NewDay

Helping people move *forward with credit*

Annual Report and Financial Statements 2021

We help people responsibly move *forward with credit*

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Cautionary statement

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

At a glance

A leading at scale **consumer finance provider** in the UK with proven through the credit risk cycle management

A digital, brand-agnostic and scalable business that drives innovation to create **best-in-class** customer journeys powered by state-of-the-art technology and data

A **leading digital full service** direct-to-consumer (D2C) and direct-to-business-to-consumer (D2B2C) credit platform in the UK. **Trusted partner** with some of the most exciting brands in the UK

An embedded customer **manifesto** guides our business in helping people move forward with credit

Who we are

We are a 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 data. We partner with some of the UK's most exciting brands.

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 through the credit risk cycle capabilities in full-spectrum[1] credit underwriting across a range of products including cards (both physical and digital), buy now pay later (BNPL), 0% promotional periods, instalment plans and revolving credit. Through our Direct to Consumer[2] business, we offer revolving credit to a broad range of customers including those who may not have easy access to mainstream lenders. In our Merchant Offering[2] business, we partner with retailers and online e-tailers, including smaller merchants through *Newpay*, to offer credit to their customers together with loyalty and other reward programmes to build customer loyalty, sales momentum and profitability.

Our business is built on an advanced front end digital platform that allows us to innovate and respond rapidly to changing customer and retail partner needs. Our access to and understanding of data enables us to generate in-depth customer insights. In 2021, we launched our Platform Services business which aims to generate a new revenue stream by providing a white-labelled digital platform solution for end-to-end servicing of third party credit products.

1 Excluding sub-prime.
2 In 2021, we renamed our existing operating segments to Direct to Consumer (previously Own-brand) and Merchant Offering (previously Co-brand).

Our purpose and manifesto

Our purpose

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

to help people move forward with credit.

Who we move forward

Consumers

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

Partners

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

Our manifesto

Everyone wants to move forward. To progress their lives.

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

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

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

Credit helps us move forward.

Where next?

Our manifesto *in action in 2021*

0.9M

customers we responsibly said "yes" to

1.8M

customers with improved credit scores

336K

customers registered for *'Aqua* Coach', our financial education tool

0.72

complaints each month per 1,000 active accounts

Supported the third annual Demos Good Credit Index

£372K

donated to Family Action

NewDay in numbers

2021 was a record year for our business

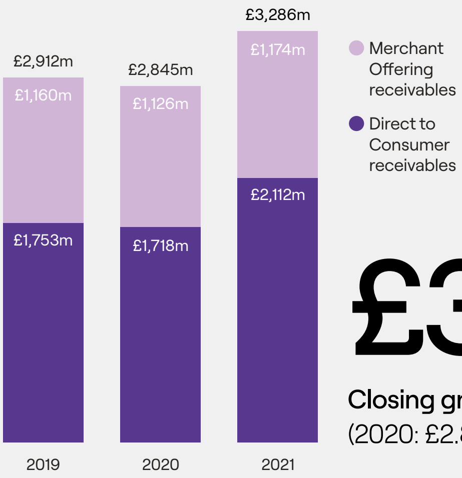
Our business returned to growth in 2021 as the steps taken in 2020 to strengthen our balance sheet provided a strong base to capitalise on growth opportunities. Customer spend increased by 20% to £6.0bn and powered our growth, resulting in receivables increasing by 16% to £3.3bn. Our next generation credit underwriting models driven by machine-learning technology allowed us to open 0.9m new customer accounts and total customer numbers finished at 4.6m. This contributed to record underlying profit before tax from continuing operations of £172m and a statutory profit before tax from continuing operations of £79m.

We continue to invest in our leading-edge technology to provide effortless customer journeys. As at the year end, 91% of active customers were registered for e-servicing with 143m app logins in the year. Our ongoing commitment to serving our customers is evident in our Net Promoter Score (NPS) which remains high at +70. We are a credit provider of choice for customers, approximately 17%[1] of all credit cards issued in the UK in 2021 were issued by NewDay.

We signed an agreement with Currys to launch a partnership in 2022 and, as at the year end, 75 retailers have signed up to our *Newpay 1:Many* product. Additionally, in 2022, we signed an agreement with a major new merchant for a partnership which will also launch in 2022.

Our business is highly cash generative. We generated £119m of free cash flow available for Senior Secured Debt interest. During 2021, we repaid our £30m Revolving Credit Facility and settled £100m of Senior Secured Debt ahead of its scheduled maturity. As at the year end, our cash balance was £304m. We remained active in funding markets and raised £1.4bn of new finance or facilities and added a new large international bank to our lending panel.

Read more in our financial review on page 30



£3.3BN

Closing gross receivables
(2020: £2.8bn)

£172M

underlying profit before tax from continuing operations
(2020: £22m loss)

£6.0BN

customer spend through our products
(2020: £5.0bn)

4.6M

total customer numbers
(2020: 4.7m)

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

£79M

statutory profit before tax from continuing operations
(2020: £129m loss)

+70

transactional NPS
(average customer feedback score when rating their experience on an interaction with us)
(2020: +67)

91%

of active customers registered for e-servicing
(2020: 84%)

17%

of UK credit cards were issued by NewDay in the year[1]
(2020: 19%)

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

143M

app logins
(2020: 107m)

£119M

free cash flow available for Senior Secured Debt interest
(2020: £129m)

Market overview

We have a well-established and leading presence in our core segment, with a 12% share[1] that has been growing.

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

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

£3.3bn gross receivables

NewDay product opportunity

Our core segment for customer acquisition

- Direct-to-customer cards (near-prime)
- Merchant cards (prime and near-prime)
- Digital PoS credit (including BNPL which we serve through *Newpay*)

UK cards and digital PoS credit

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

NewDay platform opportunity

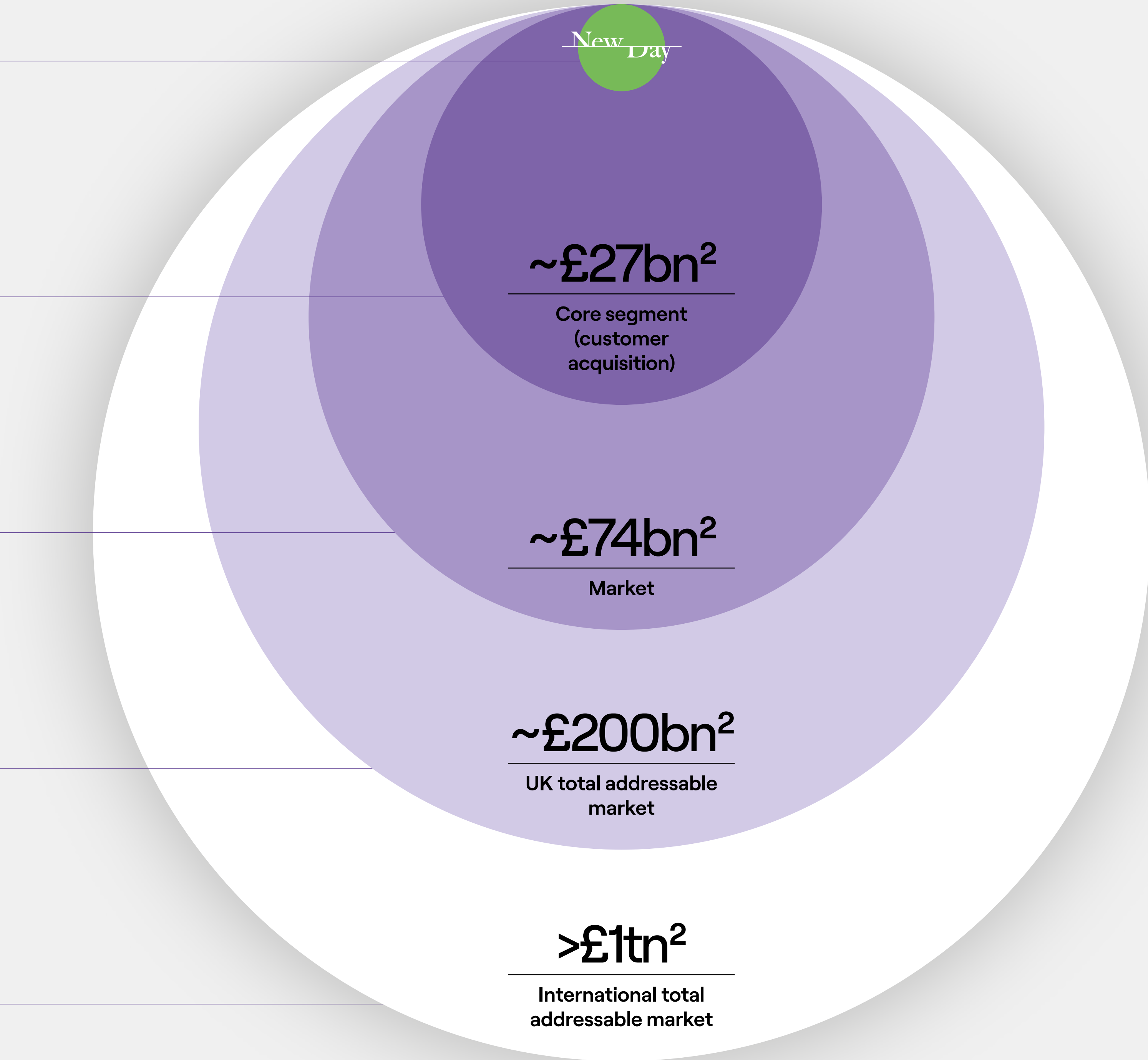
UK unsecured credit

- Includes personal loans, car loans and other unsecured credit, where our platform has the capability to serve

All European unsecured credit

- *NewTech*, our platform and service proposition, has the potential to address the international market

1 £3.3bn receivables compared to £27bn core segment size.
2 Based on data as at 31 December 2020, source: management analysis; Bank of England; GlobalData (Retail Banking Analytics, Consumer Credit Analytics); Euromonitor; and market participant interviews.


NewDay
~£27bn²
Core segment (customer acquisition)
~£74bn²
Market
~£200bn²
UK total addressable market
>£1tn²
International total addressable market

Our product offering

NewDay offers consumer finance, both direct to consumers and through merchant partners. We are powered by our leading digital, highly flexible technology platform with full-spectrum underwriting capabilities.

Our business has three growth engines:

1. Direct to Consumer

Our revolving credit offering.

2. Merchant Offering

Innovative e-commerce offering, direct-to-business-to-consumer.

3. Platform Services

New revenue opportunity from white-labelling of our technology platform.

1. Direct to Consumer

aqua — Credit building

marbles — Financial control

fluid — Prime bridge

bip. — Digital cardless credit

£2.1bn
Gross receivables

1.7m
Customer accounts

3. Platform Services

Note: Our Direct to Consumer business also has an *Opus*-branded portfolio. Our Merchant Offering business also has partnerships with high street retailers as well as closed portfolios.

Powered by NewDay's leading platform

2. Merchant Offering

- Full-spectrum underwriting
- Flexibility to spend and pay down as a customer chooses
- Cards (physical and digital), BNPL, instalments and revolving credit
- Brand-agnostic (ten brands on the platform)
- Aggregators, direct and merchants (large merchants and small merchants via *Newpay 1:Many*)

ao	White-labelled product offering with revolving credit, instalment loans, BNPL and 0% promotional offers
amazon	Co-branded card with digital acquisition
newpay 1:Many	Ecosystem of 75 retailers – and growing. Multi-product offering including BNPL and 0% promotional offers
Pulse	Own-branded card for customers from ceased retail partnerships

£1.2bn
Gross receivables

2.9m
Customer accounts

- White-labelled technology platform solution, *NewTech*
- Targeted at banks and lenders within and outside of the UK

Our business model

Powered by leading-edge technology and an embedded manifesto

Opportunity

We evolve with our customers and partners to meet changing needs

In an increasingly digital world, consumer credit behaviours continue to evolve and technological advancements lead to new opportunities for e-commerce and data insight. We deploy our **specialist knowledge in underwriting credit and our truly agile customer-centric technology platform** to carefully pursue brand and product expansion (including BNPL) 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 6

Enablers

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

Helping customers move forward with credit and the principles of our manifesto 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 talent to our growing business.

Read more on page 2

We leverage a leading-edge digital platform to drive innovation

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

Read more on page 18

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 provides a high level of performance predictability.

Read more on page 24

Delivering strong controlled growth and high performance predictability

We returned to growth in 2021. Receivables, customer spend and new account volumes increased resulting in record profitability in the year. Our relentless focus on **helping customers move forward with credit** ensures that we grow in a responsible and sustainable manner.

Read more on page 30

How we create value

Attractive market proposition
We offer a suite of compelling products that allow us to serve our customers throughout their credit journey. We offer seamless integration with 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 manifesto commitment.

Digital origination
Through direct marketing, aggregators and partnerships we reach an extensive customer base. This reach is increasingly digital and encompasses our partners' most loyal customers as well as those who find access to credit from mainstream 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 digital platform and technology partners
Together with our customer insight, our in-house technology capabilities and agile operating model enable our data scientists and engineers to build better solutions faster and drive rapid digitisation in our customer journey and the business more widely. Our platforms are built on infrastructure provided by leading technology organisations, including Microsoft and Amazon Web Services. They afford us cloud-based scalability, high performance, low marginal cost and modern security advantages. Our transaction processing platform is outsourced to Fiserv, who remain an important partner for us.

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

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

Our competitive strengths

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

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

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

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

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

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

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

"We are a mission-led customer-centric business with a clear purpose to use our digital capabilities to facilitate responsibly the use of credit."

Sir Michael Rake
Chairman and Non-Executive Director

I am pleased to report a record year for our business. The continued investment in our digital agenda during COVID-19 meant that we were well positioned when the UK started to return to pre-pandemic norms. We created new products, new technologies and new ways for our customers to access affordable credit. All with the aim of helping people move forward with credit.

Our vision is to become the UK's leading digitally enabled consumer finance provider. We continued to build on our strong foundations and the scalability of our business model to deliver record results and better outcomes for customers.

Our purpose

We are a purpose-led business and believe in credit as a force for good. Responsible and accessible credit expands possibilities. It powers up life and business.

Responsibly saying "yes" to more customers is our mission. We welcomed 0.9m new customer accounts in the year (2020: 0.9m) and broadened our product offering to stay ahead of rapidly evolving customer and partner needs. Promoting financial inclusion and good credit behaviours is key to helping people move forward with credit. We invested in our financial education tool '*Aqua* Coach' and as at the year end 336k customers had registered for it. The technology and support we offer helped 1.8m customers improve their credit score over the year (2020: 1.9m).

We also used this year as an opportunity to refresh our manifesto. Our refreshed manifesto is aspirational and resonates with our customers, our colleagues and our partners. Everyone wants to move forward, to progress their lives. See page 2 for further details.

While our business has become more resilient following COVID-19 we remain mindful of the impact that the pandemic has had on our customers during the year, and unfortunately continues to have even today. Our contact centre colleagues are highly-skilled and our technology provides them access to detailed customer insight to be able to identify potentially vulnerable customers. Our collections toolkit remains key in providing support to customers through 'bumps in the road'.

Our colleagues

We are fortunate to have such a highly-skilled and dedicated team at NewDay. Our ability to deliver new technology at pace while delivering excellent customer experiences is underpinned by their commitment and desire to help people move forward with credit. Our values of 'do the right thing', 'pull together', 'aspire to extraordinary' and 'create tomorrow' are truly embedded throughout our business and are evidenced on a daily basis.

Our annual, externally managed employee survey demonstrates high levels of engagement at NewDay with a score of 80% in our most recent survey (2020: 80%). Our inclusion and diversity agenda remains at the forefront of the Board's thinking and we ran a rich events programme throughout the year, including our Inspirational Speaker Series, to continue to promote a culture that celebrates diversity in all its guises.

