock to the economy with it taking longer to recover. Some sectors of the economy are assumed to be adversely affected by the post-Brexit trading environment, COVID-19 and lockdowns. The peak unemployment rate of 10.2% is reached in June 2021 for two months and recovers to 5.5% at the end of 2024 where it remains throughout 2025; and
- the downside 2 scenario assumes a significant shock to the economy which takes longer to recover. The unemployment rate peaks at 12.7% in June 2021 for two months and, after the Government furlough retention incentive expires, the rate remains elevated for a longer period and falls to 5.5% at the end of 2024, where it remains throughout 2025. Businesses are assumed to struggle with ongoing COVID-19 related restrictions and a challenging post-Brexit trading environment.

As at 31 December 2020, the impact of weighting these scenarios and overlaying other forward-looking information increased the ECL allowance on loans and advances to customers by £22.2m compared to the base scenario ECL allowance (31 December 2019: £24.9m).

*(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. As at 31 December 2020, the reported PMAs were:

- a £24.5m uplift in ECL allowance (2019: £nil) for the anticipated additional losses expected to be incurred on accounts that finished a payment holiday or payment freeze within the last three months and were up-to-date as at 31 December 2020. The ECL uplift is calculated by reference to the incremental ECL required on such accounts had higher ECL rates been used, such as the stage 2 or stage 3 ECL rates or a blend of both;
- a £24.6m uplift in ECL allowance (2019: £14m) for the impact of forward-looking information on ECL. As at 31 December 2020, the Group used its Own-brand model for considering the impact of changes in forward-looking information on ECL as a proxy for use on its Co-brand and UPL loans and advances to customers. The primary reason for this was the existing Co-brand model, which used both the GDP growth rate and unemployment rate, was outputting ECL results that were not consistent with the deteriorating UK economic outlook;
- a £11.0m uplift in ECL allowance (2019: £nil) to reflect the industry wide trend of increasing insolvency related credit losses over recent years;
- a £14.0m uplift in ECL allowance (2019: £nil) to adjust for the temporary improvement in customer behavioural scores during the COVID-19 pandemic. This has resulted in less accounts transitioning to stage 2 than would normally be expected and the PMA adjusts for this; and
- a £6.8m uplift in ECL allowance (2019: £0.8m) as a result of an annual model validation identifying exposures primarily in the modelled PD, EAD and LGD rates that were not sufficiently captured by the model methodology.

# Notes to the Financial Statements continued

## 2. Accounting policies continued
## 2.3 Significant accounting judgements, estimates and assumptions continued
### 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 during the interest-free promotional period.

As at 31 December 2020, the Group reported an EIR adjustment to loans and advances to customers in respect of interest-free periods of £33.2m (31 December 2019: £23.4m). Net interest and similar income recognised in relation to the interest-free promotional periods totalled £9.7m, or 1% of interest and similar income for the year ended 31 December 2020 (2019: £9.3m or 1%).

If the estimated cash flows used in the EIR model for interest-free promotional periods changed by +/-5% the EIR adjustment to loans and advances to customers would increase/decrease by £1.3m/£1.3m.

### 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.

In 2020, the Group performed an 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:
- 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; and
- the discount rate which has been estimated based on the cost of equity relevant to each cash-generating unit, being 11% (2019: 11%).

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, especially due to the uncertainty driven by the COVID-19 pandemic. 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 2020, the Group reported a goodwill carrying value of £279.9m (31 December 2019: £279.9m) and no impairment charge in the year (2019: £nil). If the discount rate was to increase by 10%, from 11% to 12%, 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 11% cost of equity rate, was 12% (2019: 12%).

As at 31 December 2020, the reported carrying value of the Group's acquired intangible assets was £191.2m (31 December 2019: £250.0m). 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. The Group has reviewed all available information that may indicate impairment of its acquired intangible assets and, as a result of the COVID-19 pandemic, has performed a value in use assessment on all its acquired intangible assets. The assessments calculated the value in use of the intangible assets by reference to the present value of expected cash flows from the underlying assets and concluded that a £5.5m impairment charge was required on the Group's customer and retail partner relationships. £5.0m of this charge is attributable to the Laura Ashley relationship following its administration and £0.5m is attributable to the Group's closed portfolio customer relationships. Although Debenhams and Arcadia entered administration in the year, and some of their assets have since been acquired by other parties in 2021, the Group's customer and retail partner relationship assets with these two retailers is supported by the ongoing cash flows of customer relationships arising from these retailers (specifically interest and fees earned as the portfolio winds down) and consequently no impairment was required.

The key assumptions which have a significant impact on the outcome of the value in use assessments are the same as used in the goodwill annual impairment review, being the cash flow forecasts and the discount rate (being the cost of equity of 11%). The following table details the sensitivity of the impairment charge derived from the value in use assessments to changes in the key assumptions.

| Group<br>As at 31 December 2020 | Acquired customer and retail partner relationships £m | Acquired brand and trade names £m | Acquired intellectual property £m | Total £m |
|---|---|---|---|---|
| 5% reduction in the cash flow forecast | – | – | 1.4 | 1.4 |
| 10% reduction in the cash flow forecast | 0.4 | – | 2.5 | 2.9 |
| 10% increase in the discount rate from 11% to 12% | – | – | 0.7 | 0.7 |

Additionally, as part of the value in use assessments the useful economic lives of the Group's customer and retail partner relationships within its Co-brand portfolio were revised down from between 12 and 13 years to between 6 and 8 years.

See note 16 for further details of the Group's acquired intangible assets.

### Payment protection insurance (PPI)

PPI provisions relate to the Group's obligations 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. As at 31 December 2020, the Group reported a PPI provision of £5.3m (31 December 2019: £9.9m) and the Group uplifted its PPI provision by £7.7m in 2020 (2019: £nil). The uplift primarily reflects updated information received from a third party that the Group's share of redress costs for PPI claims which are processed by the third party was higher than initially estimated. The total cost associated with PPI for the Group since its inception is estimated at £63.5m (2019: £55.8m), out of which £12.3m was remediated in the year ended 31 December 2020 (2019: £15.1m).

As at 31 December 2020, the Group received an enquiry from a third party, with which it is jointly liable for certain PPI-related costs, to contribute an amount in the order of £7.3m to a historic remediation exercise on previously settled claims. The third party has not established a basis for the claim and management deem it unlikely the Group will be required to contribute the amount claimed. The Group has recorded this as a contingent liability.

See note 21 for further details of the PPI provision.

## 2.4 Adoption of new and revised standards

The following new standards, interpretations and amendments to existing standards are mandatory for the first time for the year ended 31 December 2020 but do not have a significant impact on the Group or Company:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8 for the definition of material;
- Amendments to IFRS 3 'Business Combinations'; and
- Amendments to IFRS 9, IAS 39 and IFRS 7 for interest rate benchmark reform.

## 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 IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. The amendments resolve the conflict between the existing guidance on consolidation and equity accounting. The amendments are not expected to have a significant impact on the Group's Financial Statements;
- IFRS 17 'Insurance Contracts'. IFRS 17 replaces IFRS 4 'Insurance Contracts' and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. This standard is not expected to have a significant impact on the Group's Financial Statements; and
- Amendments to IAS 1 'Presentation of Financial Statements'. The amendments provide more guidance on the definition of a current and non-current liability. The amendments are not expected to have a significant impact on the Group's Financial Statements.

## 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 2020, the Group's reportable segments comprise Own-brand and Co-brand, which are the segments reported to the chief operating decision maker, which is deemed to be the Chief Executive Officer and the Management Committee. Both segments offer different products and services and are managed in line with the Group's management and internal reporting structure. The segments are as follows:

- Own-brand: this segment serves near-prime customers who are typically new to credit or have a poor or limited credit history. The segment issues credit cards under the *Aqua*, *marbles* and *Fluid* brands and also includes two closed portfolios; and
- Co-brand: this segment provides credit products in partnership with established retail and consumer brands. These products include store cards, co-branded credit cards, and the Group's digital revolving credit product, *NewPay*. In addition, the Group also has a small portfolio of other closed credit cards and point-of-sale finance products.

In March 2020, following a strategic review of the Group's operations, the Group closed its UPL portfolio to new lending and subsequently put in place plans to sell the loans and advances to customers. Subsequently, in February 2021, the Group sold the outstanding loans and advances to customers to a third party. Consequently, the UPL segment is no longer presented as a separate operating segment and is instead presented in the Group's Financial Statements as a discontinued operation.

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.

# Notes to the Financial Statements continued

## 3. Segment information continued

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 2020 | Own-brand £m | Co-brand £m | Total £m |
|---|---|---|---|
| Interest income | 446.1 | 207.3 | 653.4 |
| Cost of funds | (37.4) | (22.8) | (60.2) |
| **Net interest income** | **408.7** | **184.5** | **593.2** |
| Fee and commission income | 27.5 | 16.7 | 44.2 |
| Impairment losses on loans and advances to customers | (348.0) | (98.6) | (446.6) |
| **Risk-adjusted income** | **88.2** | **102.6** | **190.8** |
| Servicing costs | (45.4) | (52.2) | (97.6) |
| Change costs[1] | (23.3) | (15.8) | (39.1) |
| Marketing and partner payments | (11.7) | (35.5) | (47.2) |
| Collection fees | 15.1 | 10.4 | 25.5 |
| **Contribution** | **22.9** | **9.5** | **32.4** |
| Salaries, benefits and overheads | | | (54.0) |
| **Underlying loss before tax** | | | **(21.6)** |
| Add back: depreciation and amortisation | | | 10.1 |
| **Adjusted EBITDA** | | | **(11.5)** |
| Senior Secured Debt interest and related costs | | | (34.1) |
| Fair value unwind | | | 0.7 |
| PPI | | | (7.7) |
| Debenhams asset write-off | | | (7.4) |
| Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition | | | (63.4) |
| Impairment of customer and retail partner relationships intangible assets arising on the Acquisition | | | (5.5) |
| **Loss before tax from continuing operations** | | | **(128.9)** |
| | | | |
| **Gross receivables** | **1,718.2** | **1,126.3** | **2,844.5** |

1 From 2020, the costs related to the Group's Value Creation Plan implementation are presented within change costs as these projects are reaching their conclusion and are no longer monitored separately within the Group's internal reporting.

