23 March 2023

NewDay BondCo plc
Group results for the financial year-ended 31 December 2022

The information in this announcement relates to the consolidated financial results of NewDay Group (Jersey) Ltd ("NewDay", together with its subsidiaries and subsidiary undertakings, the "Group") - a wholly owned subsidiary of Nemean TopCo Limited and indirect parent company of NewDay BondCo plc. As a result, it excludes the financial results of Pay4Later Limited (trading as Deko).

NewDay, a leading digital consumer credit business in the UK, has today released its financial results and annual report for the financial year-ended 31 December 2022 which can be found on the Group's website www.newday.co.uk/investors.

Highlights

2022 was another good year for NewDay. The business enters 2023 with a resilient business model ready to navigate an uncertain macro environment.

- Strong Underlying Profit before Tax up 18% to £203 million (2021: £172 million) with continued cash generation before receivables growth and debt service of £136 million (2021: £189 million)

- The Group's D2C business welcomed 526k new customers (2021: 530k) with over £3.9 billion of spend financed (2021: £3.2 billion)

- NewDay successfully launched a partnership programme with John Lewis & Partners in August attracting more than 630k customers and over £2 billion of spend financed

- Gross Receivables up 29% to £4.3 billion (2021: £3.3 billion) and new accounts up 47% to 1.3 million (2021: 900k) reflecting solid underlying growth turbo-charged by the addition of John Lewis to the Group's merchant portfolio

- Underlying RAM of 12.3% (2021: 13.3%). Lower yields are driven by the merchant portfolio mix changes towards prime and marginally higher impairment rate reflecting an uncertain macro-economic environment

- Continued reduction in Cost:Income Ratio to 29.1% (2021: 31.8%) demonstrating the Group's continuous focus on cost efficiency underpinned by its scalable platform

- Strong funding position with £1.4 billion (2021: £1.3 billion) of headroom and £5.6 billion (2021: £4.6 billion) in total commitment. Three successful ABS transactions conducted in 2022 alongside a specific facility for the partnership with John Lewis

- Successfully exchanged £325m Senior Secured Bond due February 2024 into a new £238m instrument due December 2026 with £61m remaining under the previous instrument. Overall outstanding Senior Secured Debt reduced by £26m

- Strong leverage position with a Net corporate Senior Secured Debt / adjusted EBITDA ratio(1) of -0.1x (2021: 0.4x) and interest cover(2) of 5.9x (2021: 7.6x)

Outlook

Against an uncertain economic outlook that is anticipated to persist through 2023 and potentially beyond, the Group intends to continue the expansion of its Direct to Consumer and Merchant Offering businesses at a more modest rate than recent years. This will allow NewDay to navigate uncertain times, continue to support our customers and retail partners and drive progressive profit generation.

The Group's platform offering ('Platform-as-a-Service' or 'PaaS') has developed significantly over recent years, harnessing the power of NewDay's digital capabilities with the Group looking to increase fee-based income in 2023.

NewDay remains committed to its long-term strategy, continuing to be a leading issuer of credit cards and digital point of sale in the UK, and helping people to move forward with credit.

Commenting on performance for the period, John Hourican, CEO said:

"The Group results reflect another good year for NewDay. We delivered strong growth in profits, maintained our cost discipline, and brought on an exciting new partnership with John Lewis. This was achieved against a backdrop of macro-economic uncertainty and challenging times for our customers.

"We have continued to focus on our mission to help people move forward with credit in a responsible manner. We welcomed 1.3 million new customers to NewDay in 2022 and continued to provide our customers with the support they need in their individual credit journeys.

"The macro-economic environment into 2023 is uncertain, but I am confident NewDay is well placed to navigate this uncertainty through deploying a focused approach to underwriting and risk management while continuing to support our customers through early intervention and utilising our forbearance toolkit where appropriate. Against this backdrop, we have deliberately slowed new account growth in our D2C business and will continue to grow cautiously into 2023"