It is great to see our colleagues' collaborations recognised externally. We were gold winners for 'Best use of AI' at the Digital Experience Awards 2021. Winners of the 'Best Consumer Credit Card or Credit Facility' at the Card and Payments Awards and we won silver at the UK National Contact Centre Awards for the 'Most Positive Impact on the Community'.

NewTech
We have invested significantly in recent years in developing market-leading technology. Our digital capabilities support the rapid launch of new partners and products. Our platform is omni-channel and serves the complete end-to-end product life cycle. It is built on serverless technology, providing scale and cost advantage. In 2021, we assessed our strategic priorities and identified an opportunity to deploy this technology to establish a new revenue stream from white-labelling our platform, *NewTech*. We aim to launch this exciting opportunity in the near future targeting customers across the UK and Europe.

Our Environmental, Social and Governance (ESG) agenda
We recognise the important role that our products play in society. 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 purpose. Delivering long-term sustainability is a fundamental objective at Board level.

In 2021, we became a signatory to the UN Global Compact and our business supports their Ten Principles on human rights, labour, environment and anti-corruption. Our continued focus on ESG matters resulted in NewDay being awarded a silver medal from EcoVadis for sustainability, placing our business in the top 25% of all businesses surveyed.

We are proud to support our charity partner, Family Action, with financial and operational support. In 2021, we supported vulnerable families with Open Doors grants and during our six-year partnership with Family Action we have donated over £1m to support their initiatives. 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.

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.

Payment deferral intervention to support customers through COVID-19 remained a priority for us. We extended payment deferral support to 104k customers in the year (2020: 234k). Additionally, we implemented all planned interventions required to support customers who remained in persistent debt for 36 months.

We continue to scan the horizon to stay alert to regulatory developments. We have carefully assessed the findings of the Woolard Review and as a responsible lender we welcome the proposals to level the playing field between regulated BNPL providers like ourself and unregulated providers. We view our FCA-regulated *Newpay* product as a clear differentiator in the marketplace. We believe we are ahead of our peer group in addressing a number of recent and upcoming regulatory areas, in particular the FCA's Credit Card Market Study, affordability, vulnerability and the Woolard Review.

Outlook
2021 was a record year for our business and provides a strong foundation for continued growth into 2022. Our digital capabilities, differentiated products and highly-skilled teams position our business to capitalise on potential opportunities. We remain alert to the ongoing impact of COVID-19 and inflationary pressures squeezing costs of living, and plan for both carefully. Our proactive risk management approach and strong balance sheet allow us to appropriately manage risks whenever they may materialise. We are well placed to respond to the external environment and make continued progress on our strategic objectives to deliver attractive returns for our shareholders.

We are proud to have been supported by our owners for over five years now and we continue to explore strategic options to further our growth including the possibility of an IPO or private sale.

I would like to thank the Board and all colleagues across the business for their hard work and commitment to delivering on our purpose and manifesto. We could not have achieved our record results without them.

Sir Michael Rake
Chairman and Non-Executive Director

Credit as a *force for good*

Our ESG strategy is embedded across our business

We help people move forward with credit

1.8M

customers supported to improve their credit score
(2020: 1.9m)

104K

customers supported through payment deferrals
(2020: 234k)

336K

customers registered for '*Aqua* Coach', our financial education tool
(2020: 75k)

We strive to create an exceptional experience for our colleagues and support advancement in our communities

80%

employee engagement
(2020: 80%)

83%

inclusion and diversity index
(2020: 82%)

Over £1m donated to our charity partner Family Action since the start of our partnership

Underpinned by strong and established corporate governance

Signatory to the UN Global Compact

EcoVadis silver medal for sustainability
(2020: bronze)

Board level ESG reporting and targets set for each metric

We are an environmentally conscious and highly digital business

0.5

tonnes of CO_2e per average FTE employee
(2020: 0.4 tonnes)

Greenhouse Gas Inventory completed, enabling us to expand our Scope 3 emissions reporting and assess our impact across the value chain

Transitioned to **renewable energy tariffs** across the business

Annual **mandatory ethics training** for all colleagues

NewDay exists to help people move forward with credit. Acting responsibly and sustainably means we can look after our customers, protect the environment and help support our communities.

By developing a comprehensive sustainability strategy with clear targets we aim to create change, deliver sustainable development and build a better future for our stakeholders.

Read more on page 40

Future priorities

- Guided by our manifesto, continue to develop and improve our customer experience
- Continue to offer our colleagues a culture where they can thrive and develop
- Provide further support to Family Action and Demos and enhance wider community initiatives
- Achieve carbon neutrality in own operations during 2022
- Develop roadmap to net zero
- Achieve ISO 27001 Information Security accreditation
- Publish our first standalone Sustainability Report
- Continue to expand sustainable procurement processes to ensure our suppliers' activities are aligned with our ESG ambitions

Chief Executive Officer's review

"2021 was a record year. We returned to strong growth and solidified our position as a leading digital player in the unsecured consumer credit market."

John Hourican
Chief Executive Officer

I am pleased to report a strong return to growth for our business in 2021. We capitalised on the opportunities afforded to us by our digital capabilities and customer-centric focus. Our investment in new technologies, our colleagues and our digital customer journeys has positioned NewDay as a leading consumer credit business in the UK.

Our customers

In 2021, we updated our manifesto to reflect the changing needs of our customers. We believe in credit as a force for good. This embedded belief helped us to continue supporting customers through COVID-19. We aim to responsibly say "yes" to as many people who apply for credit by providing the right product at an appropriate rate and rewarding them for managing their credit well. In 2021, we enhanced our customer underwriting capabilities with the implementation of machine-learning powered credit models. This allowed us to grow customer numbers and welcome more new customers from the near-prime segment who typically find access to affordable credit less easy.

We are a credit provider of choice for consumers. Approximately 17%[1] of all credit cards issued in the UK in 2021 were issued by NewDay (2020: 19%). We also have a well-established and leading presence in our core segment, with a 12% share[2] that is growing.

Growth through innovation

We operate in a rapidly changing consumer landscape and our customers and partners demand the latest product and technological innovations. Our market-leading, in-house digital platform allows our business to respond faster and drive rapid change to stay in touch with our customers' and partners' needs. We offer a wide range of consumer products including 0% finance, instalment plans, BNPL and standard revolving credit.

In 2021, we accelerated our change agenda and delivered several key digital enhancements. We launched *Newpay 1:Many* through Deko, our sister company, which aims to disrupt the point-of-sale and BNPL credit market and create a diverse ecosystem of smaller merchants through which we can accelerate the roll-out of our *Newpay* product. As at the year end, and since launch in July, 75 merchants have signed up to this programme.

We launched *Bip*, the UK's first completely digital credit card. *Bip* is at the forefront of credit product innovation. It is a unique and distinctive product that brings together the latest technology and product strategies. As at the year end, 18k customers are using this product.

Our Merchant Offering portfolio continues to grow. We partner with like-minded digital-first retailers and our partnerships with leading e-tailers Amazon and AO.com continue to perform well. In 2021, we further progressed our pipeline of new business opportunities and I am delighted that we signed an agreement with Currys to launch a partnership in 2022 which will use our *Newpay* product. Additionally, in 2022, we signed an agreement with a major new merchant for a partnership which will also launch in 2022.

1 Estimated based on eBenchmarkers data and inclusive of *Newpay* volumes.
2 £3.3bn receivables compared to £27bn core segment size, see page 6 for further details.

Although some of our founding high street partners ceased trading during the pandemic we wanted to maintain and build on the long-standing customer relationships from those programmes. We continued to engage with customers using their card and, in 2021, we launched our reward-rich *Pulse* Mastercard and migrated certain customers from the closed programmes.

Our technology

We are a digital business powered by market-leading technology and our performance in 2021 was underpinned by our digital capabilities. We processed 146m transactions (2020: 113m) and had 143m app logins (2020: 107m) in the year. As at 31 December 2021, 91% of active customers were registered for e-servicing (2020: 84%).

We continue to make significant investment in our technology. We have built leading in-house digital and data platforms which create differentiation from competitors. This unlocks significant value for our customers, our colleagues and our partners through engaging experiences and highly-relevant products. Our platforms are fully cloud-based and developed by our 200+ colleagues strong in-house engineering team. This enables the rapid launch of new products and partners while driving a significant reduction in operational costs. We have seen a 32% reduction in calls to our contact centre in the last year.

This technology allows us to be a leading consumer credit provider in the UK, however our ambitions are much greater than this. Our market-leading platforms and digital capabilities are scalable and service the end-to-end customer journey. We plan to deploy this technology to establish a new revenue stream from white-labelling our platform, *NewTech*. We aim to launch this exciting opportunity in the near future.

Record financial performance

Our customer spend increased by 20% to £6.0bn (2020: £5.0bn) and receivables increased by 16% to £3.3bn (2020: £2.8bn). Our growth resulted in record profitability with underlying profit before tax from continuing operations of £172m (2020: £22m loss) and a statutory profit before tax from continuing operations of £79m[1] (2020: £129m loss). Our credit performance remains strong with low charge-off rates and whilst the economic environment has improved in 2021, we continue to hold significant levels of provisions for potential future credit losses to reflect the ongoing uncertainty in the UK economic outlook. As at the year end, our expected credit loss (ECL) allowance represented 17.3% of gross receivables (2020: 19.3%).

Our business generates cash. Free cash flow available for Senior Secured Debt interest was £119m (2020: £129m) and our closing cash balance was £304m (2020: £340m excluding funding overlaps[2]). During the year we repaid our £30m Revolving Credit Facility which was drawn down in 2020 and £100m of Senior Secured Debt.

We remained active in funding markets. We raised £1.4bn of funding from both asset-backed securities and our banking partners, and added a new large international bank to our lending panel. As at the year end, we had £1.3bn (2020: £0.9bn) of headroom on our funding facilities for future growth and an average debt maturity of two years (2020: 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.

Following closure of our Unsecured Personal Loans (UPL) portfolio to new lending in 2020, we successfully sold the remaining receivables in February allowing us to refocus our priorities to more promising growth opportunities.

An optimistic outlook

We operate in a rapidly changing consumer landscape. Our business is driven by our digital capabilities, expert teams and a clear corporate purpose. This makes NewDay unique and resilient. We aspire to extraordinary and create tomorrow with the aim of turning the dynamic retail and consumer ecosystem into an opportunity for NewDay to disrupt market norms.

Our business has to remain alert to macroeconomic pressures and we closely monitor the ongoing impact of COVID-19 and inflationary pressures on our customers, and the risks that both of these pose to NewDay. Our continued product and technology diversification, as well as strong funding base, serve as effective mitigants to these risks.

We have a pipeline of exciting business opportunities including a number of new retail partnerships, the expansion of *Newpay 1:Many* and the launch of *NewTech*. I look forward to 2022 with a tangible sense of excitement as we look to continue delivering great customer experiences and product innovation, with the aim of helping people move forward with credit.

Finally, I would like to thank all of our colleagues for their ongoing commitment and dedication to supporting our customers and delivering a superb all-round performance in 2021.

John Hourican
Chief Executive Officer

1 Our underlying performance excludes certain items included within the statutory result. A reconciliation between our underlying and statutory result is shown on page 31.
2 Funding overlaps are temporary increases in our cash and debt balances which arise when we issue new funding in advance of the maturity of the debt it is replacing.

Leveraging a leading *digital platform*

We continue to invest significantly to build leading in-house digital and data platforms, creating differentiation from competitors and driving higher levels of customer satisfaction.

Our platforms are fully cloud-based and developed by our in-house engineering team. This enables the rapid launch of new products and partners while driving a significant reduction in operational costs.

Our digital platform is designed to effortlessly support multiple brands, partners and products through a white-label approach where components can be customised to enable seamless and efficient integration. The platform is PCI compliant and is built on serverless technology, giving scale and cost advantage and includes tokenisation capability to protect highly-sensitive customer and card data. The platform also creates value-driving predictive models through the use of new data sources which feed our growing transactional data assets.

In 2021, we continued to enhance our platforms and technology to deliver market innovation and a leading digital customer experience.

January

Machine-learning powered credit models
Enhancing customer underwriting capabilities

April

In-app faster payments (PayOnline)
Enabling customers the ability to instantly clear balances

July

Pulse

Pulse
Migrating customers from closed co-branded programmes to an own-branded product that has reward-rich benefits. It had £58m of receivables as at the year end

September

Trusted retailers
Removing friction from the spend journey by enabling customers to trust retailers through digital servicing, removing the need for extra security when spending at that retailer

November

Personalised mobile app account summary
Prompting customers to bring their account up-to-date, or provide assistance if they need further help and support

December

API integration
Integration with key aggregators to offer guaranteed APRs to customers

June

newpay

Newpay 1:Many
Multiple retailer proposition launched through Deko

Income and expenditure assessments
Omni-channel tooling to support the best possible outcomes for customers in arrears

July

bip.

Bip
Launch of our completely digital credit product. 18k customers were using this product as at the year end

2022 pipeline

- Deploying our platform through *NewTech* to diversify our product offering and monetise our technology
- Phased launch of a new in-house, fully integrated collections platform
- Launch of a *Newpay* instalment calculator, facilitating greater transparency and management of monthly instalments for customers
- Launch of Currys proposition
- New transaction enrichment technology to help customers more easily manage transactions

Case study

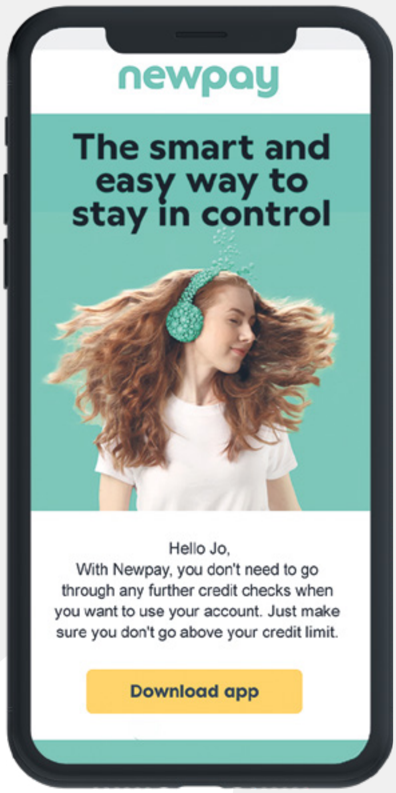
newpay

Through

DEKO

Newpay is an innovative product designed to disrupt traditional PoS and BNPL finance.

Through Deko, our sister company, we have accelerated distribution of our *Newpay* product through *Newpay 1:Many* to create a diverse ecosystem of merchants. As at the year end, 75 merchants have signed-up to *Newpay 1:Many.*



About *Newpay 1:Many*

Newpay 1:Many is different to traditional PoS finance and includes BNPL capability.