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 2020 reconciling items | Statutory £m | Fair value unwind £m | Cost recovery fees £m | Senior Secured Debt interest and related costs £m | Other £m | Segmental basis £m |
|---|---|---|---|---|---|---|
| Interest income | 654.6 | (1.1) | – | – | (0.1) | 653.4 |
| Cost of funds | (95.3) | 0.4 | – | 34.1 | 0.6 | (60.2) |
| Fee and commission income | 68.8 | – | (24.6) | – | – | 44.2 |
| Impairment losses on loans and advances to customers | (449.6) | – | – | – | 3.0 | (446.6) |
| **Risk-adjusted income** | **178.5** | **(0.7)** | **(24.6)** | **34.1** | **3.5** | **190.8** |
| Total operating expenses | (307.4) | 0.7 | 24.6 | (34.1) | (3.5) | (319.7) |
| **Loss before tax from continuing operations** | **(128.9)** | **–** | **–** | **–** | **–** | **(128.9)** |

Fair value unwind reflects the amortisation of fair value adjustments on the Group's acquired receivables and debt issued which are excluded from underlying profit on a segmental basis.

Cost recovery fees are presented as a component of collection fees on a segmental basis rather than income.

Senior Secured Debt interest and related costs represents the £34.1m interest and related costs on the £425.0m Senior Secured Debt and £30.0m Revolving Credit Facility, which are excluded from underlying profit on a segmental basis.

Other largely represents a provision for Section 75 claims arising from the Laura Ashley administration, which is presented in servicing costs on a segmental basis rather than impairment losses on loans and advances to customers. Also included is an interest expense arising from the unwind of lease liabilities which is presented in servicing costs and overheads on a segmental basis rather than cost of funds.

The table below presents the Group's performance on a segmental basis for the year ended 31 December 2019 in line with reporting to the chief operating decision maker:

| Year ended 31 December 2019 restated[1] | Own-brand £m | Co-brand £m | Total £m |
|---|---|---|---|
| Interest income | 456.5 | 200.5 | 657.0 |
| Cost of funds | (41.1) | (19.4) | (60.5) |
| **Net interest income** | **415.4** | **181.1** | **596.5** |
| Fee and commission income | 45.1 | 20.8 | 65.9 |
| Impairment losses on loans and advances to customers | (257.1) | (46.2) | (303.3) |
| **Risk-adjusted income** | **203.4** | **155.7** | **359.1** |
| Servicing costs | (43.1) | (50.6) | (93.7) |
| Change costs | (14.2) | (9.6) | (23.8) |
| Value Creation Plan implementation costs | (7.5) | (5.5) | (13.0) |
| Marketing and partner payments | (13.8) | (45.7) | (59.5) |
| Collection fees | 18.6 | 10.6 | 29.2 |
| **Contribution** | **143.4** | **54.9** | **198.3** |
| Salaries, benefits and overheads | | | (58.9) |
| **Underlying profit before tax** | | | **139.4** |
| Add back: depreciation and amortisation | | | 9.0 |
| **Adjusted EBITDA** | | | **148.4** |
| Senior Secured Debt interest and related costs | | | (33.9) |
| Customer refund provision | | | (0.2) |
| Fair value unwind | | | 0.3 |
| Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition | | | (60.0) |
| **Profit before tax** | | | **54.6** |
| **Gross receivables** | **1,752.7** | **1,159.7** | **2,912.4** |

1 See footnote 1 on page 80.

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 2019 reconciling items restated[1] | Statutory £m | Fair value unwind £m | Cost recovery fees £m | Senior Secured Debt interest and related costs £m | Other £m | Segmental basis £m |
|---|---|---|---|---|---|---|
| Interest income | 659.8 | (2.1) | – | – | (0.7) | 657.0 |
| Cost of funds | (98.0) | 1.8 | – | 33.9 | 1.8 | (60.5) |
| Fee and commission income | 94.4 | – | (28.5) | – | – | 65.9 |
| Impairment losses on loans and advances to customers | (303.9) | – | – | – | 0.6 | (303.3) |
| **Risk-adjusted income** | **352.3** | **(0.3)** | **(28.5)** | **33.9** | **1.7** | **359.1** |
| Total operating expenses | (297.7) | 0.3 | 28.5 | (33.9) | (1.7) | (304.5) |
| **Loss before tax from continuing operations** | **54.6** | **–** | **–** | **–** | **–** | **54.6** |

1 See footnote 1 on page 80.

# Notes to the Financial Statements continued

## 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 resulting in a gain on sale from the outstanding loans and advances to customers at the completion date in the order of £3.0m, net of selling costs. The other assets and liabilities of the UPL business were not included within the sale process. 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.

The UPL segment was not previously classified as held for sale or a discontinued operation. The comparative consolidated statement of profit or loss and other comprehensive income has been restated to show the discontinued operation separately from continuing operations.

### a) Results of discontinued operation

| | Note | UPL<br>Year ended 31 December 2020 £m | UPL<br>Year ended 31 December 2019 £m |
|---|---|---|---|
| Interest and similar income | | 18.0 | 16.4 |
| Interest and similar expense | | (2.3) | (3.0) |
| **Net interest income** | | **15.7** | **13.4** |
| Impairment losses on loans and advances to customers | | (16.4) | (14.6) |
| **Risk-adjusted expense** | | **(0.7)** | **(1.2)** |
| Servicing costs | | (2.1) | (1.2) |
| Advertising and marketing costs | | (0.1) | (0.8) |
| Project expenses | | (1.1) | (1.2) |
| Impairment and charge on disposal of intangible assets | | (0.5) | – |
| Amortisation of intangible assets | | – | (0.3) |
| **Total operating expenses** | | **(3.8)** | **(3.5)** |
| **Loss before tax** | | **(4.5)** | **(4.7)** |
| Tax expense | 10 | – | – |
| **Loss after tax from discontinued operation** | | **(4.5)** | **(4.7)** |

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

### b) Cash flows generated from/(used in) discontinued operation

| | UPL<br>Year ended 31 December 2020 £m | UPL<br>Year ended 31 December 2019 £m |
|---|---|---|
| Net cash generated from/(used in) operating activities | 30.4 | (48.9) |
| Net cash (used in)/generated from financing activities | (22.5) | 32.2 |
| **Net cash flows generated from/(used in) discontinued operation** | **7.9** | **(16.7)** |

### c) Loans and advances to customers held for sale

As per the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the UPL loans and advances to customers were classified as held for sale as at 31 December 2020.

Under the requirements of IFRS 5, loans and advances to customers which are held for sale are to be measured as per the requirements of IFRS 9. As at 31 December 2020, under IFRS 9 requirements, the UPL loans and advances to customers were measured at amortised cost.

| | 31 December 2020 £m |
|---|---|
| Gross loans and advances to customers held for sale | 82.3 |
| ECL allowance on loans and advances to customers held for sale | (13.1) |
| **Loans and advances to customers held for sale** | **69.2** |

As per the requirements of IFRS 9, the classification and subsequent measurement of financial assets should change at the start of the next reporting period after the objective of the Group's business model associated with those financial assets changes. Towards the end of 2020, following the Group's decision to actively market and commitment to sell the portfolio, the business model for these financial assets changed from holding them to collect the contractual cash flows (held-to-collect) to selling the asset before maturity to maximise cash flows. Consequently, from 1 January 2021, the financial assets will be measured at FVTPL.

## 5. Interest and similar income

| | Group | | Company | |
|---|---|---|---|---|
| | Year ended 31 December 2020 £m | Year ended 31 December 2019 restated[1] £m | Year ended 31 December 2020 £m | Year ended 31 December 2019 £m |
| Interest income from loans and advances to customers | 654.5 | 658.8 | – | – |
| Interest income from banks | 0.1 | 1.0 | – | – |
| Interest income from loans with Group undertakings | – | – | 47.5 | 47.4 |
| Interest income from Tracking Preferred Equity Certificates | – | – | 21.0 | – |
| **Interest and similar income** | **654.6** | **659.8** | **68.5** | **47.4** |

1 See footnote 1 on page 80.

The Company's interest and similar income consists of interest on a loan note issued by NewDay UK Limited and interest on Tracking Preferred Equity Certificates (TPECs) issued by NewDay Group Holdings S.à r.l..