Summary of financial performance

£m	Year-ended 31 December 2022	2021	Variance (%)
Interest income	884.1	700.4	26%
Cost of funds	(124.3)	(61.8)	(101%)
Fee and commission income	67.0	47.5	41%
Net Revenue	**826.8**	**686.1**	**21%**
Adjusted Impairment	(382.6)	(296.2)	(29%)
Underlying Risk-Adjusted income	**444.2**	**389.9**	**14%**
Servicing costs	(108.4)	(84.4)	28%
Change costs	(43.3)	(44.2)	2%
Marketing and partner payments	(45.5)	(41.8)	(9%)
Collection fees	30.2	24.3	24%
Contribution	**277.2**	**243.8**	**14%**
Salaries, benefits, and overheads	(73.8)	(71.8)	(3%)
Underlying profit before tax	**203.4**	**172.0**	**18%**
+ depreciation and amortisation	11.6	11.0	5%
Adjusted EBITDA	**215.0**	**183.0**	**17%**

Selected Alternative Performance Measures and Operational Metrics

£m	Year-ended 31 December 2022	2021	Variance (%)
Gross Receivables (£m)	4,252	3,286	29%
Average Gross Receivables (£m)	3,601	2,931	23%
Net Revenue Margin (%)	23.0%	23.4%	
Impairment Rate (%)	10.6%	10.1%	
Charge-off Rate (%)	9.1%	8.5%	
Underlying Risk-Adjusted Margin (%)	12.3%	13.3%	
Cost:Income Ratio (%)	29.1%	31.8%	
Servicing Costs Margin (%)	3.0%	2.9%	
Number of accounts (m)	4.9	4.6	7%
New accounts (000s)	1,337	907	47%
Net Debt / EBITDA[(1)]	-0.1x	0.4x	
Interest cover[(2)]	5.9x	7.6x	
Advance Rate (%)[(3)]	92.0%	88.6%	

Notes:

1. *(1) Represents Ratio of net corporate senior secured debt to adjusted EBITDA excluding funding overlaps*
2. *(2) Represents Ratio of adjusted EBITDA to cash interest expense*
3. *(3) Reflects FX hedged view which has also adjusted the prior year comparator*

Enquiries

Investor Relations
Email: investor.relations@newday.co.uk

Media
Powerscourt
Email: newday@powerscourt-group.com

Results presentation

A webcast for analysts and investors will be held at 10:30am (UK Time) on 23 March 2023. For video / listen-only, and to ask written questions please access via:

https://www.lsegissuerservices.com/spark/NewDay/events/bde88caa-d2ff-409c-a227-d100f1d11069

If you wish to view the presentation and participate in Q&A with management, please access via Zoom with the link below:

https://newday-bondco-plc-fy22-results.open-exchange.net/

The presentation can be found at: www.newday.co.uk/investors

About NewDay

NewDay is a leading provider of unsecured consumer credit in the UK, providing technology-enabled, highly flexible and innovative products directly to consumers and via its merchant relationships. The Group's product offering includes credit cards and digital revolving credit incorporating BNPL and instalment finance functionality.

NewDay operates multiple direct-to-consumer products through well-known brands such as Aqua, Fluid, Marbles and Bip – the UK's first digital only credit "card".

In its Merchant Offering business, NewDay offers white-labelled credit cards in partnership with well-known brands such as John Lewis and Argos. NewDay also offers Newpay, a flexible digital finance offering incorporating BNPL and instalment finance. NewDay's prime and near-prime underwriting capability and over 20 years of experience allow it to responsibly say yes to more customers in the UK, making NewDay a merchant partner of choice for leading brands.

NewDay has a clear purpose: to help people move forward with credit. It provides close to 5 million customers with responsible access to credit. NewDay's leading, highly scalable digital platform alongside its proprietary credit decisioning capability allows it to continually innovate within the UK consumer finance sector, unlocking competitive advantage and developing products that meet customer and merchants' changing needs.

Chief Executive Officer's Review

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

Our customers

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

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

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

Building an even better business

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

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

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

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

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

Leveraging our technology

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

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

Strong financial performance

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

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

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

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

Protecting our business

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

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

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

Where next?