'Always on' account

For use across the full *Newpay 1:Many* retailer ecosystem

Higher initial credit limits

Higher limits compared to existing competitors and BNPL offers

Flexible offering

Revolving digital credit with 0% finance, instalment plans and BNPL offers

High-value retail

Low-volume, high-value focus

One time application

No individual credit assessments for each purchase

Saying ‘yes’ more often

Through a risk-free soft credit check

Fast merchant integration

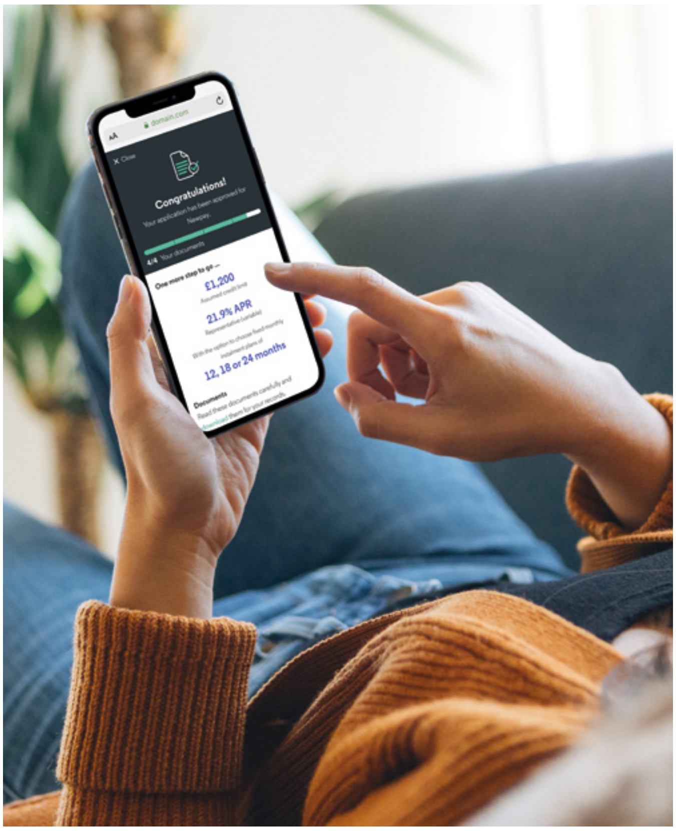
Seamless integration into the merchant’s checkout journey

Fully regulated

Compliance with full FCA credit and affordability checks

75

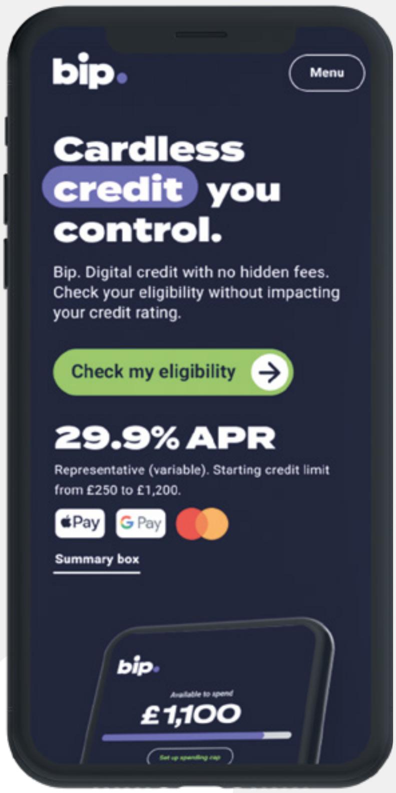
merchants signed up to *Newpay 1:Many* by year end, since launch in July 2021



Case study

bip.

The UK's first fully digital credit card.



About *Bip*

Bip is a unique and distinctive mobile app-based product that wraps together the latest technology and product strategies.

Our vision for *Bip*

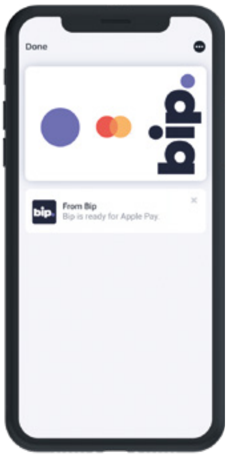
1. Become a primary source of credit for our customers
2. Disrupt consumer credit in the UK
3. Drive meaningful innovation by pursuing simplicity

Benefits realised from *Bip*'s digital capabilities

1. More than 70% of *Bip* customers used *Bip* within 7 days
2. Both digital wallets (Apple Pay and Google Pay) and virtual card being used
3. Average spend is greater than our *Aqua* product in first 30 days

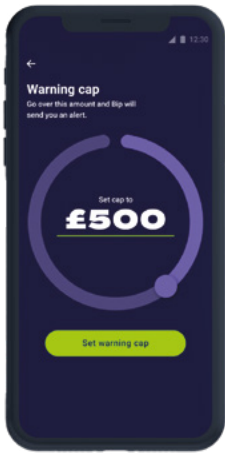
4.7 ☆

average app store rating



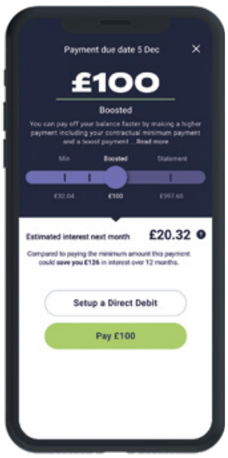
Cardless credit

Customers no longer need to wait to receive plastic cards before they can spend. Instead, customers instantly receive a virtual card using Apple Pay or Google Pay.



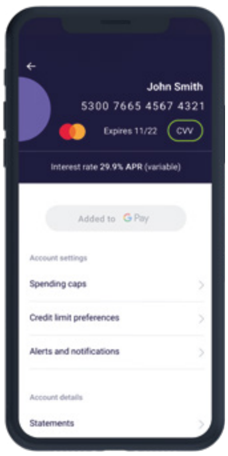
Instant utility

Real-time authentication, instant decisioning and spend caps.



Fully digital servicing

Easy to use control features and payment calculator.



Stripped back terms

One interest rate, no fees.

Customer feedback

“Wow, what a great product! This is such a fresh take on credit and a real game changer. It’s really streamlined my everyday spending and I see little use for any other credit cards. The application was easy and straightforward!”

“So easy to use! It’s my first credit card/ app so I am very new to it all, but *Bip* helped me instantly understand how credit works and how to use it. Definitely recommend it!”

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 Direct to Consumer and Merchant Offering 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

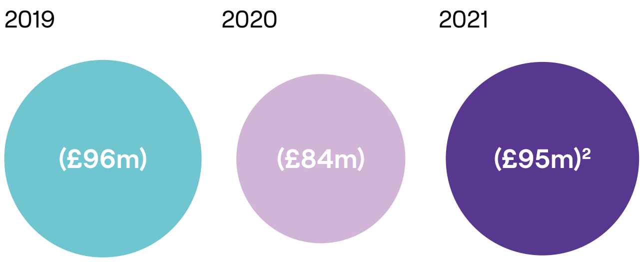
We are investing today to grow our receivables and deliver long-term profitability. This continuous investment in acquiring new customers aims to deliver sustainable year-on-year increases in receivables and returns from our established long-term customers.

Acquiring new customers

In 2021, we invested in acquiring 0.9m new customer accounts which resulted in £95m of underlying loss before tax from continuing operations. In addition to the new account volumes, improvements to credit underwriting models enabled us to offer higher initial credit limits and onboard more near-prime customers leading to a larger investment in the year.

	2019	2020	2021
New customer accounts[1]	1.2m	0.9m	0.9m
Gross receivables	£402m	£284m	£479m

Underlying loss before tax from continuing operations

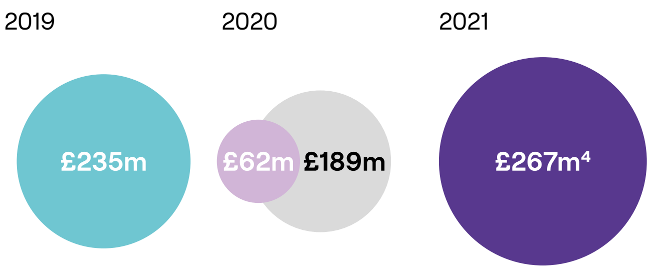


Long-lasting relationships

Our pre-existing customers continue to generate strong returns with an underlying profit before tax from continuing operations of £267m in the year, 14% higher than 2019.

	2019	2020	2021
Existing customer accounts[3]	4.0m	3.8m	3.7m
Gross receivables	£2,510m	£2,561m	£2,807m

Underlying profit before tax from continuing operations



£189m represents the result adjusted for the impact on ECL of the forecast deterioration in the UK economy

1 New customer accounts represent accounts opened in the last twelve months.
2 This comprises net revenue of £74m (2020: £68m), impairment of £83m (2020: £80m) and total underlying costs of £86m (2020: £72m).
3 Existing customer accounts represent total accounts less new customer accounts opened in the last twelve months.
4 This comprises net revenue of £612m (2020: £570m), impairment of £213m (2020: £367m) and total underlying costs of £132m (2020: £141m).

Our strategy
2021 delivery and future priorities

Opportunity

We evolve with our customers and partners to meet changing needs

2021 highlights:

- 0.9m new customer accounts
- 16% receivables growth to £3.3bn
- Launched *Bip*, a completely digital credit solution which removes friction to help customers apply and pay with credit more easily
- Signed an agreement with Currys to launch a partnership in 2022
- Accelerated the roll-out of *Newpay* through *Newpay 1:Many* with our sister company Deko. As at the year end, 75 merchants have signed up to this programme
- Migrated certain customers from closed co-branded programmes to our *Pulse* card which is a reward-rich offering

Future priorities:

- Continuing to expand the business and growing market share sustainably and responsibly, and continuing to offer innovative and varied products
- Growing *Newpay* and its *Newpay 1:Many* ecosystem of merchants
- Launching our partnership with Currys and the major new merchant partnership signed at the beginning of 2022
- Deploying our core platform as a service to other financial institutions
- Introducing a brokerage service to customers for third party funded personal loans

Enablers

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

2021 highlights:

- Transactional NPS of +70
- Supported 1.8m customers improve their credit score
- 336k customers have registered for the Group's financial education tool '*Aqua Coach*' as at the year end
- Supported 104k customers during COVID-19 with payment deferrals
- 14% reduction in customer complaint volumes
- Continued to support Family Action, our charity partner, providing £372k of contributions and our colleagues donated over 2,300 toys for their Christmas toy appeal
- Maintained NewDay as an employer of choice

Future priorities:

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

"2021 was a record year for our business. It represented a strong return to growth following the start of the pandemic. Our continued investment in digital capabilities accelerates our business towards achieving our strategic objectives."

John Hourican
Chief Executive Officer

Outcomes

We leverage a leading-edge digital platform to drive innovation

2021 highlights:

- Launched machine-learning powered credit model to enhance our customer underwriting capabilities
- Built a completely digital credit solution with capabilities that can be rolled-out across our portfolio
- Application programming interface (API) integration with key aggregators to offer guaranteed APRs to customers
- 91% of active customers registered for e-servicing
- 143m app logins
- 146m transactions processed
- 100% of new customer accounts originated digitally
- 338k customers on a cardless product

Future priorities:

- Driving cost-efficiencies through further digital transformation
- Monetising our highly scalable, in-house digital platform
- Launching new transaction enrichment technology to help customers more easily manage transactions

Acquiring new customers and creating long-lasting relationships

2021 highlights:

- Acquired 0.9m new customer accounts
- Credit provider of choice, approximately 17%[1] of all credit cards issued in the UK were issued by NewDay
- Targeted the 'up and comers' demographic with the launch of *Bip*
- Migrated certain customers from closed co-branded programmes to our *Pulse* card
- Signed 75 merchants to *Newpay 1:Many*
- Existing customers generated £267m of underlying profit before tax from continuing operations

Future priorities:

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

Delivering strong controlled growth and high performance predictability

2021 highlights:

- Record underlying profit before tax from continuing operations of £172m
- Statutory profit before tax from continuing operations of £79m
- £1.4bn additional asset-backed funding secured
- £1.3bn of VFN headroom to fund future growth
- £119m of free cash flow available for Senior Secured Debt interest
- £304m closing cash balance and repaid £100m of Senior Secured Debt and the £30m Revolving Credit Facility

Future priorities:

- Maintaining our strong, diversified capital base and liquidity profile
- Continuing to deliver strong shareholder returns through controlled growth

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

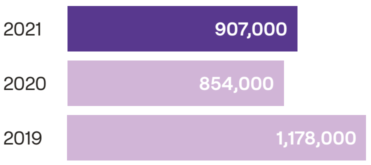
Key performance indicators

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

New customer accounts

0.9M

(2020: 0.9m)



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

Performance: Our Direct to Consumer business reported strong growth and welcomed 530k new customer accounts (2020: 367k). Our Merchant Offering portfolio reported 377k new customer accounts (2020: 487k) with partnerships with leading e-tailers limiting the impact of the cessation of trade for certain high street partners.

Customer spend

£6.0BN

(2020: £5.0bn)

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

Performance: Spend surpassed pre-pandemic levels as a result of increased consumer confidence. Direct to Consumer reported 45% growth to £3.2bn (2020: £2.2bn) and Merchant Offering was flat at £2.8bn (2020: £2.8bn) with our e-tail partners' growth offsetting the impact of certain high street partners ceasing to trade.

Transactional Net Promoter Score (NPS)

+70

(2020: +67)

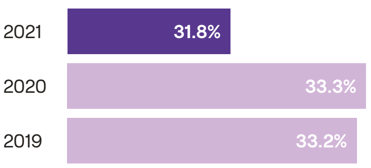
Definition: Average customer feedback score when rating their experience on an interaction with us.

Performance: Our NPS improved in the year through the continued focus on delivering our manifesto to drive positive customer outcomes. We continue to enhance our digital platform which has led to an improvement in our Net Easy Score to +73 (2020: +72).

Underlying cost-income ratio

31.8%

(2020: 33.3%)



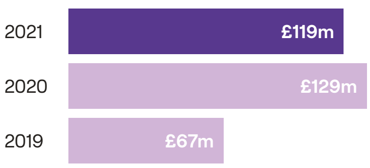
Definition: Underlying costs (servicing, change, marketing and partner payment costs, collection fees, salaries, benefits and overheads) (£218m)/net revenue (£686m).

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

Free cash flow available for Senior Secured Debt interest

£119M

(2020: £129m)



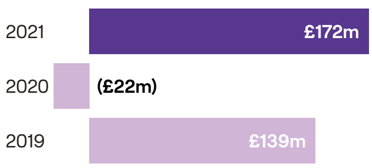
Definition: Adjusted EBITDA (£183m) adding back the movement in the ECL allowance during the year (£19m) less changes in working capital, PPI provision utilisation, capital expenditure, platform development costs and tax expense (£14m), less cash used in receivables growth (£459m), plus net financing cash flows (£390m).

Performance: Our business is highly cash generative, we generated £119m of free cash flow available for Senior Secured Debt interest. We repaid £100m of Senior Secured Debt and the £30m Revolving Credit Facility, and finished the year with £304m of cash (2020: £340m excluding funding overlaps).

Underlying profit before tax from continuing operations

£172M

(2020: £22m loss)



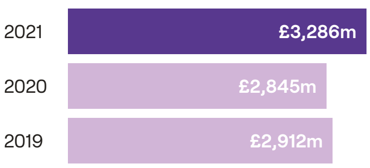
Definition: Underlying risk-adjusted income (£390m) less underlying costs (£218m).

Performance: Significantly improved underlying risk-adjusted income was the main driver of higher underlying profit.

Closing receivables

£3.3BN

(2020: £2.8bn)



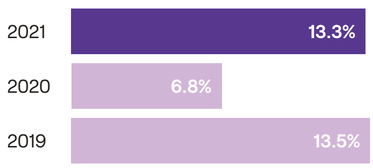
Definition: Gross customer balances outstanding at the year end.

Performance: Strong receivables growth was powered by spend which returned to pre-pandemic levels. Direct to Consumer increased by 23% and our partnerships with some of the UK's leading e-tailers partly offset the cessation of trade for certain high street partners resulting in a 4% increase in our Merchant Offering portfolio.

Underlying risk-adjusted margin

13.3%

(2020: 6.8%)



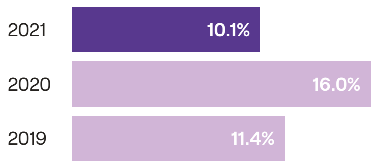
Definition: Underlying risk-adjusted income (net revenue less impairment losses on loans and advances to customers) (£390m)/average gross receivables (£2,931m).