## 6. Interest and similar expense

| | Group | | Company | |
|---|---|---|---|---|
| | Year ended 31 December 2020 £m | Year ended 31 December 2019 restated[1] £m | Year ended 31 December 2020 £m | Year ended 31 December 2019 £m |
| Interest expense on debt issued and other borrowed funds | 94.3 | 94.9 | 3.3 | 2.5 |
| Interest expense on amounts owed to Group undertakings | – | – | 30.9 | 31.4 |
| Fair value unwind | 0.3 | 1.9 | – | – |
| Other | 0.7 | 1.2 | – | – |
| **Interest and similar expense** | **95.3** | **98.0** | **34.2** | **33.9** |

1 See footnote 1 on page 80.

Other includes £0.6m of cost which represents the interest expense arising from the unwind of lease liabilities (2019: £0.9m).

# Notes to the Financial Statements continued

## 7. Fee and commission income

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 December 2020 £m** | Year ended 31 December 2019 £m | **Year ended 31 December 2020 £m** | Year ended 31 December 2019 £m |
| Card fees | 55.9 | 77.5 | – | – |
| Interchange fees | 13.4 | 14.6 | – | – |
| Other income | (0.5) | 2.3 | – | – |
| **Fee and commission income** | **68.8** | **94.4** | **–** | **–** |

Other income primarily relates to income, net of costs, earned from using Mastercard's transaction processing network. In 2020, due to lower customer card activity during COVID-19, the costs were higher than the income.

## 8. Personnel expense

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 December 2020 £m** | Year ended 31 December 2019 £m | **Year ended 31 December 2020 £m** | Year ended 31 December 2019 £m |
| Wages and salaries | 70.4 | 73.1 | – | – |
| Social security costs | 6.8 | 7.0 | – | – |
| Pension contributions | 5.2 | 4.5 | – | – |
| Other staff costs | 5.0 | 5.3 | – | – |
| **Personnel expense** | **87.4** | **89.9** | **–** | **–** |
| Average number of full time equivalent employees | 1,141 | 1,126 | – | – |
| Number of full time equivalent employees as at 31 December | 1,085 | 1,119 | – | – |

In 2020, the Group incurred £20.0m of project-related personnel expenses (2019: £18.4m).

The Company has no employees (2019: none). No Directors' remuneration was paid by the Company during the year (2019: £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 2020 £m** | Year ended 31 December 2019 restated[1] £m | **Year ended 31 December 2020 £m** | Year ended 31 December 2019 £m |
| Servicing costs | 55.8 | 58.4 | – | – |
| Commission to retailers, advertising and marketing costs | 48.2 | 49.6 | – | – |
| Administrative costs | 10.1 | 11.4 | 0.4 | 0.2 |
| IT and communications | 13.4 | 10.8 | – | – |
| Professional fees | 3.4 | 3.7 | – | – |
| Project expenses | 13.2 | 13.4 | – | – |
| Depreciation of property and equipment (see note 15) | 5.4 | 5.0 | – | – |
| Charge on disposal of property and equipment (see note 15) | 0.2 | – | – | – |
| Amortisation and impairment of intangible assets (see note 16) | 58.0 | 55.0 | – | – |
| Impairment and charge on disposal of intangible assets (see note 16) | 6.2 | – | – | – |
| Uplift in PPI provision | 7.7 | – | – | – |
| Other expenses | (1.6) | 0.5 | – | – |
| **Other operating expenses** | **220.0** | **207.8** | **0.4** | **0.2** |

1 See footnote 1 on page 80.

In 2020, the £1.6m income in other expenses relates to the release of a provision recorded in previous years for non-customer related regulatory enquiries that is no longer required.

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

| | Group Year ended 31 December 2020 £m | Group Year ended 31 December 2019 £m | Company Year ended 31 December 2020 £m | Company Year ended 31 December 2019 £m |
|---|---|---|---|---|
| Audit of consolidated Group and Company Financial Statements | 0.2 | 0.2 | 0.2 | 0.2 |
| Audit of the Financial Statements of the Company's subsidiaries | 0.6 | 0.4 | – | – |
| Other assurance services | 0.1 | 0.1 | – | – |
| | **0.9** | **0.7** | **0.2** | **0.2** |

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 Year ended 31 December 2020 £m | Group Year ended 31 December 2019 £m | Company Year ended 31 December 2020 £m | Company Year ended 31 December 2019 £m |
|---|---|---|---|---|
| Current tax (income)/expense | (3.1) | 9.9 | – | – |
| Deferred tax income | (1.7) | – | – | – |
| **Tax (income)/expense from continuing operations** | **(4.8)** | **9.9** | **–** | **–** |

This discontinued operation incurred no tax in the year (2019: £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 as follows:

| | Group Year ended 31 December 2020 £m | Group Year ended 31 December 2019 restated[1] £m | Company Year ended 31 December 2020 £m | Company Year ended 31 December 2019 £m |
|---|---|---|---|---|
| (Loss)/profit before tax from continuing operations | (128.9) | 54.6 | 33.9 | 13.3 |
| Tax (credit)/charge at average UK corporation tax rate of 19% (2019: 19%) | (24.5) | 10.4 | 6.4 | 2.5 |
| Disallowable items and allowable deductions[2] | 12.6 | 10.1 | (4.0) | – |
| Profits subject to corporation tax under securitisation vehicle rules | 12.7 | (8.1) | – | – |
| Adjustment in respect of foreign tax rates | (2.5) | (2.5) | (2.4) | (2.5) |
| Prior year adjustment | (3.1) | – | – | – |
| **Tax (income)/expense from continuing operations** | **(4.8)** | **9.9** | **–** | **–** |

1 See footnote 1 on page 80.
2 Disallowable items and allowable deductions largely relates to disallowable amortisation and depreciation.

For the year ended 31 December 2020, the enacted UK corporation tax rate applicable to the Group was 19% (2019: 19%). The average tax rate for the year ended 31 December 2020 was 19% (2019: 19%).

For the year ended 31 December 2020, the Jersey tax regime rate applicable to the Company was 0% (2019: 0%).

The Group holds a deferred tax asset of £2.1m (2019: £0.4m) resulting from temporary differences. There was no tax recognised through the Group's or Company's statement of other comprehensive income in the year (2019: £nil).

# Notes to the Financial Statements continued

## 11. Loans and advances to banks

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 £m | 31 December 2019 £m | 31 December 2020 £m | 31 December 2019 £m |
| Loans and advances to banks | 520.9 | 152.1 | 47.1 | 25.6 |
| Restricted cash | 63.7 | 53.6 | – | – |
| | **584.6** | **205.7** | **47.1** | **25.6** |
| **Cash and cash equivalents** | **520.9** | **152.1** | **47.1** | **25.6** |

Loans and advances to banks are held with large commercial banks. Restricted cash of £63.7m (2019: £53.6m) is restricted for more than three months and consists of ring-fenced cash for credit balances on loans and advances to customers, as well as cash restricted due to covenants in place in accordance with the Group's funding structure. In October 2020, the Group completed a debt financing transaction which resulted in the issuance of £331.5m of asset-backed term debt. The cash raised from this transaction is presented in loans and advances to banks and will largely be used to settle asset-backed securities within the Co-brand securitisation programme maturing in April 2021.

As at 31 December 2020, £132.9m of the cash and cash equivalents balance is held by entities outside of the securitisation structure (2019: £58.7m).

## 12. Loans and advances to customers

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 £m | 31 December 2019 £m | 31 December 2020 £m | 31 December 2019 £m |
| Gross loans and advances to customers | 2,954.4 | 3,134.5 | – | – |
| ECL allowance on loans and advances to customers | (550.2) | (424.7) | – | – |
| **Loans and advances to customers** | **2,404.2** | **2,709.8** | **–** | **–** |

There is no fixed term for repayment of credit card loans 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.

### 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. It also undertakes that certain recourse may be claimed by the recovery agencies if specific criteria are not met for a period of time following the date of transfer. Up to this date the Group is responsible for returning collection proceeds to the agencies, depending on the provisions of each individual sales agreement. 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 £52.8m (2019: £64.5m). 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 2020 £m | 31 December 2019 £m | 31 December 2020 £m | 31 December 2019 £m |
| Other receivables | 35.5 | 28.6 | – | – |
| Prepayments and accrued income | 14.8 | 27.6 | 0.1 | 0.1 |
| Amounts due from related parties | 0.5 | 0.4 | 0.5 | 0.4 |
| Amounts due from Group undertakings | – | – | 572.6 | 538.1 |
| **Other assets** | **50.8** | **56.6** | **573.2** | **538.6** |

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.

Amounts due from related parties consist of a term loan facility to Nemean TopCo Limited issued on 11 January 2018, see note 27 for details.

## 14. Derivative financial instruments

The Group uses derivative financial instruments, namely cross-currency interest rate swaps, to manage the interest rate and foreign exchange rate risks arising from the Group's foreign currency denominated asset-backed term debt.

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 prevailing at the balance sheet date. The notional amounts and fair values of derivative financial instruments at the year end were as follows:

| | As at 31 December 2020 | | As at 31 December 2019 | |
|---|---|---|---|---|
| Group | Notional amount £m | Liabilities £m | Notional amount £m | Liabilities £m |
| Cash flow hedges | 328.7 | (27.5) | 342.0 | (17.0) |
| **Derivative financial instruments** | **328.7** | **(27.5)** | **342.0** | **(17.0)** |

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 (2019: £nil).