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

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

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

Notes:

(1) Estimated based on eBenchmarkers data and inclusive of Newpay volumes
(2) Excluding sub-prime
(3) Our underlying performance excludes certain items included within the statutory results. A reconciliation between our underlying and statutory result can be found on page 29 of our 2022 Annual Report

Financial Review

2022 highlights

- **18% growth in underlying profit** before tax to £203m (2021: £172m)
- **40% growth in statutory profit before tax** to £110m (2021: £79m)
- **29% growth in gross receivables** to £4.3bn (2021: £3.3bn)
- **52% growth in customer spend** to £9.1bn
- **1.3m new customer accounts** (2021: £0.9m)
- **9.1% charge-off rate** (2021: 8.5%)
- **12.3% underlying risk-adjusted margin** (2021: 13.3%)
- **29.1% underlying cost-income ratio** (2021: 31.8%)
- **£152m free cash flow** available for Senior Secured Debt servicing (2021: £119m)
- **£382m closing cash balance**
- **£264m refinance** of Senior Secured Debt (including £26m early settlement)
- **£1.4bn closing facility** headroom to fund future growth (2021: £1.3bn)

2022 was another year of progress for our business. We reported 29% gross receivables growth with closing balances of £4.3bn (2021: £3.3bn). Our customers spent £9.1bn (2021: £6.0bn), an increase of 52% on last year, and we welcomed 1.3m new customers (2021: 0.9m). Underlying profit before tax was £203m (2021: £172m) and statutory profit before tax was £110m (2021: £79m), up 40% on last year. We reported £152m of free cash flow available for Senior Secured Debt servicing (2021: £119m) and our closing cash balance was £382m (2021: £304m).

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

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

Notes:
(1) Receivables and spend share metrics calculated as total NewDay volumes (including Newpay) as a proportion of Bank of England data credit card volumes
(2) Compared to Office for National Statistics data (internet spend as a proportion of total retail spend)

	Year-ended 31 December	
£m	**2022**	**2021**
Statutory profit before tax[1]	**109.9**	**78.7**
Senior Secured Debt and associated facilities interest and related costs	30.3	30.6
Fair value unwind	-	(1.1)
Payment protection insurance (PPI)	(1.2)	4.7
Platform development costs	9.3	1.7
Other	0.8	-

Amortisation of intangible assets arising on the Acquisition[2]	54.3	57.4
Underlying profit before tax	**203.4**	**172.0**

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

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

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

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

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

Management basis income statement

£m	2022 Direct to consumer	2022 Merchant Offering	2022 Platform Services	2022 Group	2021 Direct to consumer	2021 Merchant Offering	2021 Platform Services	2021 Group
	Year-ended 31 December							
Interest income	**640.3**	**243.8**		**884.1**	**487.8**	**212.6**	**-**	**700.4**
Cost of funds	(78.0)	(46.3)		(124.3)	(41.2)	(20.6)	-	(61.8)
Net interest income	**562.3**	**197.5**	**-**	**759.8**	**446.6**	**192.0**	**-**	**638.6**
Fee and commission income	44.3	21.3	1.4	67.0	31.2	15.7	0.6	47.5
Net revenue	**606.6**	**218.8**	**1.4**	**826.8**	**477.8**	**207.7**	**0.6**	**686.1**
Impairment losses on loans and advances to customers	(302.0)	(80.6)	-	(382.6)	(218.3)	(77.9)	-	(296.2)
Underlying risk-adjusted income	**304.6**	**138.2**	**1.4**	**444.2**	**259.5**	**129.8**	**0.6**	**389.9**
Servicing costs	(56.5)	(51.5)	(0.4)	(108.4)	(43.7)	(40.7)	-	(84.4)
Change costs	(23.4)	(16.6)	(3.3)	(43.3)	(22.4)	(15.9)	(5.9)	(44.2)
Marketing and partner payments	(24.2)	(21.1)	(0.2)	(45.5)	(22.3)	(19.5)	-	(41.8)
Collection fees	21.3	8.9	-	30.2	15.4	8.9	-	24.3
Contribution	**221.8**	**57.9**	**(2.5)**	**277.2**	**186.5**	**62.6**	**(5.3)**	**243.8**
Salaries, benefits and overheads				(73.8)				(71.8)
Underlying profit before tax from continuing operations				**203.4**				**172.0**
Add back: depreciation and amortisation				11.6				11.0
Adjusted EBITDA				**215.0**				**183.0**
Senior Secured Debt interest and related costs				(30.3)				(30.6)
Fair value unwind				-				1.1
PPI				1.2				(4.7)
Platform development costs				(9.3)				(1.7)
Other				(0.8)				-
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(65.9)				(68.4)
Profit before tax from continuing operations				**109.9**				**78.7**

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

Group performance

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

(1) In 2022, the definition of this metric was refined to exclude fraudulent balances and the prior year comparatives have been updated for consistency.