Performance: Our underlying risk-adjusted margin improved primarily as a result of a lower impairment charge.

Impairment rate

10.1%

(2020: 16.0%)



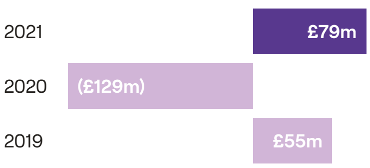
Definition: Impairment losses on loans and advances to customers (£296m)/average gross receivables (£2,931m).

Performance: Underlying collection performance was strong and resulted in a lower impairment charge. Our ECL allowance as a proportion of gross receivables reduced to 17.3% (2020: 19.3%).

Statutory profit before tax from continuing operations

£79M

(2020: £129m loss)



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

Performance: Our strong underlying performance translated into significantly improved statutory profit.

Employee engagement

80%

(2020: 80%)

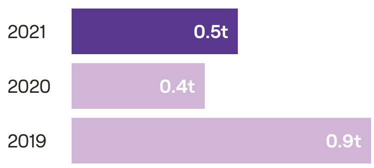
Definition: Results of our most recent Pulse engagement survey.

Performance: We refreshed our manifesto to ensure it continues to resonate with our colleagues. This, along with other initiatives focusing on maintaining engagement with our purpose and strategy, resulted in a high engagement score.

Carbon footprint

0.5 tonnes of CO_2e per average FTE employee

(2020: 0.4 tonnes)



Definition: The amount of Scope 1, 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 (537 tonnes of CO_2e)/average number of full time equivalent (FTE) employees (1,129). 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 2021, our footprint increased due to our offices reopening as Government restrictions were lifted.

Financial review

"

2021 was a great year for our business. We reported record profitability with underlying profit before tax from continuing operations of £172m and a statutory profit before tax from continuing operations of £79m.

Strong new customer acquisition and consumer spending powered our receivables growth of 16% to £3.3bn.

Our business continues to generate cash. Free cash flow available for Senior Secured Debt interest was £119m and our closing cash balance was £304m after repaying £100m of Senior Secured Debt and the £30m Revolving Credit Facility. In 2021, we raised £1.4bn of new asset-backed debt or facilities and finished the year with £1.3bn of headroom to fund growth."

Paul Sheriff
Chief Financial Officer

2021 highlights

- Record underlying profit before tax from continuing operations of £172m (2020: £22m loss)
- Statutory profit before tax from continuing operations of £79m (2020: £129m loss)
- 16% receivables growth to £3.3bn (2020: £2.8bn), customer spend increased by 20% to £6.0bn (2020: £5.0bn)
- 0.9m new customer accounts (2020: 0.9m)
- 8% net revenue growth to £686m (2020: £637m)
- ECL allowance as a proportion of receivables of 17.3% as at the year end (2020: 19.3%). Underlying collections performance remains strong with our charge-off rate reducing to 8.5% (2020: 10.6%)
- Underlying risk-adjusted income of £390m (2020: £191m)
- Improvement in the underlying cost-income ratio to 31.8% (2020: 33.3%)
- Free cash flow available for Senior Secured Debt interest of £119m (2020: £129m)
- £100m early repayment of Senior Secured Debt and £30m repayment of our Revolving Credit Facility
- £304m of cash (2020: £340m excluding funding overlaps)
- £1.4bn of new funding raised during 2021. Finished the year with VFN headroom of £1.3bn available to fund future growth (2020: £0.9bn)

I am pleased to report strong levels of balance growth with spend levels increasing by 20% to £6.0bn (2020: £5.0bn) and receivables increasing by 16% to £3.3bn (2020: £2.8bn). Record underlying profit before tax from continuing operations was reported at £172m (2020: £22m loss) and our statutory profit before tax from continuing operations was £79m (2020: £129m loss). Free cash flow available for Senior Secured Debt interest was £119m (2020: £129m) and, after repaying our £30m Revolving Credit Facility and £100m early repayment of Senior Secured Debt, our closing cash balance was £304m (2020: £340m excluding funding overlaps).

New customer account volumes totalled 0.9m in the year (2020: 0.9m) and approximately 17%[1] of all credit cards issued in the UK were issued by NewDay. As at 31 December 2021, our receivables represented 5.5%[2] of UK credit card receivables (2020: 4.8%) and our spend in 2021 represented 3.1%[2] of UK credit card spend (2020: 3.0%). We reported record new customer account volumes from the Direct to Consumer portfolio of 530k (2020: 367k) and Merchant Offering e-tailers reported 377k[3] new customer accounts (2020: 371k). This helped offset the impact of certain high street partners closing stores or otherwise ceasing to trade. In 2021, we also started migrating certain customers from portfolios with retail partners that recently ceased trading to our own-branded *Pulse* Mastercard. Additionally, we signed a new merchant agreement with Currys in 2021 for a partnership that will launch in 2022 and our *Newpay 1:Many* portfolio has signed up 75 merchants as at the year end since launch in July 2021.

We reported a statutory profit before tax from continuing operations of £79m for the year (2020: £129m loss). The statutory result before tax from continuing operations includes a number of items, explained below, which are excluded from underlying performance.

	2021 £m	2020 £m
Statutory profit/(loss) before tax from continuing operations	**78.7**	**(128.9)**
Senior Secured Debt and associated facilities interest and related costs	30.6	34.1
Fair value unwind	(1.1)	(0.7)
Payment protection insurance (PPI)	4.7	7.7
Platform development costs	1.7	–
Debenhams asset write-off	–	7.4
Amortisation of intangible assets arising on the Acquisition[4]	57.4	53.3
Impairment of customer and retail partner relationships intangible assets arising on the Acquisition	–	5.5
Underlying profit/(loss) before tax from continuing operations	**172.0**	**(21.6)**

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). In 2021, we repaid early £100m of the Senior Secured Notes and repaid £30m drawn from the Revolving Credit Facility leaving £325m of such debt (excluding accrued interest) outstanding as at the year end (2020: £455m). This debt does not finance the Group's receivables and consequently its costs have been excluded from underlying performance.

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

PPI primarily reflects an uplift to our 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.

Platform development costs are expenses incurred to enhance the capabilities of our in-house operating platforms. These costs relate to a one-off project expected to go fully live in 2025 and are excluded from our underlying performance because they do not represent our underlying operational costs.

The Debenhams asset write-off represents a one-off charge for the accelerated amortisation of previously capitalised costs. This was performed following the cessation of our retail partnership with Debenhams.

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.

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.

1 Estimated based on eBenchmarkers data and includes accounts originated through our *Newpay* product.
2 Bank of England data as at 31 December 2021. Market share metrics calculated as total NewDay volumes as a proportion of Bank of England data credit card volumes.
3 E-tailers includes *Newpay 1:Many* and our partnerships with Amazon, AO.com and Argos.
4 On 26 January 2017, NewDay Group (Jersey) Limited acquired NewDay Group Holdings S.à r.l. and its subsidiaries (the Acquisition).

Financial review continued

Group performance

Our business returned to growth in 2021 as the steps taken in 2020 to strengthen our balance sheet provided a strong base to capitalise on opportunities to deliver our strategic objectives. Group receivables increased by 16% to £3.3bn (2020: £2.8bn). This was powered by spend levels which increased by 20% to £6.0bn (2020: £5.0bn). Our advanced credit scoring models allowed us to open 0.9m new customer accounts even with tighter credit underwriting criteria (2020: 0.9m).

Interest income increased by 7% to £700m (2020: £653m). Spend levels recovered towards pre-pandemic levels which resulted in both receivables and interest income growth. The number of customers on a payment holiday intervention, which suspends interest and fees, was significantly lower than in 2020.

Funding costs increased by 3% to £62m (2020: £60m). This was driven primarily by higher receivables but partly offset by lower interest rates.

Higher spend activity resulted in fee and commission income increasing by 7% to £48m (2020: £44m).

Overall net revenue increased by 8% to £686m (2020: £637m).

Our impairment charge reduced by 34% to £296m (2020: £447m) and our impairment rate for the year reduced to 10.1% (2020: 16.0%). As at 31 December 2021, our ECL allowance increased to £569m which represents a reduction in coverage to 17.3% of gross receivables (2020: £550m, or 19.3%). Whilst underlying collection performance remained strong, which led to improvements in overall charge-off performance, we remain alert to inflationary and cost of living pressures and have reflected their potential impact in our ECL provisioning. The proportion of Direct to Consumer customers with two missed payments (or more) after six months reduced over the last year to 4.2% (2020: 6.6%). In Merchant Offering, the rate reduced to 3.1% (2020: 4.5%). The average Delphi score[1] increased to 1,029 for Direct to Consumer (2020: 1,005) whilst for Merchant Offering it was broadly flat at 1,190 (2020: 1,191).

Servicing costs reduced by 14% to £84m (2020: £98m). This was driven by the benefits realised from investment in recent years in our digital platform which is reducing the cost to service our customer base.

Change costs increased by 13% to £44m (2020: £39m) which was primarily driven by costs incurred on strategic projects aimed at broadening our digital capabilities and product offerings, including establishing *NewTech*.

Marketing and partner payment costs reduced by 11% to £42m (2020: £47m) primarily due to lower partner payments as a result of high street partners closing stores or otherwise ceasing to trade. The reduction in costs was partly offset by expenses incurred to launch *Bip*, our completely digital credit card.

Collection fees reduced by 5% to £24m (2020: £26m). This was due to better credit performance driving lower collection activity.

Salaries, benefits and overheads increased by 33% to £72m (2020: £54m) driven principally by higher expected discretionary payments reflecting the improved business performance in 2021, combined with significantly lower discretionary payments for performance in 2020.

Net revenue growth and a focus on efficiency savings resulted in our underlying cost-income ratio improving to 31.8% (2020: 33.3%).

As a result of these factors, we reported a record underlying profit before tax from continuing operations of £172m (2020: £22m loss) and a statutory profit before tax from continuing operations of £79m (2020: £129m loss). Adjusted EBITDA was £183m for the year (2020: £12m loss). 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) increased to £186m (2020: £16m loss).

1 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.

Management basis income statement

£m	2021 Direct to Consumer	2021 Merchant Offering	2021 Platform Services[1]	2021 Group	2020 Direct to Consumer	2020 Merchant Offering	2020 Group
Interest income	487.8	212.6	–	700.4	446.1	207.3	653.4
Cost of funds	(41.2)	(20.6)	–	(61.8)	(37.4)	(22.8)	(60.2)
Net interest income	**446.6**	**192.0**	**–**	**638.6**	**408.7**	**184.5**	**593.2**
Fee and commission income	31.2	15.7	0.6	47.5	27.5	16.7	44.2
Net revenue	**477.8**	**207.7**	**0.6**	**686.1**	**436.2**	**201.2**	**637.4**
Impairment losses on loans and advances to customers	(218.3)	(77.9)	–	(296.2)	(348.0)	(98.6)	(446.6)
Underlying risk-adjusted income	**259.5**	**129.8**	**0.6**	**389.9**	**88.2**	**102.6**	**190.8**
Servicing costs	(43.7)	(40.7)	–	(84.4)	(45.4)	(52.2)	(97.6)
Change costs	(22.4)	(15.9)	(5.9)	(44.2)	(23.3)	(15.8)	(39.1)
Marketing and partner payments	(22.3)	(19.5)	–	(41.8)	(11.7)	(35.5)	(47.2)
Collection fees	15.4	8.9	–	24.3	15.1	10.4	25.5
Contribution	**186.5**	**62.6**	**(5.3)**	**243.8**	**22.9**	**9.5**	**32.4**
Salaries, benefits and overheads				(71.8)			(54.0)
Underlying profit/(loss) before tax from continuing operations				**172.0**			**(21.6)**
Add back: depreciation and amortisation				11.0			10.1
Adjusted EBITDA				**183.0**			**(11.5)**
Senior Secured Debt interest and related costs				(30.6)			(34.1)
Fair value unwind				1.1			0.7
PPI				(4.7)			(7.7)
Platform development costs				(1.7)			–
Debenhams asset write-off				–			(7.4)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(68.4)			(63.4)
Impairment of customer and retail partner relationships intangible assets arising on the Acquisition				–			(5.5)
Profit/(loss) before tax from continuing operations				**78.7**			**(128.9)**

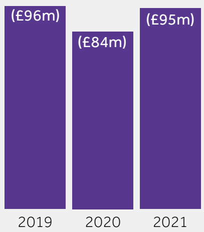
For internal management reporting purposes, in preparing the management basis income statement certain items are presented differently to the statutory income statement. A reconciliation to the statutory income statement is detailed in note 3 of the Financial Statements. Additionally, receivables disclosed in this section are gross receivables (customer balances excluding any impairment provision and effective interest rate adjustments).

1 In 2021, we created Platform Services as a new operating segment. The segment provides digital platform solutions for end-to-end servicing of unsecured credit products financed and owned by third parties. The results of 2020 have not been re-presented because the segment's results for this period were immaterial.

Financial review continued

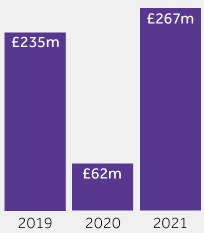
Acquiring new customers that create long-lasting relationships

Loss incurred from acquiring new customers



We generated a £95m underlying loss before tax from continuing operations in acquiring 0.9m new customer accounts in 2021.

Profit generated from existing customers

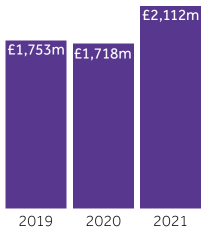


Our long-term relationships with existing customers generated £267m of underlying profit before tax from continuing operations (2020: £62m, or £189m when adjusted for the impact on ECL of the forecast deterioration in the UK economy).

For further details see page 24

Direct to Consumer performance

Closing receivables



Our Direct to Consumer segment opened 530k new customer accounts in the year (2020: 367k) and customer accounts totalled 1.7m as at the year end (2020: 1.5m). The portfolio reported 23% growth in receivables year-on-year to £2.1bn (2020: £1.7bn). Spend levels increased by 45% to £3.2bn (2020: £2.2bn) with online spend as a proportion of retail spend of 47% (2020: 47%).

Net interest income increased by 9% to £447m (2020: £409m) which was in line with the average receivables growth.

Fee and commission income increased by 13% to £31m (2020: £28m) as a result of higher spend activity.

Impairment reduced by 37% to £218m (2020: £348m). Underlying collection performance remains strong with charge-off rates reducing to 10.1% (2020: 13.9%). The proportion of receivables entering delinquency reduced to 2.8% (2020: 3.4%). In 2020, we significantly uplifted our ECL allowance for higher anticipated credit losses driven by the worsening UK economic outlook. As at 31 December 2021, the portfolio's ECL allowance increased to £461m which represents a reduction in coverage to 21.8% of gross receivables (2020: £457m, or 26.6%). The segment's impairment rate for the year reduced to 11.8% (2020: 20.5%).

Servicing costs of £44m (2020: £45m) and change costs of £22m (2020: £23m) were broadly in line with 2020.

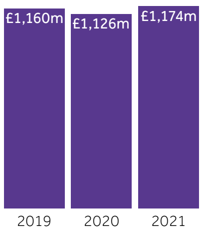
Marketing costs almost doubled to £22m (2020: £12m) which was due to costs incurred for both the higher new account volumes and to launch *Bip*.

Collection fees of £15m were in line with 2020 (2020: £15m).

As a result of the factors above, and predominantly due to the lower impairment charge, the segment reported an increase in contribution to £187m for the year (2020: £23m).