The Company held no derivative financial instruments during the year (2019: £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 2020** | **3.4** | **3.0** | **8.0** | **17.6** | **32.0** |
| Additions | 1.7 | 1.0 | – | 0.4 | 3.1 |
| Disposals | (0.4) | – | – | (0.2) | (0.6) |
| **Cost as at 31 December 2020** | **4.7** | **4.0** | **8.0** | **17.8** | **34.5** |
| **Depreciation as at 1 January 2020** | **(1.8)** | **(2.2)** | **(2.8)** | **(2.9)** | **(9.7)** |
| Charge to the income statement for the year | (1.1) | (0.7) | (0.9) | (2.7) | (5.4) |
| Disposals | 0.2 | – | – | 0.2 | 0.4 |
| **Depreciation as at 31 December 2020** | **(2.7)** | **(2.9)** | **(3.7)** | **(5.4)** | **(14.7)** |
| **Net book value as at 31 December 2020** | **2.0** | **1.1** | **4.3** | **12.4** | **19.8** |
| Net book value as at 31 December 2019 | 1.6 | 0.8 | 5.2 | 14.7 | 22.3 |

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 £4.0m (2019: £4.5m).

The Company held no property and equipment during the year (2019: £nil).

# Notes to the Financial Statements continued

## 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 2020 | 314.9 | 27.8 | 51.9 | 24.1 | 418.7 |
| Additions | – | – | – | 8.9 | 8.9 |
| Disposals | (1.5) | – | – | (6.3) | (7.8) |
| **Cost as at 31 December 2020** | **313.4** | **27.8** | **51.9** | **26.7** | **419.8** |
| Amortisation as at 1 January 2020 | (118.9) | (4.1) | (21.6) | (7.9) | (152.5) |
| Charge to the income statement for the year | (44.6) | (1.3) | (7.4) | (4.7) | (58.0) |
| Impairment | (5.0) | – | – | – | (5.0) |
| Disposals | 1.0 | – | – | 5.1 | 6.1 |
| **Amortisation as at 31 December 2020** | **(167.5)** | **(5.4)** | **(29.0)** | **(7.5)** | **(209.4)** |
| **Net book value as at 31 December 2020** | **145.9** | **22.4** | **22.9** | **19.2** | **210.4** |
| Net book value as at 31 December 2019 | 196.0 | 23.7 | 30.3 | 16.2 | 266.2 |

Internally generated intangibles 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.

Impairment represents a write-down of the carrying value of the Group's customer and retail partner relationship with Laura Ashley as a result of this retailer entering administration in March 2020. The Group records impairment on intangible assets if the assets are no longer in use or if their recoverable amount, being the higher of their fair value and value in use, is less than their carrying value. See note 2.3 for further details of the impairment assessment.

The Company held no intangible assets during the year (2019: £nil).

## 17. Investment in subsidiaries

| Company | £m |
|---|---|
| As at 31 December 2019 | 511.4 |
| **As at 31 December 2020** | **511.4** |

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.

On 1 January 2018, the Company made a capital contribution to NewDay Group Holdings S.à r.l. of £6.5m.

As at 31 December 2020, an impairment assessment was performed on the carrying value of the investments in subsidiaries which concluded that no impairment was required (31 December 2019: £nil).

## 18. Goodwill

| Group | £m |
|---|---|
| As at 31 December 2019 | 279.9 |
| **As at 31 December 2020** | **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 Own-brand and £39.4m was allocated to Co-brand.

In line with the requirements of IAS 38, an annual impairment assessment has been completed and no impairment was identified, see note 2.3 for further details (2019: £nil).

## 19. Debt issued and other borrowed funds

| | Group | | Company | |
|---|---|---|---|---|
| | **31 December 2020 £m** | 31 December 2019 £m | **31 December 2020 £m** | 31 December 2019 £m |
| Senior Secured Debt and associated facilities | 465.4 | 435.4 | 30.2 | 0.1 |
| Asset-backed term debt | 1,979.7 | 1,865.3 | – | – |
| Variable funding notes | 817.2 | 739.8 | – | – |
| Intercompany loan agreement | – | – | 435.2 | 435.3 |
| | **3,262.3** | **3,040.5** | **465.4** | **435.4** |
| Capitalised debt funding fees | (15.5) | (20.0) | (7.4) | (9.8) |
| **Debt issued and other borrowed funds** | **3,246.8** | **3,020.5** | **458.0** | **425.6** |

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 2024 and £150.0m Floating Rate Senior Secured Notes due 2023. In addition, the Company and certain subsidiaries of the Group entered into a £30.0m Super Senior Revolving Credit Facility and, on 26 March 2020, the Group completed a £30.0m drawdown from this facility. In January 2021, the Super Senior Revolving Credit Facility was repaid in full.

Debt issued and other borrowed funds includes publicly listed asset-backed securities and variable funding notes provided by a number of different investors. This debt issued, provided at LIBOR, SOFR or SONIA plus margin, is backed by securitised outstanding loans and advances to customers. As at 31 December 2020, £1,443.7m is used to fund the Own-brand portfolio (31 December 2019: £1,457.7m), £1,299.0m is used to fund the Co-brand portfolio (31 December 2019: £1,070.7m) and £54.2m is used to fund the UPL business (31 December 2019: £76.7m).

Of the debt issued and other borrowed funds, £329.4m is denominated in US Dollars (31 December 2019: £342.5m) with the remaining denominated in Sterling.

A reconciliation of debt issued and other borrowed funds during the year is as follows:

| | | Cash flows | | Non-cash movements | |
|---|---|---|---|---|---|
| **Group** | **As at 1 January 2020 £m** | **Proceeds from debt issued £m** | **Repayment of debt issued £m** | **Other £m** | **As at 31 December 2020 £m** |
| Senior Secured Debt and associated facilities | 435.4 | 30.0 | – | – | 465.4 |
| Asset-backed term debt | 1,865.3 | 354.1 | (227.8) | (11.9) | 1,979.7 |
| Variable funding notes | 739.8 | 628.4 | (550.8) | (0.2) | 817.2 |
| **Debt issued and other borrowed funds** | **3,040.5** | **1,012.5** | **(778.6)** | **(12.1)** | **3,262.3** |

| | | Cash flows | | Non-cash movements | |
|---|---|---|---|---|---|
| Group | As at 1 January 2019 £m | Proceeds from debt issued £m | Repayment of debt issued £m | Other £m | As at 31 December 2019 £m |
| Senior Secured Debt and associated facilities | 435.4 | – | – | – | 435.4 |
| Asset-backed term debt | 1,781.7 | 576.5 | (480.3) | (12.6) | 1,865.3 |
| Variable funding notes | 468.7 | 458.5 | (187.7) | 0.3 | 739.8 |
| **Debt issued and other borrowed funds** | **2,685.8** | **1,035.0** | **(668.0)** | **(12.3)** | **3,040.5** |

Other non-cash movements includes amortisation of fair value adjustments recognised on acquired debt issued, movements in accrued interest and foreign exchange gains and losses on the US Dollar denominated debt.

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 due 2023.

# 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 as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **31 December 2020 £m** | 31 December 2019 £m | **31 December 2020 £m** | 31 December 2019 £m |
| Debt issued and other borrowed funds repayable in: | | | | |
| Less than one year | 1,129.2 | 718.7 | – | – |
| Between one and two years | 1,098.7 | 887.9 | 30.2 | – |
| Between two and five years | 980.2 | 1,433.9 | 435.2 | 435.4 |
| Other | 54.2 | – | – | – |
| | **3,262.3** | **3,040.5** | **465.4** | **435.4** |

On 12 March 2020, in accordance with the transaction documents, the Group elected to extend the scheduled maturity date of the Series 2015-1 debt issued in the Co-brand asset-backed securitisation programme by one year to April 2021. On 8 October 2020, the Group issued £331.5m of publicly listed asset-backed term debt under the Co-brand securitisation programme which will be used to settle the maturing Series 2015-1 debt.

On 17 August 2020, the Group agreed to reset the maturity date of $93.0m of asset-backed term debt from August 2020 to August 2021, bringing it into line with the associated sterling bonds from the same issuance.

On 15 December 2020, the Group agreed to reset the maturity date of $150.0m of asset-backed term debt from December 2020 to December 2021, bringing it into line with the associated sterling bonds from the same issuance.

On 30 June 2020, as a consequence of the Group closing its UPL portfolio an optional amortisation in the UPL VFN was agreed with the lender. Following this, the facility, which totals £54.2m as at 31 December 2020, commenced paying down over time as the underlying loans and advances to customers were collected (including through the sale of the portfolio to a third party) and the original scheduled maturity date in February 2021 is therefore no longer applicable. In February 2021, the Group sold its UPL loans and advances to customers to a third party and the cash received was used to settle the drawn UPL VFN in full.

Refer to note 28 for further details on the Group's funding structure.

## 20. Other liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **31 December 2020 £m** | 31 December 2019 £m | **31 December 2020 £m** | 31 December 2019 £m |
| Trade payables and accruals | 57.3 | 55.9 | – | – |
| Other payables | 6.0 | 9.3 | – | – |
| Lease liabilities | 14.5 | 17.1 | – | – |
| Pension contributions | – | 0.5 | – | – |
| Amounts owed to Group undertakings | – | – | 0.1 | – |
| **Other liabilities** | **77.8** | **82.8** | **0.1** | **–** |

Lease liabilities consist of leases held by the Group for land and buildings. The scheduled maturities of the leases are as follows:

| | Group | |
|---|---|---|
| | **31 December 2020 £m** | 31 December 2019 £m |
| Lease liabilities: | | |
| Less than one year | 2.7 | 1.7 |
| Between one and two years | 2.7 | 2.6 |
| Between two and five years | 7.6 | 8.5 |
| More than five years | 1.5 | 4.3 |
| | **14.5** | **17.1** |

## 21. Provisions

| Group | PPI provision £m | Other provisions £m | Total provisions £m |
|---|---|---|---|
| As at 1 January 2019 | 25.0 | 10.7 | 35.7 |
| Arising during the year | – | 3.1 | 3.1 |
| Utilised during the year | (15.1) | (2.8) | (17.9) |
| **As at 31 December 2019** | **9.9** | **11.0** | **20.9** |
| Arising/(released) during the year | 7.7 | (0.7) | 7.0 |
| Utilised during the year | (12.3) | (4.5) | (16.8) |
| **As at 31 December 2020** | **5.3** | **5.8** | **11.1** |

The Company held no provisions during the year ended 31 December 2020 (2019: £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.