(2) Experian Delphi for Customer Management Account and Arrears Management score, which predicts the likelihood of delinquency within the next 12 months with a higher score representing a lower likelihood.

(3) Adjusted EBITDA including the result of our discontinued operation (which represents 'Consolidated EBITDA' as defined in the terms of the Senior Secured Debt and Revolving Credit Facility) was £186m for 2021.

Direct to Consumer performance

	Year-ended 31 December	
£m	**2022**	**2021**
Interest income	640.3	487.8
Cost of funds	(78.0)	(41.2)
Fee and commission income	44.3	31.2
Net Revenue	**606.6**	**477.8**
Impairment	(302.0)	(218.3)
Underlying Risk-Adjusted Income	**304.6**	**259.5**
Servicing costs	(56.5)	(43.7)
Change costs	(23.4)	(22.4)
Marketing costs	(24.2)	(22.3)
Collection fees	21.3	15.4
Contribution	**221.8**	**186.5**
Average gross receivables	2,292	1,843
Closing gross receivables	2,418	2,112
Net Revenue Margin (%)	26.5%	25.9%
Impairment (%)	13.2%	11.8%
Underlying RAM (%)	13.3%	14.1%

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

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

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

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

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

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

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

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

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

Notes:

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

Merchant offering performance

	Year-ended 31 December	
£m	**2022**	**2021**
Interest income	243.8	212.6
Cost of funds	(46.3)	(20.6)
Fee and commission income	21.3	15.7
Net Revenue	**218.8**	**207.7**
Impairment	(80.6)	(77.9)
Underlying Risk-Adjusted Income	**138.2**	**129.8**
Servicing costs	(51.5)	(40.7)
Change costs	(16.6)	(15.9)
Marketing costs	(21.1)	(19.5)
Collection fees	8.9	8.9
Contribution	**57.9**	**62.6**
Average gross receivables	1,309	1,088
Closing gross receivables	1,833	1,174
Net Revenue Margin (%)	16.7%	19.1%
Impairment (%)	6.2%	7.2%
Underlying RAM (%)	10.6%	11.9%

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

Platform Services performance

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

Capital and liquidity

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

	Year-ended 31 December	
£m	**2022**	**2021**
Adjusted EBITDA	**215.0**	**183.0**
Change in ECL allowance	18.5	18.8
Adjusted EBITDA excluding change in ECL allowance	**233.5**	**201.8**
Change in working capital	(42.8)	16.8
Platform development and other costs	(1.5)	(2.3)
PPI provision payments	(21.9)	(9.1)
Capital expenditure	(10.1)	(1.7)
Tax paid	(21.7)	(16.9)
Free cash flow available for growth and debt service	**135.5**	**188.6**
Increase in loans and advances to customers	(980.7)	(459.1)
Net financing cash flow (excluding funding overlap and Senior Secured Debt cash flows)	997.4	389.9
Free cash flow available for Senior Secured Debt servicing	**152.2**	**119.4**
Senior Secured Debt interest paid	(31.1)	(27.8)
Senior Secured Debt and Revolving Credit Facility net repayment	(264.1)	(130.0)
Senior Secured Debt issuance (net of £8m discount to nominal value arising under IFRS)	229.4	-
Return paid on loan from immediate parent company	(18.5)	(10.3)
Cash generated from discontinued operation	-	18.3
Increase/(decrease) in restricted cash	9.9	(5.5)
Increase/(decrease) in cash excluding funding overlap	**77.8**	**(35.9)**
Funding overlap	-	(244.3)
Increase/(decrease) in cash	**77.8**	**(280.2)**
Ratio of net corporate Senior Secured Debt and Revolving Credit Facility to adjusted EBITDA	(0.1x)	0.4x
Ratio of adjusted EBITDA to pro forma cash interest expense	5.9x	7.6x