Merchant Offering performance

Closing receivables



Our Merchant Offering segment opened 377k new customer accounts in the year (2020: 487k) and customer accounts totalled 2.9m as at the year end (2020: 3.2m). E-tailers reported an increase in new customer account volumes to 377k (2020: 371k) and no new accounts were opened from our high street partners (2020: 116k). The portfolio reported an increase in receivables of 4% to £1.2bn (2020: £1.1bn). New account volumes and receivables growth were impacted by the COVID-19 pandemic, however the segment's partnerships with leading e-tailers limited the impact of the cessation of trade for certain high street partners. Online spend as a proportion of retail spend increased to 62% (2020: 58%). In 2021, we also started migrating certain customers from portfolios with retail partners that recently ceased trading to our own-branded *Pulse* Mastercard and, as at 31 December 2021, this brand reported £58m of receivables. Additionally, we signed a new merchant agreement with Currys in 2021 for a partnership that will launch in 2022 and our *Newpay 1:Many* portfolio has signed up 75 merchants as at the year end since launch in July 2021.

Net interest income increased by 4% to £192m (2020: £185m) due to higher interest bearing balances.

Fee and commission income was broadly in line year-on-year at £16m (2020: £17m).

Impairment reduced by 21% to £78m (2020: £99m). Underlying collection performance remains strong with charge-off rates increasing to 5.9% (2020: 5.5%) as a result of a targeted shift towards near-prime customers. The proportion of receivables entering delinquency remained flat at 1.7% (2020: 1.7%). In 2020, we significantly uplifted our ECL allowance for higher anticipated credit losses driven by the worsening UK economic outlook. As at 31 December 2021, the portfolio's ECL allowance increased to £108m which represents 9.2% of gross receivables (2020: £93m, or 8.3%) and reflects the targeted shift towards near-prime customers. The segment's impairment rate for the year reduced to 7.2% (2020: 9.1%).

Servicing costs reduced by 22% to £41m (2020: £52m) which was driven primarily by lower account fulfilment costs as a result of a shift towards e-servicing.

Change costs were flat year-on-year at £16m (2020: £16m).

Marketing and partner payment costs reduced by 45% to £20m (2020: £36m) reflecting the lower profit share with retail partners driven in part by high street partners closing stores or otherwise ceasing to trade due to a combination of COVID-19 restrictions and the administration processes for certain high street partners.

Collection fees reduced by 14% to £9m (2020: £10m) due to fewer collections, as a result of the lower spend activity on the portfolio, and the impact of payment deferrals such as payment holidays and freezes.

As a result of the factors above, Merchant Offering contribution increased to £63m (2020: £10m).

Platform Services performance

This segment is new in 2021 and provides digital platform solutions for end-to-end servicing of unsecured credit products financed and owned by third parties. The segment reported negative contribution of £5m (2020: n/a) resulting from investment in change projects required to launch this business.

Financial review continued

Capital and liquidity

Our business continues to generate cash. Free cash flow available for Senior Secured Debt interest was £119m (2020: £129m) and, after repaying our £30m Revolving Credit Facility and £100m early repayment of Senior Secured Debt, our closing cash balance was £304m (2020: £340m excluding funding overlaps).

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

	2021 £m	2020 restated[1] £m
Adjusted EBITDA (loss)	183.0	(11.5)
Change in ECL allowance	18.8	136.0
Adjusted EBITDA excluding change in ECL allowance	**201.8**	**124.5**
Change in working capital	16.8	(14.4)
Platform development costs	(1.7)	–
PPI provision utilisation	(2.3)	(12.3)
Capital expenditure	(9.1)	(11.6)
Tax paid	(16.9)	(6.3)
Free cash flow available for growth and debt service	**188.6**	**79.9**
(Increase)/decrease in loans and advances to customers	(459.1)	66.6
Net financing cash flow (excluding funding overlap and Senior Secured Debt cash flows)	389.9	(17.9)
Free cash flow available for Senior Secured Debt interest	**119.4**	**128.6**
Senior Secured Debt interest paid	(27.8)	(31.7)
Senior Secured Debt and Revolving Credit Facility (repayment)/drawdown	(130.0)	30.0
Return paid on loan from immediate parent company	(10.3)	(10.3)
Cash generated from discontinued operation	18.3	7.9
(Decrease)/increase in restricted cash	(5.5)	10.1
(Decrease)/increase in cash excluding funding overlaps	**(35.9)**	**134.6**
Funding overlap	(244.3)	244.3
(Decrease)/increase in cash	**(280.2)**	**378.9**
Ratio of net corporate Senior Secured Debt including Revolving Credit Facility (excluding funding overlaps) to adjusted EBITDA	0.4x	(15.5)x
Ratio of adjusted EBITDA to pro forma cash interest expense	7.6x	(0.4)x

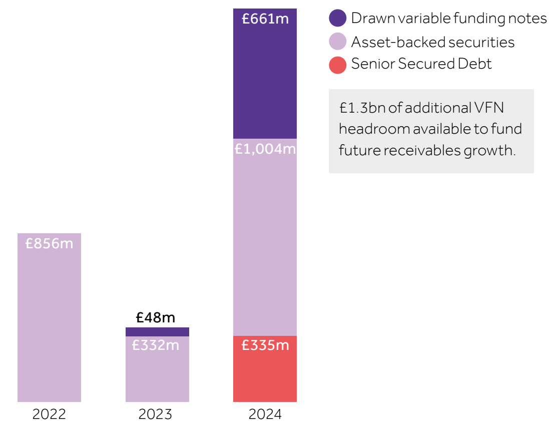
Funding

We proactively monitor our funding requirements to ensure the business remains appropriately positioned to finance its operations. We retain the right to extend the maturity of all our asset-backed debt by one year. In 2021, we refinanced all maturing debt, raised £1.4bn of asset-backed funding and extended the maturity of several VFN facilities. The financing transactions completed included:

- raising £1.0bn of asset-backed debt from the Direct to Consumer securitisation programme, including $339m raised from US capital markets;
- delivering a £400m expansion of a VFN facility in our Merchant Offering portfolio and at the same time adding a new large international bank to the lending panel and extending its maturity to 2024;
- obtaining investor consent to extend the maturity of a $205m bond within the Direct to Consumer securitisation programme by 14 months to November 2022, bringing it into line with the associated sterling bonds from the same issuance;
- repaying in full the UPL VFN using the proceeds from the receivables sale completed in February;
- repaying early our £150m floating rate Senior Secured Debt with £100m of cash and £50m raised from the issuance of additional fixed rate Senior Secured Debt which has the same interest rate and maturity as the existing fixed rate notes;
- repaying £30m drawn in 2020 from our Revolving Credit Facility; and
- transitioning all funding away from LIBOR.

1 In 2021, we refined our definition of cash and cash equivalents to include restricted cash. Restricted cash are demand deposits which are subject to constraints regarding when the balance can be utilised. As a consequence of the change in definition, the comparative period information of cash has been re-presented to include restricted cash.

Debt maturity profile (including accrued interest)



As at 31 December 2021, we reported VFN headroom of £1.3bn and 26% of our borrowings will be due for repayment in less than one year, 12% will be due in one to two years and 62% will be due in over two years. The average maturity of our funding facilities was two years as at the year end.

Our receivables are funded primarily through debt and our blended advance rate as at 31 December 2021 (being the total asset-backed securities and drawn VFNs as a proportion of closing receivables) was 88.2% (2020: 87.7% after adjusting for funding overlaps and UPL), with Direct to Consumer at 85.9% (2020: 83.9%) and Merchant Offering at 92.3% (2020: 93.5% adjusted for funding overlaps).

Cash flows

The following table summarises the Group's cash flows during the year:

	2021 £m	2020 restated[1] £m
Net cash (used in)/generated from operating activities	(286.8)	170.2
Net cash generated from/(used in) investing activities	58.1	(11.6)
Net cash (used in)/generated from financing activities	(51.5)	220.3
Net (decrease)/increase in cash and cash equivalents	**(280.2)**	**378.9**
Cash and cash equivalents at the start of the year	584.6	205.7
Cash and cash equivalents at the end of the year	**304.4**	**584.6**

Net cash used in operating activities was £287m (2020: £170m generated from) and was primarily driven by investment in receivables growth.

Net cash generated from investing activities of £58m (2020: £12m used in) represents £67m of cash received from the sale of UPL receivables offset by investment in intangible assets and property and equipment.

Net cash used in financing activities of £52m (2020: £220m) consists of issuances and repayments of asset-backed securities and drawdowns of VFNs to fund receivables growth. Additionally, this balance also includes: i) a £100m net repayment of Senior Secured Debt; ii) settlement of the UPL VFN following completion of the receivables sale; iii) a £30m repayment of the Revolving Credit Facility; and iv) a £10m cash payment to the Group's immediate parent company.

As at the year end, we reported a cash balance of £304m (2020: £340m excluding funding overlaps). Cash held outside of the securitisation structures was £128m as at the year end (2020: £133m) with strong cash generation offset by the early repayment of £100m of Senior Secured Debt and the £30m Revolving Credit Facility repayment in the year.

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 2021, the levels of capital for NewDay Ltd exceeded the minimum capital requirement with headroom of £18m.

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

1 In 2021, we refined our definition of cash and cash equivalents to include restricted cash. Restricted cash are demand deposits which are subject to constraints regarding when the balance can be utilised. As a consequence of the change in definition, the comparative period information of cash has been re-presented to include restricted cash.

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 2021.

Stakeholders and their material interests	How we engage	2021 key deliverables
Customers Responsibly saying "yes" to more customers, delivering easy-to-use products and supporting our customers to move forward with credit whilst adapting our product offering and providing appropriate financial support throughout their credit journeys.	• Our manifesto is at the heart of our decision-making • Feedback through transactional NPS and NES metrics to track customer satisfaction • Customer issue resolution programmes using customer and colleague feedback to improve processes • Collections toolkit to support customers who encounter difficulties • Credit education tools to support improving credit scores • Servicing messages and alerts • Customer KPIs in monthly Board reporting	• Refreshed our manifesto • Launched next generation credit models allowing us to say "yes" to more customers • Launched *Bip* which is our completely digital credit card solution aimed at meeting the evolving needs of our customers • Migrated certain customers from ceased co-branded retail partnerships to our *Pulse* card which has exciting new benefits • Transactional NPS increased to +70 and NES increased to +73 • Supported 1.8m customers to improve their credit score
Colleagues Providing an engaging and highly motivated environment, attractive career paths and empowerment to make an individual contribution to delivering on our vision.	• Our purpose and values are at the heart of employee engagement • Bi-annual employee surveys with follow-up actions • Programme of activities throughout the year covering inclusion and diversity, mental health and wellbeing • Continuous all-colleague communication programme • Online learning and development tool • Independent whistleblowing helpline	• Engagement score of 80% • Ran HackEight, our second hackathon, giving colleagues the opportunity to solve eight challenges faced in our business • Inclusion and diversity index score of 83% • Inspirational Speaker Series of events and promoted discussions of important emerging matters • Launched a green car scheme available for all employees
Retail partners Seamless integration into our partners' customer experiences. Using our data analytics to generate in-depth customer insights, supporting brand loyalty to drive higher sales, increased basket size and repeat business.	• Responsibly saying "yes" and rewarding their customers is core to partner engagement • Regular performance meetings with our partners • Provision of data insight and performance analytics • Working with our partners to develop marketing strategies and offers	• Launched next generation credit models allowing us to say "yes" to more customers • Worked with partners to develop credit solutions that meet the needs of their customers, including BNPL, interest-free promotional periods and instalment plans • Expanded our *Newpay* offering by launching a multiple retailer proposition, *Newpay 1:Many*, with our sister company Deko

Stakeholders and their material interests	How we engage	2021 key deliverables
Shareholders 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 • Ongoing investor dialogue through their Board representatives' investor meetings • Monthly performance reporting – both financial and non-financial	• Record profitability with underlying profit before tax from continuing operations of £172m and a statutory profit before tax from continuing operations of £79m • 16% receivables growth and an ECL allowance representing 17.3% of gross receivables • Generated £119m of free cash flow available for Senior Secured Debt interest • Raised £1.4bn of new asset-backed funding for future growth
Investors (asset-backed securities and high yield bond (HYB)) Delivering sustainable and safe returns on their financial investments.	• Monthly securitisation investor reporting • Quarterly HYB investor reporting and presentations • Investor roadshows and open investor relations dialogue	• Repaid £100m of Senior Secured Debt and the £30m Revolving Credit Facility, including the early repayment of our floating rate bonds • Generated £119m of free cash flow available for Senior Secured Debt interest • Raised £1.4bn of new asset-backed funding for future growth • Diversified funding partners by adding a new large international bank to our lending panel
Regulators Active engagement and alignment of our approach to meet regulatory requirements and delivering on our manifesto.	• We believe credit is a force for good and we believe good regulation reinforces this • Member of industry bodies to ensure active engagement in industry-wide discussions • Open and transparent reporting • Proactive engagement and collaborative approach with regulators and Government	• Followed guidance issued by the FCA aimed at helping customers in financial difficulties during COVID-19 • Implemented all planned persistent debt guidance • Considered the findings of the Woolard Review to assess its impact on our business
Community Socially responsible management including promoting financial inclusion and good credit behaviours. Delivering environmentally friendly practices.	• Attendance at industry-wide meetings • Partner directly with Family Action and Demos • ESG KPIs in Board reporting • Member of environmental organisations to share best practice	• Became a signatory to the UN Global Compact and our business supports their Ten Principles on human rights, labour, environment and anti-corruption • Awarded a silver medal from EcoVadis for sustainability, placing our business in the top 25% of all businesses surveyed • Enhanced ESG reporting to our Board • Donated £372k in our ongoing partnership with Family Action, our charity partner • Our colleagues donated over 2,300 toys to Family Action for their Christmas toy appeal

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 our stakeholders were considered is the launch of our Platform Services business. At our Board Strategy Day, we assessed our strategic priorities and identified an opportunity to deploy our technology platform to establish a new revenue stream from white-labelling the platform. It is intended that the Platform Services business will drive additional, capital-light revenues designed to provide additional returns for our shareholders as well as increasing cash flows to service our Senior Secured Debt.

This new business line provides a fresh and exciting challenge for our colleagues. At the same time, we have been cognisant that it is important to ensure that the Platform Services business does not detract from our ability to continue to service our customers and ensure regulatory compliance. Our platform-as-a-service proposition has been deliberately structured to meet these aims with clear legal separation between the two businesses.

Operating responsibly

"Stakeholder expectations on social responsibility and our impact on the environment are changing rapidly. We believe in credit as a force for good. Long-term sustainability and benefiting all our stakeholders is embedded in our decision-making."

Sir Michael Rake
Chairman and Non-Executive Director

2021 highlights

0.5

tonnes of CO_2e per average FTE employee
(2020: 0.4 tonnes)

Silver medal for sustainability from EcoVadis

80%

employee engagement
(2020: 80%)

0.72

complaints each month per 1,000 active accounts
(2020: 0.79)

£431k

donated to charity
(2020: £223k)

0

anti-bribery and corruption related incidents
(2020: 0)

Being a responsible lender

Our manifesto is at the heart of everything we do. We believe in credit as a force for good. Responsible and accessible credit expands possibilities, it powers up life and business. This focus ensures we continue to strive to provide excellent customer service and develop products and services that evolve in line with our customers' rapidly changing needs. This helps us build long-term relationships.

We lend responsibly through the deployment of our 'low and grow' strategy, offering our near-prime customers a low initial credit limit until they demonstrate that they can actively manage and afford further credit in a responsible and sustainable manner. This is supported by our robust scorecards built on over 20 years of experience and data analytics, powered by machine-learning technology.

COVID-19 continued to impact our customers in 2021 and most prevalently in the first half of the year. We responded by offering payment deferral interventions such as payment holidays, which suspend interest and fees, and payment freezes to those customers who required temporary support. In 2021, we offered such payment deferrals to 104k customers (2020: 234k).