As at 31 December 2020, the Group received an enquiry from a third party, with which it is jointly liable for certain PPI-related costs, to contribute an amount in the order of £7.3m to a historic remediation exercise on previously settled claims. The third party has not established a basis for the claim and management deem it unlikely the Group will be required to contribute the amount claimed. The Group has recorded this as a contingent liability.

See note 2.3 for further details of the provision and the significant accounting judgements, estimates and assumptions included within it.

### 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 2020 £m** | 31 December 2019 £m | **31 December 2020 £m** | 31 December 2019 £m |
| Share capital and share premium | – | – | – | – |
| Equity instruments | 593.9 | 593.9 | 593.9 | 593.9 |
| Capital contribution | 20.2 | 30.5 | 20.2 | 30.5 |
| Hedging reserve | (2.1) | (5.0) | – | – |
| Retained (losses)/profits | (352.5) | (223.9) | 59.5 | 25.6 |
| **Total equity** | **259.5** | **395.5** | **673.6** | **650.0** |

| | Company | |
|---|---|---|
| Called up share capital ordinary shares (1 pence) | Number of shares | Nominal value £ |
| Issued upon incorporation | 101 | 1.01 |
| **As at 31 December 2019 and 31 December 2020** | **101** | **1.01** |

Share capital consists of 101 fully paid up ordinary shares at a nominal value of 1 pence each.

### 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.

### 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.

# Notes to the Financial Statements continued

## 22. Share capital and reserves continued

### 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 (2019: 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 2019: 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 (2019: none).

| Group<br>As at 31 December 2020 | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total carrying value<br>£m | Fair value<br>£m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and advances to banks | – | 584.6 | – | 584.6 | 584.6 |
| Loans and advances to customers | – | – | 2,404.2 | 2,404.2 | 2,613.4 |
| Other assets | – | 36.0 | – | 36.0 | 36.0 |
| Loans and advances to customers held for sale | – | 69.2 | – | 69.2 | 73.7 |
| **Total financial assets** | **–** | **689.8** | **2,404.2** | **3,094.0** | **3,307.7** |
| **Financial liabilities** | | | | | |
| Debt issued and other borrowed funds | – | (3,246.8) | – | (3,246.8) | (3,200.6) |
| Other liabilities | – | (77.8) | – | (77.8) | (77.8) |
| **Total financial liabilities** | **–** | **(3,324.6)** | **–** | **(3,324.6)** | **(3,278.4)** |

| Group<br>As at 31 December 2019 | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total carrying value<br>£m | Fair value<br>£m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and advances to banks | – | 205.7 | – | 205.7 | 205.7 |
| Loans and advances to customers | – | – | 2,709.8 | 2,709.8 | 2,867.8 |
| Other assets | – | 29.0 | – | 29.0 | 29.0 |
| **Total financial assets** | **–** | **234.7** | **2,709.8** | **2,944.5** | **3,102.5** |
| **Financial liabilities** | | | | | |
| Debt issued and other borrowed funds | – | (3,020.5) | – | (3,020.5) | (3,006.6) |
| Other liabilities | – | (82.3) | – | (82.3) | (82.3) |
| **Total financial liabilities** | **–** | **(3,102.8)** | **–** | **(3,102.8)** | **(3,088.9)** |

| **Company**<br>**As at 31 December 2020** | **Level 1**<br>**£m** | **Level 2**<br>**£m** | **Level 3**<br>**£m** | **Total carrying value**<br>**£m** | **Fair value**<br>**£m** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and advances to banks | – | 47.1 | – | 47.1 | 47.1 |
| Other assets | – | – | 573.2 | 573.2 | 573.2 |
| **Total financial assets** | **–** | **47.1** | **573.2** | **620.3** | **620.3** |
| **Financial liabilities** | | | | | |
| Debt issued and other borrowed funds | – | (458.0) | – | (458.0) | (421.8) |
| Other liabilities | – | (0.1) | – | (0.1) | (0.1) |
| **Total financial liabilities** | **–** | **(458.1)** | **–** | **(458.1)** | **(421.9)** |

| Company<br>As at 31 December 2019 | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total carrying value<br>£m | Fair value<br>£m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and advances to banks | – | 25.6 | – | 25.6 | 25.6 |
| Other assets | – | – | 538.6 | 538.6 | 538.6 |
| **Total financial assets** | **–** | **25.6** | **538.6** | **564.2** | **564.2** |
| **Financial liabilities** | | | | | |
| Debt issued and other borrowed funds | – | (425.6) | – | (425.6) | (414.9) |
| Other liabilities | – | – | – | – | – |
| **Total financial liabilities** | **–** | **(425.6)** | **–** | **(425.6)** | **(414.9)** |

### 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 because these items can be repriced using market observable inputs.

### 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
Other assets of the Group 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.

Other assets of the Company primarily consist of the loan note issued by NewDay UK Limited. The loan note cannot be repriced using market observable data and therefore has been classified as level 3.

### Loans and advances to customers held for sale
This consists of the loan and advances to customers from the Group's UPL portfolio. The fair value of these instruments is based on the price received from the third party that purchased the loans and advances to customers in February 2021. Consequently, these assets have been classified as level 2.

### 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 variable funding notes and Revolving Credit Facility's fair value approximates to its carrying value. These 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. Therefore these have been classified as level 2.

# Notes to the Financial Statements continued

## 23. Fair value of financial instruments continued

### 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.

Whilst the UK's economic impact as a result of the COVID-19 pandemic has had a significant impact on the Group risk management (as detailed through the Group's principal risks on pages 53 to 56), the ongoing impact of COVID-19 and the underlying impact of Brexit remains uncertain. The Group's proactive risk management approach ensures it is well-positioned to react to COVID-19 and Brexit-related impacts. With respect to Brexit, all of the Group's operations take place within the UK and therefore the Group does not currently expect there to be a material impact on the operational side of the business.

*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 (on a quarterly basis), Enterprise Risk Management Committee and specific sub-committees on a monthly basis, or more frequently as required.

### 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 lifecycle, 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. In 2020, and in response to the COVID-19 pandemic and FCA guidance, the Group broadened its range of payment relief concessions for customers to include payment freezes. Payment freezes are available for up-to-date customers and provides a three-month payment suspension whilst allowing them to continue to spend on their card. During this period, interest continues to accrue but certain fees are not charged. This is a different solution to the pre-existing payment holidays offered by the Group of between one and three months which are usually offered to customers in arrears if appropriate. For payment holidays, payments, interest and fees are frozen and the customer's ability to spend on the card is suspended. Customers can choose to extend their payment holiday for up to a further three months and their payment freeze for a further three months should they require it.

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 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 |

Following the outbreak of the COVID-19 pandemic and the subsequent FCA guidance, the Group has extended additional short-term arrangements, being payment holidays and payment freezes, to customers which temporarily suspend the requirement for them to make their contractual monthly payment. As at 31 December 2020, the total loans and advances to customers (including UPL balances held for sale) that were on either a payment holiday or payment freeze was £107.7m, with a maximum balance at any one point in time during the year of £364.1m. As at 31 December 2020, these interventions have had the following impact on staging over and above the underlying modelled ECL staging:

- accounts on a first arrangement payment holiday or payment freeze, totalling £43.6m, and those accounts that have finished an arrangement in the last three months and are currently up-to-date, totalling £52.3m, are reported in stage 2; and
- accounts on a second arrangement payment holiday or payment freeze, totalling £42.7m, are reported in stage 3.