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

Funding

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

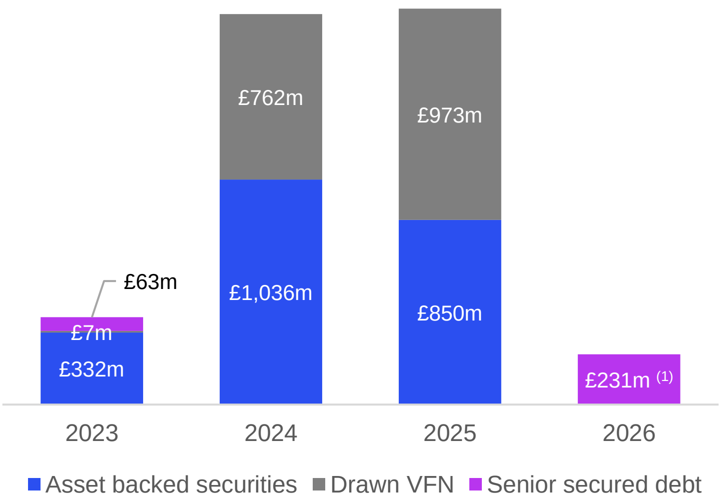
- An Exchange Offer to refinance Senior Secured Notes due to mature in February 2024. This included exchanging £238m of existing notes for new notes and settling £26m of notes in cash. The new notes have a maturity of December 2026 at an interest rate of 13.25% per annum. The remaining £61m of existing notes are currently anticipated to be repaid in cash on or before maturity.

- A £650m variable funding note (VFN) deal signed from the Merchant Offering securitisation programme which is used to fund the gross receivables from the John Lewis & Partners credit card partnership. Three separate VFN expansions in the Direct to Consumer securitisation programme totalling £400m.

- Three separate issuances of asset-backed securities, totalling £934m (of which £92m was retained internally) and included $100m raised from US capital markets, from the Direct to Consumer securitisation programme. The $100m was hedged to a fixed interest rate and foreign exchange rate.

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

Debt maturity profile (including accrued interest)



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

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

Notes:

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

Cash flows

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

	Year-ended 31 December	
£m	**2022**	**2021**
Net cash used in operating activities	(841.7)	(286.8)
Net cash (used in)/generated from investing activities	(21.9)	58.1
Net cash generated from/(used in) financing activities	941.4	(51.5)
Net increase/(decrease) in cash and cash equivalents	**77.8**	**(280.2)**
Cash and cash equivalents at the start of the year	304.4	584.6
Cash and cash equivalents at the end of the year	**382.2**	**304.4**

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

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

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

Capital requirements

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

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

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

Important disclaimer

Certain financial data included in this report consists of 'non-IFRS financial measures'. These non-IFRS (International Financial Reporting Standards) financial measures, as defined by the Company, may not be comparable to similarly titled measures as presented by other companies, nor should they be considered as an alternative to the historical financial results or other indicators of the Company's cash flow based on IFRS. Even though the non-IFRS financial measures are used by management to assess the Company's financial position, financial results and liquidity and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as superior to or substitutes for analysis of the Company's financial position or results of operations as reported under IFRS. These non-IFRS financial measures have not been audited. The inclusion of such non-IFRS financial measures in this report or any related presentation should not be regarded as a representation or warranty by the Company, any member of the Group, any of their respective affiliates, advisers or representatives or any other person as to the accuracy or completeness of such information's portrayal of the financial condition or results of operations of the Company and should not be relied upon.

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. Forward-looking statements express the Company's current expectations and projections relating to its financial condition, results of operations, plans, objectives, future performance and business. These statements may include, without limitation, any statements preceded by, followed by or including words such as "aim," "anticipate," "believe," "can have," "could," "estimate," "expect," "intend," "likely," "may," "plan," "project," "should," "target," "will," "would" and other words and terms of similar meaning, the negative thereof or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. No responsibility is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast.

The information contained in this report should be considered in the context of the circumstances prevailing at the time and will not be updated to reflect material developments that may occur after the date of this report. The information and opinions in this report are provided as at the date of this report and are subject to change without notice. None of the Company, any member of the Group, any of their respective affiliates, advisors or representatives or any other person shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection with this report, or any action taken by you or any of your officers, employees, agents or associates on the basis of the information in this report.

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.