Financial education and inclusion are pivotal in helping people move forward with credit. We continue to invest in our in-app credit building capability through '*Aqua* Coach'. This tool gives *Aqua* customers direct access to their credit score alongside tips and indicators of their progress to improve it. As at the year end, 336k customers had registered for this functionality. In total, we supported 1.8m customers to improve their credit scores in the year (2020: 1.9m).

We worked with the FCA to implement 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 had been in persistent debt for 36 months.

Our objective as a responsible lender is always to do the right thing by our customers, which is monitored through a number of KPIs that are regularly reported to the Board. Our transactional NPS score of +70 (2020: +67) evidences that customers value the experience they receive from us and customer complaints each month of 0.72 per 1,000 active accounts (2020: 0.79) have decreased whilst delivering 0.9m new customer accounts.

104K

customers offered payment deferrals
(2020: 234k)

1.8M

customers supported to improve their credit scores
(2020: 1.9m)

Operating responsibly continued

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 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 six years. We continue to play a role in providing support to Family Action who help families who are experiencing poverty, disadvantage and social isolation.

During 2021, we supported vulnerable families with Open Doors grants and provided funding to ensure that more families could access direct emergency grants in areas affected by local lockdowns. We also provided support to HeadStart, who partner with young people preparing for interviews, supporting them with CV writing, interview practice and internships at leading companies.

Our colleagues value our partnership with Family Action. Our inclusion network hosted Family Action's National Co-ordinator for Domestic Abuse in a panel discussion to educate colleagues on the important role Family Action plays in the community. Throughout the year our colleagues engaged in numerous fundraising activities to support our charity partner and donated over 2,300 toys through Family Action's Christmas toy appeal. Our colleagues purchased items on Family Action's gift list, providing essentials to vulnerable families.

Over 2,300

Christmas toys donated to Family Action by colleagues

We are extremely proud of our partnership with Family Action and we are energised by the impact we are creating together, having donated over £1m during the course of our partnership. For more information about the support that Family Action provides, visit their website at 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 and raise vital funding.

The Good Credit Index

In 2021, we supported a third annual Good Credit Index through Demos, a leading UK think tank. The latest report centred around the impacts of the COVID-19 pandemic and found that the financial support provided by the Government during the pandemic, such as furlough, eviction bans and payment deferrals, has provided many households with a vital lifeline. It also shows an average increase in access to credit in the UK alongside slightly improved credit scores at a national level, driven largely by lockdown interventions.

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 the launch of the original Demos index, we have continued to provide financial support to help the 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/good-credit-index-2021/.

Our colleagues and culture

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

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

Our colleagues take the opportunity to give feedback on our culture in our engagement surveys. Engagement in 2021 remained high at 80% (2020: 80%), with wellbeing, ways of working and inclusion as particular bright spots.

Staying flexible

We listen to our colleagues as we navigate a world that is changing constantly. Our flexible approach to office and remote working, NewWork, is well received with 90% (2020: n/a) of colleagues saying that they value the work-life balance that it helps them to create.

Although technology helps us to stay connected, we believe that our office space sparks the collaboration and networking that powers our business. We offer every colleague in our offices complimentary healthy breakfasts, lunches, fresh smoothies and barista coffees. Throughout the day, our breakout and dining areas hum with activity and conversation as colleagues take the opportunity to connect and work together.

Staying well and healthy

2021 was a turbulent year for everyone in the UK, but pleasingly 88% (2020: n/a) of our colleagues agree that we support each other well through change, a sign of a strong, healthy and resilient culture.

We know that open and regular communication about mental and physical health is critical when people are dealing with change. We flexed and updated our care package for colleagues, providing fresh guidance to every single manager on the vital role they play in managing wellbeing. To support our people in more ways, we gave every colleague access to the full Calm meditation and wellness app, and this is now a benefit given to every colleague who joins the NewDay team.

We run regular events and campaigns to explore and support mental and physical health, making it easy for colleagues to take part in on-site health checks, flu vaccinations and massages – as well as getting 24/7 access to a virtual GP and Employee Assistance Programme. Wellbeing is now an established conversation in our business, and we regularly invite expert speakers to talk about tools and perspectives that can offer support. We monitor the wellbeing of our colleagues in our bi-annual surveys, with 83% (2020: n/a) agreeing that their manager checks in on their wellbeing and health, and 83% (2020: 81%) saying that NewDay supports their wellbeing and health.

Inclusion powers our performance

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

Inclusion is measured through our inclusion and diversity (I&D) index, which reached 83% in the year (2020: 82%). This positive score is a testament to the energy and commitment of highly engaged colleagues from across the Company.

In 2021, our I&D agenda focused on the topics that are important to our colleagues. Our Inspirational Speaker Series tackled a number of themes head on, with a focus most notably on empathy and resilience. Our internal and external speakers shared powerful stories on celebrating gender, black identity, sexual orientation and faith, and overcoming domestic and honour-based abuse.

As at 31 December 2021, the proportion of our 1,183 colleagues (2020: 1,163) that were female was as follows:

	2021 females	2020 females
Colleagues	48%	49%
Management Committee	13%	13%
Board	18%	10%

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

Investing in talent

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

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

As we continue to grow, we open up opportunities for colleagues to develop new skills to support their career growth. In 2021, to build our leadership pipeline strength we launched a bespoke leadership development programme 'Leader100' for 100 of our senior managers at NewDay. We are also proud that 251 colleagues moved into a different role within NewDay in the year. Additionally, we have created new Leader and Expert career pathways within our digital technology team, empowering colleagues to satisfy their aspirations and form their own development plans. Our ability to retain and develop key talent is a competitive advantage that helps us to keep moving our business forward.

Operating responsibly continued

Protecting the environment

In 2021, we built on the firm foundations of previous years and focused on protecting the environment and promoting green issues with customers, partners and colleagues.

We implemented new environmental policies and enhanced our existing policies on sustainable procurement and people practices. We continued our focus on projects to reduce our overall carbon footprint across Scope 1 and 2 emissions, including new energy monitoring applications and moving to green energy tariffs. We also completed materiality assessments to expand our reporting into Scope 3 emissions across our supplier base which in 2022 will help us to commit to a net zero target.

Our current reporting is broken down into direct and indirect emissions in accordance with the Greenhouse Gas Protocol. Since we have few company-owned vehicles and 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, which is mainly via train (Scope 3 emissions). In 2021, as our offices reopened as Government restrictions were lifted, our carbon consumption increased to 0.5 tonnes of CO_2e per average FTE employee (2020: 0.4 tonnes) across electricity usage and business-related rail travel.

0.5

tonnes of CO_2e per average FTE employee
(2020: 0.4 tonnes)

We continue to see less travel between our sites and reduced overall energy needs as a result of remote working being seamlessly embedded into our operations. Additionally, we have continued with our programme of reviewing energy consumption and replaced lighting, IT equipment and updated our building management system. As part of our focus on ESG, we have also changed our energy contracts to be REGO (Renewable Energy Guarantees of Origin) certified. We continue to optimise our sites to support our growth plans with less physical desk space needed per colleague and therefore a lower impact on the environment. With the move to hybrid working we have evolved our office space to create more collaborative spaces enabling colleagues more opportunity to interact in both formal and informal environments.

In 2021, we focused on engaging with our customers and colleagues on green issues as well as building on our focus of external benchmarking. We signed up to the UN Global Compact agreement and expanded our ESG KPIs to broaden their remit and focus on carbon reduction. We were pleased to be awarded a silver medal from EcoVadis, which placed NewDay in the top 25% of companies surveyed. We continued with our membership 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. We were successful in their Green Apple Environment Awards, winning gold in the categories 'Environmental Best Practice' and 'CSR Award for Employee Engagement'.

During 2021, our colleague-led Green Forum continued engaging with our colleagues in promoting recycle, reuse and repurpose. A back-to-school uniform activity was launched in 2021 where we supported our charity Family Action in providing a number of school uniforms to families in Leeds and London.

Throughout 2021, 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. Our focus has been health, wellbeing and collaboration. In Leeds, we introduced a wellbeing garden made from recycled materials and consisting of a bug hotel and planters with flowers and herbs which are used in our canteen.

Our offices are designed to help the business engage with colleagues whilst continuing to build a company-wide consideration of green issues. Across both offices, we continue to work in partnership with our colleagues, landlords and third parties to deliver activities to reduce our environmental impact and raise our environmental credentials. Our head office site in London is part of the wider Kings Cross estate that in 2021 achieved carbon neutral status. We continue to work with our onsite contractors to monitor and review our energy consumption via enhanced real-time monitoring. We also continue to work towards reducing our overall waste with our Leeds site now achieving 100% diversion from landfill.

Additionally, a new green car scheme was launched in 2021 which all colleagues have access to.

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. Additionally, we reported no anti-bribery and corruption related incidents in the year.

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

Managing our risk

> Managing our risks helped us safely navigate the organisation through uncertain waters during COVID-19, plotting a course for well-governed success into 2022 and beyond."
>
> *Mark Eyre*
> Chief Risk Officer

Q&A with our Chief Risk Officer – Mark Eyre

Q What has been your proudest achievement this year?

In what has continued to be a challenging environment, the robust risk management by our colleagues has resulted in NewDay travelling through 2021 successfully and without materially deviating from our business strategy. When one considers the challenges of remote and now hybrid working, this achievement is even more remarkable. Risk management disciplines and approaches are developed and then crucially embedded in businesses over periods measured in years, and as a Chief Risk Officer my desired outcome is that in periods of adversity colleagues are able to manage risks intuitively and I am pleased that our colleagues have successfully done so.

Q What has the pandemic changed about your risk management outlook?

The lessons learned in challenging risk environments come thick and fast. Pre-pandemic we operated office-based contact centres, and in 2020 we successfully adapted to a home-working organisation as required by the work from home order. 2021 saw us adapt once again, into a 'new normal', introducing our hybrid working programme to enable our colleagues to balance remote working with collaboration with colleagues in our COVID-19 secure offices. Throughout these many changes I have been proud of the continued demonstration that our risk management defences, including quality assurance tools and information security monitoring, are appropriate to support both remote working and office working in our hybrid model.

As the UK government delivered various financial support including furlough more widely, we adapted our collections approaches and offerings accordingly. A number of the customer offerings we brought in during the last 18 months to support those in financial difficulty have proved very effective and we intend to maintain them in our approaches as we return to business as usual.

Q What risks will you be focusing on in 2022?

We remain vigilant of macroeconomic risks. The UK economy may see prolonged inflation and interest rate rises whilst at the same time having historically low levels of unemployment. As a risk management community in NewDay we will focus on anticipating how these factors may impact our customers and make sure we are able to react accordingly.

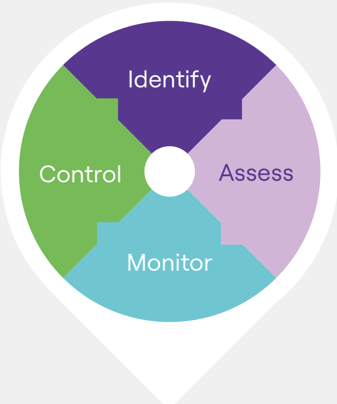
There are always regulatory changes to consider, but the one with the clearest and most direct customer impact is the ongoing roll-out of the Payment Services Directive (PSD2), a regulatory requirement to provide additional protection to our customers and ensure we know it is our customer who is making a transaction. The use of mechanisms such as text message passwords and biometrics will embed technology into customer journeys. I am expecting this implementation to be challenging for the industry and most importantly for customers. We will be focusing our efforts on calibrating these new risk approaches to ensure our customers can spend on their cards as and when they choose.

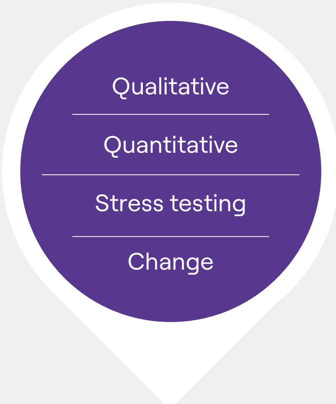
Managing our risk continued

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.

Our risk management framework has 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

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

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

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

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

We operate a three lines of defence governance structure to support the delivery of effective risk management outcomes, see page 58 for more details.

Board governance

Board

Board Risk Committee[1]

Our committees provide ongoing governance

Management Committee

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

Enterprise Risk Management Committee

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

Business Committees

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

Our four risk pillars underpin the delivery of our strategic objectives

Credit risk

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

Financial strength

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

Operational performance (includes operational risk)

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

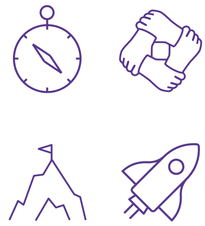
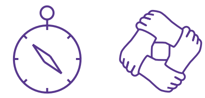
Business conduct (includes legal, regulatory and conduct risk)

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

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

Our principal risks

Our principal risks have been under regular review by the Board and the Board Risk Committee throughout 2021. 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. Managing our risks is embedded throughout our decision-making, our values bring risk management to life for our colleagues.

Principal risk	Link to our values	2021 performance
Strategic risk ***(Responsibility: Chief Executive Officer)*** Adverse impacts because of a sub-optimal business strategy or business model. **Example** • A sub-optimal strategy or model could give rise to financial loss, reputational damage or failure to meet internal and/or public policy objectives		• New partner pipeline progressed and agreement signed with Currys • *Newpay 1:Many* launched • *Bip* launched • Developed *NewTech* strategy and started engaging with prospective clients • Sale of the UPL receivables portfolio
Macroeconomic risk ***(Responsibility: Chief Credit and Collections Officer)*** Adverse movements in economic trends in the UK cause detrimental effects on the anticipated returns and business strategy of the Group. **Example** • 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 • Inflationary pressures and increased household utility bills may impact customers' disposable income and lead to credit loss		• Monthly tracking of a macroeconomic dashboard and the addition of portfolio-specific dashboards tracked monthly in our committees • Commercial and credit strategies influenced by the macroeconomic forecasts • Quarterly macroeconomic panel meetings augmented with monthly reviews

Our values

Do the right thing

Pull together

Aspire to extraordinary

Create tomorrow

How we are mitigating this risk	Where next?
• Business development strategy and diversification in terms of potential new partners • Diversification through online partners • Working with partners to expand our presence online • Business strategy and annual/dynamic review process • Group budgets defined, allocated and monitored to align with strategic objectives • Risk appetite aligned with strategic objectives and business planning • Monitoring publicly available information and other gathered information with regards to trading performance of retailers	• Expand our footprint in the market and onboard new retail partners • Launch signed retail partnerships • Pursue clients for our *NewTech* business • Develop and improve the functionality of our e-servicing apps, provide a better customer offering and strengthen our customer offering • Explore introducing a brokerage service to customers for third party funded personal loans
• Performing regular impact assessments and stress scenarios with predetermined mitigating actions • Macroeconomic panel meetings on a quarterly basis to review and agree stress scenarios, and consider the latest economic forecasts to inform business planning in response • Business strategy and annual review processes which aligns risk appetite to the budgeting process and strategic objectives • Risk-taking in response to the economic changes • Engaging with funding partners in relation to COVID-19 related impacts • Macroeconomic dashboard monitoring refined in response to COVID-19 and inflationary impacts • Diversification of Merchant Offering partners and product offerings • Ability to deploy multiple levers from new business growth, customer credit limit management and cost controls	• 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 • Continue to refine our approaches where needed and monitor the external environment closely, with particular attention to the ongoing impact of COVID-19 and inflationary pressures, and their potential impact on underwriting and ECL provisioning