Additionally, as at 31 December 2020, the impact of the worsening forward-looking information and behavioural score related PMAs (see note 2.3) resulted in £30.0m and £46.2m of up-to-date accounts transitioning to stage 2, respectively. 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.

| | **As at 31 December 2020** | | | | |
|---|---|---|---|---|---|
| **Group** | **Stage 1 £m** | **Stage 2 £m** | **Stage 3 £m** | **POCI £m** | **Total £m** |
| Risk grade 1 | 1,209.3 | 20.5 | – | 0.7 | 1,230.5 |
| Risk grade 2 | 1,032.8 | 95.7 | – | 1.3 | 1,129.8 |
| Risk grade 3 | 114.2 | 196.6 | – | 0.3 | 311.1 |
| Delinquent | – | 81.1 | – | 0.1 | 81.2 |
| Defaulted | – | – | 282.7 | 1.4 | 284.1 |
| **Gross loans and advances to customers (including loans and advances to customers held for sale)** | **2,356.3** | **393.9** | **282.7** | **3.8** | **3,036.7** |
| ECL allowance (including on loans and advances to customers held for sale) | (213.9) | (168.1) | (178.6) | (2.7) | (563.3) |
| **Loans and advances to customers (including loans and advances to customers held for sale)** | **2,142.4** | **225.8** | **104.1** | **1.1** | **2,473.4** |

| | As at 31 December 2019 | | | | |
|---|---|---|---|---|---|
| Group | Stage 1 £m | Stage 2 £m | Stage 3 £m | POCI £m | Total £m |
| Risk grade 1 | 1,337.1 | 20.1 | – | 0.6 | 1,357.8 |
| Risk grade 2 | 1,096.1 | 49.0 | – | 1.4 | 1,146.5 |
| Risk grade 3 | 156.5 | 118.2 | – | 0.5 | 275.2 |
| Delinquent | – | 101.4 | – | 0.2 | 101.6 |
| Defaulted | – | – | 250.9 | 2.5 | 253.4 |
| **Gross loans and advances to customers** | **2,589.7** | **288.7** | **250.9** | **5.2** | **3,134.5** |
| ECL allowance | (158.0) | (109.6) | (154.0) | (3.1) | (424.7) |
| **Loans and advances to customers** | **2,431.7** | **179.1** | **96.9** | **2.1** | **2,709.8** |

# Notes to the Financial Statements continued

## 24. Risk management continued

### 24.2 Credit risk continued

Loans and advances to banks and other financial assets are all classified as stage 1 as at 31 December 2020 (31 December 2019: stage 1).

The following tables present the credit risk exposure of the Group's loans and advances to customers (including those held for sale) on a segmental basis:

| Own-brand | As at 31 December 2020 Stage 1 £m | Stage 2 £m | Stage 3 £m | POCI £m | Total £m |
|---|---|---|---|---|---|
| Risk grade 1 | 309.1 | 2.6 | – | 0.4 | 312.1 |
| Risk grade 2 | 864.2 | 58.0 | – | 1.2 | 923.4 |
| Risk grade 3 | 109.2 | 174.4 | – | 0.3 | 283.9 |
| Delinquent | – | 56.9 | – | 0.1 | 57.0 |
| Defaulted | – | – | 218.9 | 0.6 | 219.5 |
| **Gross loans and advances to customers** | **1,282.5** | **291.9** | **218.9** | **2.6** | **1,795.9** |
| ECL allowance | (172.1) | (142.5) | (140.4) | (2.1) | (457.1) |
| **Loans and advances to customers** | **1,110.4** | **149.4** | **78.5** | **0.5** | **1,338.8** |

| Own-brand | As at 31 December 2019 Stage 1 £m | Stage 2 £m | Stage 3 £m | POCI £m | Total £m |
|---|---|---|---|---|---|
| Risk grade 1 | 319.5 | 1.6 | – | 0.3 | 321.4 |
| Risk grade 2 | 929.5 | 28.9 | – | 1.3 | 959.7 |
| Risk grade 3 | 149.7 | 107.0 | – | 0.5 | 257.2 |
| Delinquent | – | 77.9 | – | 0.1 | 78.0 |
| Defaulted | – | – | 209.4 | 1.1 | 210.5 |
| **Gross loans and advances to customers** | **1,398.7** | **215.4** | **209.4** | **3.3** | **1,826.8** |
| ECL allowance | (133.3) | (96.9) | (130.5) | (2.2) | (362.9) |
| **Loans and advances to customers** | **1,265.4** | **118.5** | **78.9** | **1.1** | **1,463.9** |

| Co-brand | As at 31 December 2020 Stage 1 £m | Stage 2 £m | Stage 3 £m | POCI £m | Total £m |
|---|---|---|---|---|---|
| Risk grade 1 | 841.0 | 10.0 | – | 0.3 | 851.3 |
| Risk grade 2 | 165.0 | 37.3 | – | 0.1 | 202.4 |
| Risk grade 3 | 4.9 | 22.1 | – | – | 27 |
| Delinquent | – | 20.5 | – | – | 20.5 |
| Defaulted | – | – | 56.5 | 0.8 | 57.3 |
| **Gross loans and advances to customers** | **1,010.9** | **89.9** | **56.5** | **1.2** | **1,158.5** |
| ECL allowance | (37.1) | (22.3) | (33.1) | (0.6) | (93.1) |
| **Loans and advances to customers** | **973.8** | **67.6** | **23.4** | **0.6** | **1,065.4** |

| Co-brand | As at 31 December 2019 Stage 1 £m | Stage 2 £m | Stage 3 £m | POCI £m | Total £m |
|---|---|---|---|---|---|
| Risk grade 1 | 928.5 | 9.7 | – | 0.3 | 938.5 |
| Risk grade 2 | 158.5 | 19.4 | – | 0.1 | 178.0 |
| Risk grade 3 | 6.5 | 11.1 | – | – | 17.6 |
| Delinquent | – | 19.0 | – | 0.1 | 19.1 |
| Defaulted | – | – | 38.5 | 1.4 | 39.9 |
| **Gross loans and advances to customers** | **1,093.5** | **59.2** | **38.5** | **1.9** | **1,193.1** |
| ECL allowance | (19.0) | (10.3) | (21.1) | (0.9) | (51.3) |
| **Loans and advances to customers** | **1,074.5** | **48.9** | **17.4** | **1.0** | **1,141.8** |

| UPL | As at 31 December 2020 Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|
| Risk grade 1 | 59.2 | 7.9 | – | 67.1 |
| Risk grade 2 | 3.6 | 0.4 | – | 4.0 |
| Risk grade 3 | 0.1 | 0.1 | – | 0.2 |
| Delinquent | – | 3.7 | – | 3.7 |
| Defaulted | – | – | 7.3 | 7.3 |
| **Gross loans and advances to customers held for sale** | **62.9** | **12.1** | **7.3** | **82.3** |
| ECL allowance on loans and advances to customers held for sale | (4.7) | (3.3) | (5.1) | (13.1) |
| **Loans and advances to customers held for sale** | **58.2** | **8.8** | **2.2** | **69.2** |

| UPL | As at 31 December 2019 Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|
| Risk grade 1 | 89.1 | 8.8 | – | 97.9 |
| Risk grade 2 | 8.1 | 0.7 | – | 8.8 |
| Risk grade 3 | 0.3 | 0.1 | – | 0.4 |
| Delinquent | – | 4.5 | – | 4.5 |
| Defaulted | – | – | 3.0 | 3.0 |
| **Gross loans and advances to customers** | **97.5** | **14.1** | **3.0** | **114.6** |
| ECL allowance | (5.7) | (2.4) | (2.4) | (10.5) |
| **Loans and advances to customers** | **91.8** | **11.7** | **0.6** | **104.1** |

### *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 (including those held for sale) due to the fact that 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.

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 credit card 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.

# Notes to the Financial Statements continued

## 24. Risk management continued
### 24.2 Credit risk continued
The following table reconciles the movement in the ECL allowance during the year:

| Group | Stage 1 £m | Stage 2 £m | Stage 3 £m | POCI £m | Total £m |
|---|---|---|---|---|---|
| ECL allowance as at 31 December 2019 | (158.0) | (109.6) | (154.0) | (3.1) | (424.7) |
| Transfers between stages: | | | | | |
| – to stage 1 | (35.4) | 30.0 | 5.4 | – | – |
| – to stage 2 | 20.3 | (23.0) | 2.7 | – | – |
| – to stage 3 | 15.1 | 16.3 | (31.4) | – | – |
| Remeasurement of ECL[1] | (41.7) | (74.4) | 4.2 | 0.2 | (111.7) |
| Release of ECL on loans and advances to customers settled in the year | 8.6 | 4.2 | 4.0 | 0.2 | 17.0 |
| ECL on new loans and advances to customers originated in the year | (22.8) | (11.6) | (9.5) | – | (43.9) |
| **ECL allowance as at 31 December 2020 (including on loans and advances to customers held for sale)** | **(213.9)** | **(168.1)** | **(178.6)** | **(2.7)** | **(563.3)** |

The remeasurement of ECL was significantly impacted by worsening forward-looking information, specifically the forecast deterioration in the UK economy and unemployment rates. See note 2.3 for further details on the impact of forward-looking information on the Group's ECL allowance.

| Group | Stage 1 £m | Stage 2 £m | Stage 3 £m | POCI £m | Total £m |
|---|---|---|---|---|---|
| ECL allowance as at 31 December 2018 | (144.4) | (131.5) | (125.8) | (4.7) | (406.4) |
| Transfers between stages: | | | | | |
| – to stage 1 | (50.2) | 48.4 | 1.8 | – | – |
| – to stage 2 | 11.2 | (12.6) | 1.4 | – | – |
| – to stage 3 | 10.2 | 19.1 | (29.3) | – | – |
| Remeasurement of ECL[1] | 42.4 | (42.6) | 19.2 | 1.3 | 20.3 |
| Refinements to model methodology[2] | (8.3) | 26.2 | (10.6) | – | 7.3 |
| Release of ECL on loans and advances to customers settled in the year | 6.8 | 4.9 | 2.3 | 0.3 | 14.3 |
| ECL on new loans and advances to customers originated in the year | (25.7) | (21.5) | (13.0) | – | (60.2) |
| **ECL allowance as at 31 December 2019** | **(158.0)** | **(109.6)** | **(154.0)** | **(3.1)** | **(424.7)** |

1 Includes changes in the ECL driven by changes in credit risk (both within and between stages) and write-offs.
2 In 2019, the Group refined its methodology for measuring the lifetime PD to enhance the accuracy of this estimate; specifically the Group refined the scalars it uses to extrapolate the lifetime PD from the 12-month PD.

#### *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 2020, the Group has undrawn facilities on its loans and advances to customers that are available to draw totalling £6,995.1m, 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 store and credit cards. All cardholder receivables are contractually repayable on demand and have been disclosed as such. Individual customer behaviour varies and the cards are used as revolving facilities where drawdowns and repayments towards outstanding balances are made over time. Unsecured personal loans and point-of-sale finance receivables follow a pre-agreed repayment schedule and have been disclosed accordingly.

Of the £3,262.3m debt issued, which includes the accrued interest, £1,129.2m has a scheduled maturity of less than one year, £2,078.9m has a scheduled maturity of one to five years and £54.2m has no scheduled maturity.

The Group proactively monitors its funding requirements to ensure it remains appropriately positioned to finance its operations. In 2020, the Group strengthened its funding position through several transactions, including:

- a £400.0m increase in VFN capacity across its Own-brand and Co-brand portfolios;
- a £350.0m issuance of asset-backed securities (of which £18.5m was retained internally within the Group) from its Co-brand securitisation programme. This funding will be used to settle £244.3m of bonds due to mature in April 2021;
- a £30.0m drawdown on the Group's Revolving Credit Facility, which was subsequently repaid in January 2021;
- a sale of bonds within the Own-brand securitisation programme, which were previously retained within the Group, raising £22.7m; and
- an agreed one-year extension to the maturity of $243.0m of bonds in the Own-brand portfolio that were originally due to mature in 2020.

Additionally, in February 2021, the Group raised £362.4m of cash from the issuance of asset-backed term debt in the Own-brand securitisation programme. This cash will be used to settle £281.4m of debt due to mature in August 2021.

### *Total committed funding facilities*

The Group's total committed funding facilities as at 31 December 2020 were £4,186.5m (31 December 2019: £3,743.2m) of which £937.7m (31 December 2019: £716.1m) 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 2020. This reflects both the interest payable and the repayment of the principal on maturity, based upon current borrowings as at the balance sheet date.

| **Group**<br>**As at 31 December 2020** | **On demand**<br>**£m** | **Less than 3 months**<br>**£m** | **3 to 12 months**<br>**£m** | **1 to 5 years**<br>**£m** | **Over 5 years**<br>**£m** | **Total**<br>**£m** |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Debt issued and other borrowed funds | – | 30.1 | 1,204.2 | 2,168.3 | – | 3,402.6 |
| Other liabilities | – | 77.8 | – | – | – | 77.8 |
| | **–** | **107.9** | **1,204.2** | **2,168.3** | **–** | **3,480.4** |

| Group<br>As at 31 December 2019 | On demand<br>£m | Less than 3 months<br>£m | 3 to 12 months<br>£m | 1 to 5 years<br>£m | Over 5 years<br>£m | Total<br>£m |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Debt issued and other borrowed funds | – | 22.7 | 780.3 | 2,448.1 | – | 3,251.1 |
| Other liabilities | – | 82.3 | – | – | – | 82.3 |
| | **–** | **105.0** | **780.3** | **2,448.1** | **–** | **3,333.4** |

### *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.

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**<br>**As at 31 December 2020** | **Carrying value of transferred assets not derecognised**<br>**£m** | **Carrying value of associated liabilities**<br>**£m** | **Fair value of transferred assets not derecognised**<br>**£m** | **Fair value of associated liabilities**<br>**£m** | **Net fair value**<br>**£m** |
|---|---|---|---|---|---|
| NewDay Funding Transferor Ltd | 1,293.1 | (1,439.4) | 1,465.2 | (1,431.6) | 33.6 |
| NewDay Partnership Transferor plc | 1,064.7 | (1,295.2) | 1,101.8 | (1,293.0) | (191.2) |
| NewDay UPL Transferor Ltd | 69.2 | (54.2) | 73.7 | (54.2) | 19.5 |
| | **2,427.0** | **(2,788.8)** | **2,640.7** | **(2,778.8)** | **(138.1)** |

# Notes to the Financial Statements continued

## 24. Risk management continued

### 24.3 Liquidity, funding and cash management risk continued

Included within the carrying value of associated liabilities are £8.1m of capitalised debt funding fees (31 December 2019: £10.2m).

| Group<br>As at 31 December 2019 | 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 | 1,421.8 | (1,450.3) | 1,555.1 | (1,449.4) | 105.7 |
| NewDay Partnership Transferor plc | 1,140.7 | (1,067.9) | 1,159.7 | (1,065.5) | 94.2 |
| NewDay UPL Transferor Ltd | 104.1 | (76.7) | 109.8 | (76.7) | 33.1 |
| | **2,666.6** | **(2,594.9)** | **2,824.6** | **(2,591.6)** | **233.0** |

### 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 LIBOR and SONIA based floating rate and therefore is also sensitive to interest rate movements. The Group also issues US Dollar denominated funding which as at 31 December 2020 accrues interest linked to USD SOFR. This funding has been hedged either to SONIA or GBP LIBOR 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**<br>**As at 31 December 2020** | **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 | 468.0 | – | – | 116.6 | 584.6 |
| Loans and advances to customers | 1,989.6 | 168.6 | – | 246.0 | 2,404.2 |
| Other assets | – | – | – | 36.0 | 36.0 |
| Loans and advances to customers held for sale | – | – | – | 69.2 | 69.2 |
| **Financial liabilities** | | | | | |
| Debt issued and other borrowed funds | (2,788.8) | (181.9) | – | (276.1) | (3,246.8) |
| Other liabilities | – | – | – | (77.8) | (77.8) |
| Derivative financial liabilities | (27.5) | – | – | – | (27.5) |
| **Net repricing difference** | **(358.7)** | **(13.3)** | **–** | **113.9** | **(258.1)** |

| Group<br>As at 31 December 2019 | 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 | 188.9 | – | – | 16.8 | 205.7 |
| Loans and advances to customers | 2,201.7 | 105.6 | – | 402.5 | 2,709.8 |
| Other assets | – | – | – | 29.0 | 29.0 |
| **Financial liabilities** | | | | | |
| Debt issued and other borrowed funds | (2,595.0) | (151.9) | – | (273.6) | (3,020.5) |
| Other liabilities | – | – | – | (82.3) | (82.3) |
| Derivative financial liabilities | (17.0) | – | – | – | (17.0) |
| **Net repricing difference** | **(221.4)** | **(46.3)** | **–** | **92.4** | **(175.3)** |

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 2020. Total sensitivity of the income statement is based on the assumption that there are parallel shifts in the yield curve.

*Interest rate risk sensitivity*

| Group | Increase/ (decrease) in basis points | Sensitivity of profit or loss: Year ended 31 December 2020 £m | Sensitivity of profit or loss: Year ended 31 December 2019 £m |
|---|---|---|---|
| Loans and advances to customers | 25/(25) | **7.0/(7.0)** | 6.8/(6.8) |
| Debt issued and other borrowed funds | 25/(25) | **(7.5)/7.5** | (6.9)/6.9 |

### 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 prevents conduct risk by ensuring colleagues have appropriate training and mitigates it by monitoring various operational metrics through the customer outcomes radar and by tracking 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.

## 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.

| Group | As at 31 December 2020 | | | As at 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | < 12 months £m | > 12 months £m | Total £m | < 12 months £m | > 12 months £m | Total £m |
| **Assets** | | | | | | |
| Loans and advances to banks | 520.9 | 63.7 | 584.6 | 152.1 | 53.6 | 205.7 |
| Loans and advances to customers | 1,922.9 | 481.3 | 2,404.2 | 2,239.5 | 470.3 | 2,709.8 |
| Other assets | 45.0 | 5.8 | 50.8 | 49.2 | 7.4 | 56.6 |
| Current tax assets | 1.8 | – | 1.8 | 0.7 | – | 0.7 |
| Deferred tax assets | – | 2.1 | 2.1 | – | 0.4 | 0.4 |
| Property and equipment | – | 19.8 | 19.8 | – | 22.3 | 22.3 |
| Intangible assets | – | 210.4 | 210.4 | – | 266.2 | 266.2 |
| Goodwill | – | 279.9 | 279.9 | – | 279.9 | 279.9 |
| Loans and advances to customers held for sale | 69.2 | – | 69.2 | – | – | – |
| **Total assets** | **2,559.8** | **1,063.0** | **3,622.8** | **2,441.5** | **1,100.1** | **3,541.6** |
| **Liabilities** | | | | | | |
| Debt issued and other borrowed funds | (1,181.5) | (2,065.3) | (3,246.8) | (717.4) | (2,303.1) | (3,020.5) |
| Other liabilities | (65.9) | (11.9) | (77.8) | (67.4) | (15.4) | (82.8) |
| Derivative financial liabilities | (27.5) | – | (27.5) | (4.5) | (12.5) | (17.0) |
| Current tax liabilities | (0.1) | – | (0.1) | (4.9) | – | (4.9) |
| Provisions | (9.3) | (1.8) | (11.1) | (18.8) | (2.1) | (20.9) |
| **Total liabilities** | **(1,284.3)** | **(2,079.0)** | **(3,363.3)** | **(813.0)** | **(2,333.1)** | **(3,146.1)** |

# Notes to the Financial Statements continued

## 25. Maturity analysis of assets and liabilities continued

| Company | As at 31 December 2020 < 12 months £m | > 12 months £m | Total £m | As at 31 December 2019 < 12 months £m | > 12 months £m | Total £m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Loans and advances to banks | 47.1 | – | 47.1 | 25.6 | – | 25.6 |
| Other assets | 85.8 | 487.4 | 573.2 | 51.4 | 487.2 | 538.6 |
| Investment in subsidiaries | – | 511.4 | 511.4 | – | 511.4 | 511.4 |
| **Total assets** | **132.9** | **998.8** | **1,131.7** | **77.0** | **998.6** | **1,075.6** |
| **Liabilities** | | | | | | |
| Debt issued and other borrowed funds | – | (458.0) | (458.0) | – | (425.6) | (425.6) |
| Other liabilities | (0.1) | – | (0.1) | – | – | – |
| **Total liabilities** | **(0.1)** | **(458.0)** | **(458.1)** | **–** | **(425.6)** | **(425.6)** |

## 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.

See note 21 for details of a contingent liability arising from PPI-related costs.