Our principal risks continued

Principal risk	Link to our values	2021 performance
Credit risk ***(Responsibility: Chief Credit and Collections Officer)*** Unexpected losses as a result of customers failing to meet their obligations to repay. **Example** Credit risk losses deviating from expectations because of: • ineffective models or scorecards; • forecasting models not in line with business processes; • poorly designed decisioning strategies; • collections strategies not working as intended; • failure to resource collections effectively and/or weak collections processes; • lower prices within the debt sale market; and • increase in fraud losses due to third party fraudulent attacks.		• Underlying credit performance continues to be strong across all portfolios • Our ECL coverage rate decreased to 17.3%. This is still considerably higher than pre-pandemic coverage levels of circa 15.0% • New origination credit models implemented allowing expansion of customer lending exposure without relaxing our credit risk standards • Enhanced affordability assessments rolled out • IFRS 9 base models updated to reflect dynamics previously captured in post model adjustments • Payment outcomes and customer outcomes of payment deferrals remain stable, with continued low breakage rates and really encouraging voice of customer feedback
Regulatory risk ***(Responsibility: Chief Commercial Officer)*** Change in laws or regulations governing the Group and/or failure to comply with legal or regulatory requirements. **Example** • Significant alterations to the business model because of changes in the law or regulations may have a material impact on the performance and profitability of the business • Non-compliance with laws or regulation could lead to reputational damage, enforcement action and/or financial loss • Litigation and other adversarial actions in the ordinary course of business		• PSD2 requirements progressed • Consultation papers reviewed and responded to (e.g. Consumer Duty) • Continued to embed persistent debt remedies • Payment deferrals and tailored support guidance including successful conclusion and run-off of the FCA's emergency COVID-19 guidance • Appointment of our vulnerable customer champion to advocate for our vulnerable customers across our processes • Enhanced affordability strategies to provide better outcomes for our customers

How we are mitigating this risk	Where next?
• Macroeconomic environment and risk appetite closely monitored by the Credit Risk Committee, Management Committee and Board • Significant investment in data science capabilities with new origination models deployed which leverage leading-edge credit reference agency data • Regular monitoring of impairment performance with a cautious 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 • Next generation credit scoring models which are powered by machine-learning technology • Enhanced income and expenditure data capture processes • Performance of credit and collections strategies monitored daily • The ability to test multiple challenger strategies, and validate outcomes, at short notice • Focusing on collections operations performance to ensure customers' needs are being met and the right outcomes are being achieved • Credit Risk Committee overseeing the execution of the credit risk management framework • Model governance committee oversees the design, development, implementation and performance of our credit risk models. Models are reviewed by the second line of defence with support from an external modelling consultancy for expert insight and challenge • Regular review of the effectiveness of credit risk strategies, policies and procedures	• Continue to mature the credit risk management framework, enhancing our capability to deliver improvements to our models and credit decisioning strategies • Our NewGen roadmap will continue to develop further new generation models across our entire lending cycle • As part of our collections transformation strategy, we are developing NewResolve, providing digital, self-serve journeys for customers to access the support they need online, and redeveloping our agent-based collections platform to support customers who still prefer to engage with our agents • Improve outcomes for our customers and engagement strategies for customers in financial difficulties, as well as enhance our early intervention strategies to help customers who might be at risk of financial difficulty • Further improvements to the identification and management of vulnerable customers • Further model enhancements are planned for the IFRS 9 ECL models and impairment framework • Investigating the opportunities of Open Banking particularly to enhance approaches to assessing our customers' affordability
• Enterprise Risk Management Committee monitors the impacts and costs of regulatory change and ability to enact and respond to them • Continuing to deliver the PSD2 programme for the development of compliant solutions for e-servicing and contactless cards • Implementing remedies for persistent debt to meet regulatory requirements • Monitoring of regulatory radar for upcoming regulatory developments and external horizon scanning cascaded internally • Responding to consultation papers through trade bodies and engaging with policy makers and industry bodies on the Woolard review and subsequent white paper on BNPL regulation • Reviewing policies and procedures to remain up-to-date, compliant and adhered to and to ensure that appropriate processes and controls are in place	• Monitor success of debt strategies for persistent debt remedies • Focus on the regulatory environment, managing change for regulatory driven initiatives • Complete delivery of PSD2 and Strong Customer Authentication 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 our business • Deliver the objectives of the vulnerability working group • Consider potential impact of the FCA's Credit Information Market Study

Our principal risks continued

Principal risk | **Link to our values** | **2021 performance**

Operational risk

(Responsibility: Chief Operating Officer)

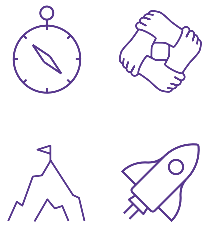
Inadequate or failed internal processes, people and systems, or from external events including internal and first party fraud.

Example

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

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

Link to our values



2021 performance

- A number of improvements to cyber security including enhanced threat protection and monitoring, and strengthening access management
- Regular security testing to test defences by simulating the tools and techniques of cyber criminals
- Implemented a refreshed supplier assurance approach
- Revamped our view and approach to business continuity planning and operational delivery in light of learnings from COVID-19
- Implemented a new central product structure and delivery approach
- Created an operational resilience programme

Conduct risk

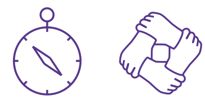
(Responsibility: Chief Commercial Officer)

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

Example

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

Link to our values



2021 performance

- Implemented an enhanced conduct risk management framework and dashboard
- Creation of vulnerable customer champion and programme
- Training and awareness improved across the business
- Managed incidents and remediated to avoid any customer detriment
- We reviewed and enhanced our complaints management model
- New products successfully launched that meet customers' needs (e.g. *Bip*)
- PPI mis-selling remediation and closure of policies

How we are mitigating this risk	Where next?
• The Operational Risk Committee oversees control frameworks in relation to information security, business continuity and supplier management • Business continuity planning • Developing new ways of working to protect staff members and data. This includes regular training for 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 • Testing existing resilience capabilities across systems and processes and applying further enhancements • Vulnerability management programmes that enable the quick assessment and response to newly identified vulnerabilities as they arise (for example, Log4J)	• Monitor and adapt to the ever-changing threat from cyber activity and continue to invest in security design • Invest in rolling out robotic process automation and intelligent automation where viable opportunities exist • Enhance our customer digital journeys • Continue to ensure our resilience capabilities and application of resilience controls meet regulatory requirements and industry standards • Strengthen our in-house development capabilities and deliver on business priorities • Enhance management over our data including mapping data lineage and validation data quality
• Our Conduct and Complaints Risk Committee oversees our conduct risk management framework • Our manifesto, values, and investment in colleague training, together with key management communications support company standards and the customer outcomes we aim to achieve • New product approval committee • Retail partner monitoring and relationship management • 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 • Monitoring emerging new sources of complaints from individuals and claims management companies and continuing to enhance processes and management of complaints	• Continue to progress our remedies for customers considered in persistent debt • Monitor customer affordability • 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 our customers • We will look at customer behaviour patterns and in particular how credit is accessed • Introduce further support to customers to help them be better with credit by introducing more early intervention strategies

Our principal risks continued

Principal risk | **Link to our values** | **2021 performance**

Financial risk

(Responsibility: Chief Financial Officer)

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

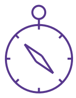
Example

Reputational damage, financial loss and/or withdrawal of funding could arise from:

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

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

Link to our values



2021 performance

- £172m of underlying profit before tax from continuing operations
- £119m of free cash flow available for Senior Secured Debt interest
- As at the year end, a cash balance of £304m and £128m of cash held outside of the securitisation structures
- Refinanced all maturing debt and raised £1.4bn of new funding
- Repaid £100m of Senior Secured Debt and the £30m Revolving Credit Facility
- VFN headroom of £1.3bn as at the year end to fund receivables growth
- Added a new large international bank to our lending panel

Market risk

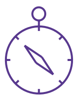
(Responsibility: Chief Financial Officer)

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

Example

- 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

Link to our values



2021 performance

- 2021 funding strategy executed, achieving further diversification and increasing our securitisation funding
- Transitioned all funding away from LIBOR before it ceased
- There is limited hedge risk in the portfolio due to the ability to pass on rate changes to customers. The limited hedge risk that remains is monitored monthly by the Assets and Liabilities Committee

How we are mitigating this risk	Where next?
• Execution of funding deals and deals extended where appropriate • Monitored levels of cash held to ensure the business met its current and future requirements • Revised forecasts and stress tests prepared taking into account the market and macroeconomic changes • 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 • Monitoring of funding triggers to ensure all requirements met • Contingency funding plan triggers monitored by the Asset and Liability Committee • Financial control framework governing processes and procedures across the Finance team • First, second and third line of defence governance structure	• Regular reforecasting of financial performance, including funding covenants and cash liquidity • Continued development of effective and proportionate scenario stress tests completed regularly throughout the year • Enhance our securitisation reporting to improve control and reduce manual input
• Reducing the direct financial risk by having the ability, in most circumstances, 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) • Funding strategy executed and improved VFN flexibility and capacity • Having headroom on funding facilities to fund future receivables growth	• Our funding strategy for 2022 will include further diversification and increase our securitisation funding • Investigate hedging our exposure to interest rate changes which cannot be passed on to our customers

Our principal risks *continued*

Emerging risks

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

We have identified the following emerging risks moving forward into 2022.

Conduct risk

Claims management companies (CMCs) continue to test firms on their affordability review processes and PPI claims continue to be received from CMC-style solicitors. We are working closely with industry trade associations on the matter and the risk continues to be monitored.

Regulatory risk

Changes to the regulatory environment continue to pose a risk to NewDay as we ensure lending continues to be undertaken in a compliant and customer-focused manner. We continue to monitor the following:

- the FCA is to introduce Consumer Duty requirements which is a new duty of care for financial services firms and individuals; and
- to protect customers from potential fraudulent activity, enhancements to PSD2 are required to be in place by March 2022. We are looking to balance the benefits of the improved security features for customers with ensuring our products remain simple to use and understand.

Chairman's introduction to corporate governance

"We have a well-established governance framework designed to ensure high standards of corporate governance and appropriate oversight by the Board. This aims to ensure growth is delivered in a controlled and compliant manner whilst protecting the interests of our stakeholders."

Sir Michael Rake
Chairman and Non-Executive Director

Whilst the global economy continued to be impacted by COVID-19 throughout the year, our well-established governance framework has ensured that all stakeholder interests have been protected with appropriate oversight at Board level. This is actively endorsed by Cinven, CVC and all members of management.

Whilst no significant changes have been made to our strong governance framework during 2021, 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 2021 were:

- continued oversight of our 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 we are well positioned for growth in 2022 and beyond;
- following a strategic review, taking the decision to proceed with the launch of our Platform Services business through our platform-as-a-service offering (*NewTech*);
- 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;
- closely monitoring our response to a number of our founding partners ceasing to trading, including the launch of our *Pulse* Mastercard and the migration of certain customers from the associated portfolios;
- regularly reviewing customer outcomes and progress against our manifesto;
- reviewing the results from our bi-annual employee surveys to understand views from colleagues and ensure they are engaged and motivated; and
- closely monitoring other regulatory developments to ensure we are aware of matters on the regulatory horizon and are adequately prepared for them.

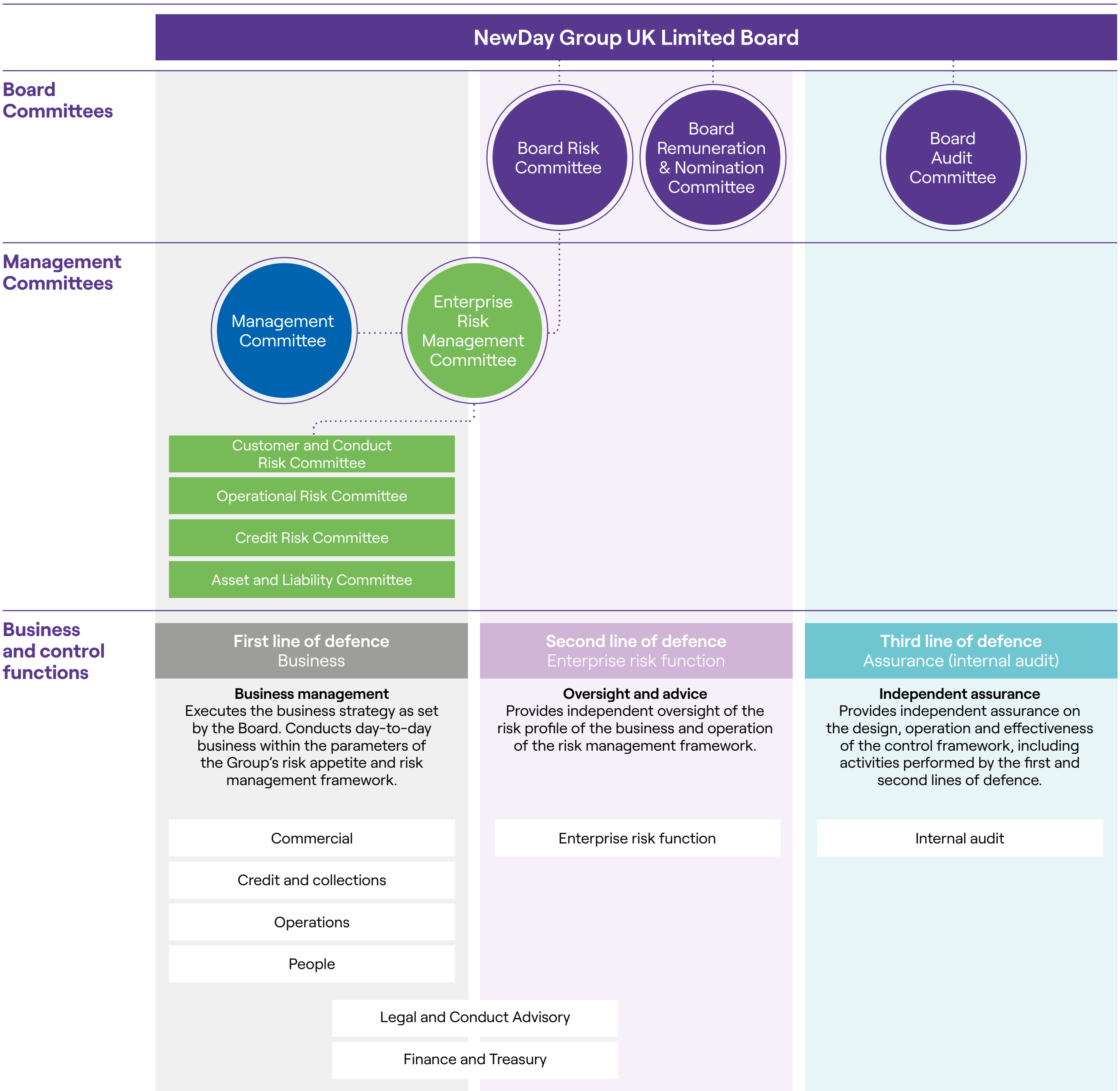
On 31 March 2021, we welcomed Rebecca Abrey to the Board as an Investor Director from Cinven. Rebecca brings a wealth of experience to the Board and is a principal in the Financial Services sector team at Cinven.

Chairman's introduction to corporate governance continued

Governance framework

During 2021, 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 2021, 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	How the Group has complied
Principle 1 • *An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.*	• We believe in credit as a force for good. Our purpose is to help people move forward with credit. This is at the heart of everything we do and is supported by our manifesto. Detailed disclosures regarding our manifesto and strategy can be found on pages 2 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 pages 14 and 40 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 38.

Board of Directors

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

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

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

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

John was appointed CEO of NewDay in 2019. John has thirty years of global financial services experience.

He began his career at Price Waterhouse working in Dublin, Hong Kong and London before moving to Royal Bank of Scotland in 1997. He served as Chief Executive of the Group's Investment Bank (Markets & International Banking) for five years. Between 2013 and 2019 John served as CEO of Bank of Cyprus, the largest banking and financial services group in Cyprus. During his tenure, John reshaped the business, re-established its deposit base, improved the quality of its loan book and strengthened its financial position.