*Commitments*

The Group had capital expenditure commitments contracted with third parties but not provided for of £0.6m as at 31 December 2020 (31 December 2019: £0.4m).

## 27. Related party disclosures

| Group | Maximum balance during the year £m | Year ended 31 December 2020 £m | As at 31 December 2020 £m | Maximum balance during the year £m | Year ended 31 December 2019 £m | As at 31 December 2019 £m |
|---|---|---|---|---|---|---|
| **Transactions with key management personnel** | | | | | | |
| Total emoluments | n/a | 5.2 | n/a | n/a | 6.6 | n/a |
| Total pension contributions | n/a | – | n/a | n/a | – | n/a |
| Highest paid key management personnel | n/a | 1.2 | n/a | n/a | 1.0 | n/a |
| Highest pension contribution to key management personnel | n/a | – | n/a | n/a | – | n/a |
| **Transactions with other related parties** | | | | | | |
| Loans to related parties | 0.5 | n/a | 0.5 | 0.4 | n/a | 0.4 |

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 2020 were £35k (31 December 2019: £51k). All transactions are subject to standard commercial interest rates on an arm's length basis.

| Company | Maximum balance during the year £m | Year ended 31 December 2020 £m | As at 31 December 2020 £m | Maximum balance during the year £m | Year ended 31 December 2019 £m | As at 31 December 2019 £m |
|---|---|---|---|---|---|---|
| **Transactions with other related parties** | | | | | | |
| Loans to related parties | 573.1 | n/a | 573.1 | 559.8 | n/a | 538.5 |
| Interest income from related parties | n/a | 68.5 | n/a | n/a | 47.4 | n/a |
| Loans from related parties | 435.2 | n/a | 435.2 | 435.4 | n/a | 435.3 |
| Interest expense to related parties | n/a | 30.9 | n/a | n/a | 31.4 | n/a |
| Other liabilities owed to related parties | 0.1 | n/a | 0.1 | 0.1 | n/a | – |

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 2020, £0.4m has been drawn on the facility (31 December 2019: £0.4m).

In 2020, the Company paid £16k to a related party in relation to services provided by the Directors (2019: £12k).

### 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 2020 | % equity interest as at 31 December 2020 | Share class held as at 31 December 2019 | % equity interest as at 31 December 2019 |
|---|---|---|---|---|---|
| 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 Group 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 | UK | Ordinary | 100% | Ordinary | 100% |
| NewDay Technology Ltd (formerly Invicta Card Services Limited)[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 2014-1 plc | UK | – | – | 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 | – | – |
| NewDay Funding Master Issuer plc | UK | n/a | SE | – | – |
| NewDay Funding 2015-1 plc | UK | – | – | n/a | SE |
| NewDay Funding 2015-2 plc | UK | – | – | n/a | SE |
| NewDay Funding 2016-1 plc | UK | – | – | 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[2] | UK | Ordinary | 100% | Ordinary | 100% |
| SAV Credit Limited[2] | UK | Ordinary | 100% | Ordinary | 100% |

1 This subsidiary was a dormant entity as at 31 December 2019 and commenced trading activities in 2020.
2 These subsidiaries are dormant entities as at 31 December 2020 and 31 December 2019.

On 8 September 2020, a liquidator was appointed as part of a members' voluntary liquidation in respect of the following structured entities which have not traded since the redemption of the asset-backed term debt they issued:

- NewDay Partnership Funding 2014-1 plc;
- NewDay Funding 2015-1 plc;
- NewDay Funding 2015-2 plc; and
- NewDay Funding 2016-1 plc.

Following the appointment of the liquidator the entities do not meet the criteria of a structured entity and from 8 September 2020 no longer form part of the Group.

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.

# Notes to the Financial Statements continued

## 27. Related party disclosures continued

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 five financing arrangements which involve structured entities.

The Co-brand 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 Co-brand receivables portfolio. As at 31 December 2020, the master trust has in issue three series of publicly listed term debt sold to capital market investors and two series of senior variable funding notes sold to a syndicate of six major banks which act as a revolving facility. As at 31 December 2020, the private securitisation has issued a series of senior and mezzanine variable funding notes sold to a major bank which act as a revolving facility.

The Own-brand business is also 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 Own-brand receivables portfolio. As at 31 December 2020, the master trust has in issue four series of publicly listed term debt sold to a mixture of capital market investors and two series of senior variable funding notes sold to a syndicate of five major banks, which act as a revolving facility. As at 31 December 2020, the private securitisation has issued a series of senior variable funding notes to a major bank which acts as a revolving facility.

Prior to the sale of the UPL loans and advances to customers in February 2021, the UPL business was funded by a private securitisation. The private securitisation issued a senior variable funding note to a major bank which acted as a revolving facility. On 30 June 2020, as a consequence of the Group closing its UPL portfolio to new lending an optional amortisation in the UPL VFN was agreed with the lender. Following this, the facility commenced paying down over time as the underlying loans and advances to customers were collected and the original scheduled maturity date in February 2021 was therefore no longer applicable. In February 2021, the Group agreed to sell its UPL receivables to a third party. The cash received from this sale was used to settle the UPL VFN outstanding balance in full.

Within the funding structure of the Own-brand and Co-brand 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 2020, 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 Co-brand master trust securitisation and NewDay Funding Securitisation Holdings Ltd in the Own-brand master trust securitisation.

## 29. Post balance sheet events

In January 2021, the Group and Company repaid in full the £30.0m principal drawn from the Super Senior Revolving Credit Facility.

In February 2021, the Group sold its outstanding loans and advances customers held for sale in its UPL portfolio to a third party. This resulted in a gain on sale in the order of £3.0m net of selling costs. Part of the proceeds were used to settle the UPL VFN in full.

In February 2021, the Group completed a financing transaction which raised £400.0m of asset-backed debt from its Own-brand securitisation programme (of which £37.6m was retained within the Group), including $135.0m raised from US capital markets. Part of the proceeds from this deal will be used to refinance bonds maturing in August 2021 in the Own-brand securitisation programme.

**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 and require an equity investment of typically €200 million or more. 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 including in highly regulated assets where its track record includes the acquisitions of Premium Credit, Partnership Assurance (now part of Just group) and Guardian Financial Services in the UK. In Ireland, it acquired Avolon, the aircraft leasing business. In Germany it acquired Viridium (formerly Heidelberger Leben), with the business subsequently combined with Generali Leben and in Italy, Cinven formed the Eurovita group through the merger of ERGO Previdenza, Old Mutual Wealth Italy, Eurovita Assicurazioni and Pramerica Life.

CVC Capital Partners is a leading private equity and investment advisory firm. Founded in 1981, CVC today has a network of 23 offices and more than 300 investors throughout Europe, Asia, South America and the US.

To date, CVC has secured commitments of over US$160bn from some of the world's leading institutional investors across its private equity and credit strategies. In total, CVC currently manages over US$109bn of assets.

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 period ended 31 December 2020. Underlying and adjusted metrics referred to on pages 01 to 77 exclude a number of non-recurring items as detailed on page 33. Definitions of key performance indicators are included on pages 30 to 31.

Notwithstanding the above, as set out on page 58, with the exception of the Directors' report set out on page 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).

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 substitutes for analysis of the Company's financial position or results of operations as reported under IFRS. 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 report are references to 'Consolidated EBITDA' as defined in the legal documentation relating to the £425m Senior Secured Notes issued by NewDay BondCo plc on 25 January 2017 (the Senior Secured Debt) and the Super Senior Revolving Credit Facility entered into by the Company on 25 January 2017 (the Revolving Credit Facility) based on IFRS as in force as at 31 December 2020 (or, in respect of periods ending prior to 31 December 2020, IFRS at the relevant time). However, all ratios, baskets and calculations required under the terms of the Senior Secured Debt and Revolving Credit Facility are based on IFRS as in force as at 25 January 2017. As a result, such ratios, baskets and calculations may differ significantly from any ratios or figures which are contained in this Report. In particular, except where otherwise expressly stated to be the case, references to Senior Secured Debt to adjusted EBITDA and adjusted EBITDA to cash interest expense contained in this report have been calculated (subject to certain adjustments) in accordance with IFRS as in force as at 31 December 2020 (or, in respect of periods ending prior to 31 December 2020, 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 (including, but not limited to, the effects of the COVID-19 pandemic and uncertainties about its impact and duration) and actual results or events may differ materially from those expressed or implied by those statements. Many of these risks and uncertainties are, and will be, exacerbated by the COVID-19 pandemic and any further disruption to the consumer credit market and economic environment as a result. 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.

This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in any member of the Group, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto. Statements in this report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by Jersey law.

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