He was named Euromoney's Banker of the Year in 2015 and is a fellow of the Institute of Chartered Accountants in Ireland.

Paul Sheriff
Executive Director and Chief Financial Officer

Paul joined NewDay as CFO in 2016. Paul 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 is a Non-Executive Director and Deputy Chairman of British Airways plc, a Non-Executive Director of CGI Inc and a Member of Council of Exeter University.

She previously held senior management roles at Marks and Spencer plc where she spent more than twenty years, including as Chief Financial Officer, and at Standard Life plc where she served as Chief Financial Officer and led the company's listing on the London Stock Exchange. She was previously a Non-Executive Director of HSBC Bank plc and Darty plc. She is a member of the Institute of Chartered Accountants in England and Wales and graduated from Exeter University.

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

Rupert 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.

He 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 at Visa 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. He 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 has over thirty years of global financial services experience with large multinational companies, such as American Express, Citibank, HBOS and IBM.

He 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's Retail Product business units.

He joined NewDay as CEO in January 2009 from Washington Mutual in Seattle, where he was President of the Retail Banking Division. In 2019, he stepped down as NewDay's CEO after ten years' service, and remains on the Board as a Non-Executive Director.

He is also a Non-Executive Director at Mercury Financial in the USA and Latitude Financial in Australia and is a Trustee of the British Tinnitus Association.

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

Caspar 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.

He 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.

He has extensive experience of investing across various financial services industries. He has led and been responsible for investments in Guardian Financial Services (PRA/FCA regulated), Viridium Group (BaFin regulated), Eurovita (IVASS regulated), Avolon, Premium Credit Limited (FCA regulated) and Partnership Assurance plc (PRA/FCA regulated). He has also been a member of the board and risk and audit committees for Partnership Assurance plc, Avolon, Guardian Financial Services, Viridium Group and Eurovita.

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

Peter is a Managing Partner at CVC and is Head of CVC's Financial Services Group.

Prior to joining CVC in 2007, he worked for Advent International. Prior to working at Advent International, he worked for Goldman Sachs in the Investment Banking Division. He holds an MA degree from the University of Cambridge and an MBA from INSEAD.

He has led or been responsible for investments including in Brit Insurance, Avolon, Skrill, Domestic & General, Pension Insurance Corporation, Paysafe, April Group, TMF Group and Riverstone International.

He serves on the boards of a number of these portfolio companies, some of which are PRA/FCA regulated.

Board of Directors continued

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

David 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. He also advised the French government on various transactions. He 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.

He currently sits on the Board of Viridium Group (BaFin regulated). He 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 Domestic & General, Six Nations Rugby/ Premiership Rugby, the RAC and Away Resorts. He 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, he worked in mergers and acquisitions at Citigroup and Schroders. He holds an MA degree from Oxford University.

Rebecca Abrey
Investor Director (Cinven)

Rebecca is a Principal at Cinven and a member of the Financial Services team. Rebecca has been involved in a number of Cinven's transactions including Premium Credit, JLA, Miller and True Potential.

Prior to Cinven, she worked at Lazard focusing on M&A transactions across both the Financial Institutions and Industrials sectors. She graduated from Oxford University with a BA in Economics and Management.

Management Committee

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

John Hourican
Chief Executive Officer

Paul Sheriff
Chief Financial Officer

Ian Corfield
Chief Commercial Officer

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

Sanjay Sharma
Chief Operating Officer

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

Mark Eyre
Chief Risk Officer

Mark joined NewDay in 2014 from Deloitte, where he was a Director in the Risk and Regulation practice, providing advisory support to financial services firms regarding risk management and regulation. Prior to this, he worked at Barclays for 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, he 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, he worked in the legal team at GE Capital for four years and in practice at Baker & McKenzie for five years.

The Board

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

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

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

Role of the Board

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

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

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

Attendance at Board and Committee meetings

Member	Board meetings attended	Board Audit Committee meetings attended	Board Risk Committee meetings attended	Board Remuneration and Nomination Committee meetings attended
Sir Michael Rake	10/10	N/A	N/A	2/2
John Hourican	10/10	N/A	N/A	2/2
Paul Sheriff	10/10	N/A	N/A	N/A
Alison Reed	10/10	8/8	6/6	N/A
Rupert Keeley	9/10	N/A	N/A	2/2
James Corcoran	10/10	N/A	N/A	N/A
Caspar Berendsen	9/10	N/A	6/6	1/2
Peter Rutland[1]	8/10	8/8	5/6	2/2
David Giroflier	10/10	8/8	N/A	N/A
Pev Hooper	5/10	N/A	N/A	N/A
Rebecca Abrey[2]	7/10	N/A	N/A	N/A

1 Alex Lelekov and Rebecca Abrey also attended one Board meeting and one Board Risk Committee meeting respectively as alternate for Peter Rutland.
2 Rebecca Abrey was appointed to the Board from 31 March 2021.

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

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

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

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

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

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

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

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

Training
Directors have access to relevant training courses during the year to continue to ensure they are up-to-date on the latest developments and maximise their effectiveness. During 2021, training focused on the Group's latest generation credit underwriting models and the FCA's Senior Managers and Certification Regime.

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

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

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

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

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

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

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

Share capital
During the year ended 31 December 2021, the Company did not acquire any of its own shares.

Board Audit Committee

"NewDay continues to deliver growth and change at a breathtaking pace. It is the Committee's responsibility to ensure the control environment and financial reporting processes adapt to support this by remaining fit for purpose and reflecting best practice."

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

Chair's overview

2021 represented an opportunity for the Committee to build on the progress made by the business as it adapted to the unique challenges presented by the pandemic. Whilst the Committee remained alert to the ongoing impact of COVID-19, we shifted our focus to ensuring the business was adequately supported with robust and effective control and financial reporting processes to support the business' ambitious change agenda.

All significant judgement areas within the Group's financial reporting were regularly reviewed during the year. Specific attention was paid to the ECL allowance against the backdrop of COVID-19 and withdrawal of Government support arising from the pandemic.

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

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

Committee composition, skills and experience

The following Directors are members of the Board Audit Committee:

- Alison Reed, 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 regularly.

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

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

Roles and responsibilities

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

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

Key activities of the Board Audit Committee in 2021

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

- reviewed the 2020 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 allowance 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. The Committee also reviewed the ECL model controls and governance framework;
- considered and challenged management forecasts of Group cash flows and net debt, as well as financing facilities available to the Group to approve to the Board the use of the going concern basis of preparation in the Group's Financial Statements;
- oversaw the relationship with the internal and external auditor including consideration of the terms of engagement and assessed the effectiveness of both the internal and external audit functions. The Committee also reviewed its effectiveness including how it interacts with the internal and external audit functions;
- approved the internal audit plan for the year to ensure it focused on key risk areas of the business;
- assessed the Group's compliance with certain provisions of the UK Corporate Governance Code;
- considered the impact of UK SOX on the Group;
- considered the Financial Reporting Council's findings for their review of KPMG's 2019 year end audit;
- reviewed the outcome of a Senior Managers and Certification Regime (SMCR) audit;
- 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 a HMRC risk assessment of the Group's tax strategy; 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 2021 are detailed in the following table. These issues were closely examined with our external auditor during the year.

Board Audit Committee *continued*

Key issues and judgements in financial reporting	Board Audit Committee's review and conclusions
ECL allowance on loans and advances to customers ECL allowances are recognised on origination of a financial asset, based on anticipated credit losses. Our ECL allowance is the product of the probability of default, exposure at default and loss given default, discounted at the original effective interest rate. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. ECL allowances and credit risk remain a significant area of risk and audit focus in the Financial Statements as a result of the various assumptions and judgements that are necessary. The ECL allowance recorded by the Group as at 31 December 2021 was £461m for the Direct to Consumer portfolio and £108m for the Merchant Offering portfolio (2020: £457m and £93m respectively). Refer to note 2.3 for further details on the judgements inherent within the ECL allowance.	The Committee regularly reviewed and challenged the key judgements applied, including the appropriateness of the modelling estimates, the determination of a significant increase in credit risk, the definition of default and incorporation of forward-looking information. In considering the appropriateness we reviewed the rationale and impact of variations to each of the key assumptions. The Committee assessed the credit performance of the Group's portfolio in light of the ongoing impact of COVID-19 including the withdrawal of Government support aimed at helping customers experiencing financial difficulties as a result of the pandemic. 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. The Committee reviewed the disclosures in the Financial Statements to ensure they were appropriate and addressed the requirements of IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'. The Committee was satisfied that the ECL allowance was appropriate.
Impairment of goodwill and acquired intangible assets The carrying value of goodwill and acquired intangible assets should be reduced to the higher of their fair value less costs of disposal and their value in use should both of these be lower than the asset's carrying value. Accordingly, an impairment review is required whenever there is evidence to suggest the assets may be impaired, in addition to the annual impairment review required for goodwill. An impairment review is conducted by comparing the discounted estimated future cash flows of the cash-generating units or underlying intangible assets with their carrying value prior to impairment. In 2021, impairment reviews were performed on goodwill (as part of its annual review) and on specific intangible assets that were identified as potentially being impaired. No impairment was required following the reviews. Additionally, the amortisation method for the Group's acquired intellectual property intangible assets was revised to align it more closely to the expected usage of the assets over their remaining life. As at 31 December 2021, the Group reported acquired intangible assets of £134m and goodwill of £280m (2020: £191m and £280m respectively). Refer to note 2.3 for further details on the judgements inherent within the impairment assessment on goodwill and acquired intangible assets.	The Committee reviewed and challenged the impairment reviews performed on goodwill and 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. The Committee was satisfied that the no impairment charge was required and the reported carrying values of goodwill and acquired intangible assets were appropriate. The Committee was also satisfied the revision to the amortisation method for the Group's acquired intellectual property intangible 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 The Group applies the requirements of IFRS 9 through the EIR method for the recognition and measurement of interest income for loans and advances to customers, including customers who have been offered interest-free promotional periods. The EIR is determined on inception as management’s best estimate of future cash flows based on historical information, where available, and considers the repayment activity and the retention of the customer balance after the end of the promotional period. As such, in the case of interest-free promotional period offers, the EIR method introduces estimation uncertainty which, if the actual cash flows differ from the estimate, could result in an adjustment to the carrying value of the asset recognised from interest accrued in the interest-free promotional period. The Group has recognised an EIR adjustment to loans and advances to customers in respect of interest-free periods of £37m as at 31 December 2021 (2020: £33m). Additionally, in 2021, the Group performed its annual review of EIR methodology and identified two main items for revision. Firstly, the data used to estimate cash flows from customers taking interest-free promotional periods was revised to more accurately estimate repayment behaviour including recognition of when an account is written-off. Secondly, the accounting policy for the recognition of upfront fees was revised to amortise the fees over the life of the underlying spend that generated the fee rather than, in previous years, the life of the associated customer account. Refer to note 2.3 for further details on the judgements inherent within the EIR accounting for loans and advances to customers.	The Committee received regular updates on several aspects of the EIR accounting adjustments and focused specifically on the significant judgements used in the adjustment to loans and advances to customers in respect of interest-free promotional periods. These judgements, which include the expected repayment activity and customer retention after the end of the promotional period, were reviewed and approved by the Committee throughout the year. The controls and governance surrounding the EIR processes were also reviewed by the Committee in the year. The Committee was satisfied that the revisions to both the data used to estimate cash flows from customers taking interest-free promotional periods and the accounting policy for upfront fees were appropriate. The Committee was satisfied that the carrying value of the EIR adjustment to loans and advances to customers in respect of interest-free periods was appropriate. Whilst other aspects of the EIR accounting adjustments include judgements, these judgements are not considered by the Committee to be significant as they incorporate low levels of estimation uncertainty.
Provisions including PPI provision The Group is engaged in various operational, legal and regulatory matters, the impact of which cannot always be predicted, but can give rise to provisioning for contingent and other liabilities depending on the relevant facts and circumstances. The level of provisioning is subject to management judgement on the basis of legal advice and the uncertainty over the potential outcome and is therefore an area of focus for the Committee. 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 2021, the Group reported a PPI provision of £8m (2020: £5m). Refer to note 2.3 for further details on the judgements inherent within the PPI provision. As at 31 December 2021, including the PPI provision, the Group reported provisions totalling £11m (2020: £11m). Refer to note 21 for further details.	The Committee has understood the basis for determining the provisions and, where relevant, has reviewed legal and accounting guidance in determining the appropriate amount of provision. 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 2021 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 2021 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 2021 as well as ensuring there was equal prominence given to relevant statutory and adjusted measures.

Internal audit

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

The Committee assesses the performance of the internal audit function on an ongoing basis to ensure it is satisfied with the function's effectiveness. The Committee monitored progress and delivery against the 2021 internal audit plan throughout the year, including assessing the scope of work performed, and evaluating coverage of the internal audit plan. The Committee determines the effectiveness with which internal audit performs its activities including the level of resources and training of the internal audit function.

During the year, the size of the team was increased with the addition of an IT specialist auditor to increase focus on this key risk area of the business.

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

- fraud, disputes and chargebacks;
- cyber security;
- customer acquisition and engagement;
- existing customer marketing;
- customer services operations – digital servicing/messaging and operational controls over chatbot;
- platform resilience (internal and external third parties), including technology service management;
- payroll and benefits administration;
- securitisation deal implementation, asset data accuracy and reporting including ESMA reporting enterprise risk management;
- COVID-19 payment deferral options;
- NODE post-implementation, including review of key credit underwriting controls;
- enterprise risk management;
- end user developed applications; and
- operational controls over non-monetary and monetary adjustments to customer accounts.

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

Having reflected on the achievements of the 2021 internal audit plan, the Committee endorsed the internal audit plan for 2022 ensuring it was tailored to address areas on a risk-based approach either as a result of regulator or industry focus or as a result of the continued pace of growth and change within the business.

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

External audit

Auditor independence

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

The external auditor is not permitted to perform any work that might impact 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 also considered the Reporting Accountant Services and fees provided by KPMG to the Group's ultimate parent, Nemean Topco Limited. EU Audit Regulation contains a 70% cap on non-audit fees for services provided to a UK Public Interest Entity (UK PIE). The Group has several subsidiary companies within its asset-backed securitisation programmes that meet the definition of a UK PIE.

The Committee considered the nature, extent and timing of the Reporting Accountant Services, the fees associated with the engagement, the overall structure of the Group, and the level of non-audit fees paid to KPMG in prior years. After due consideration, the Committee was satisfied that KPMG remained independent and approved the provision of the Reporting Accountant Services subject to the exemption being granted by the Financial Reporting Council (FRC). The FRC granted a waiver in September 2021 for the relevant UK PIEs for one year only.

Audit effectiveness

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 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.

In 2021, the Committee also considered the findings from the FRC's Audit Quality Review (AQR) team following their review of KPMG's 2019 year end audit of NewDay Group (Jersey) Limited as part of their annual review cycle. All matters included in the report had already been brought to the Committee's attention and discussed with KPMG as part of the 2020 year end audit. The Committee ensured that the external audit plan for the 2021 year end continued to address the AQR's findings, as well as the AQR's most recent report on KPMG and its approach to banking audits.

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 2022.

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 2021, 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 2021, 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."

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

Chair's overview

2021 was an impactful year as we continued to understand the long-term impacts of the COVID-19 pandemic on both our customers and our business.

The Committee's focus reflected the uncertainty in the external environment of the overall impacts of both Brexit and the pandemic on the UK economy. This was compounded by two of our long-standing retail partners, Debenhams and Arcadia, ceasing to trade at the end of 2020 after a long period of difficult trading conditions on the UK high street. Having recognised this potential outcome within our principal risk assessments, we were in a strong position to react during 2021 by offering customer incentives to maintain engagement and launching our *Pulse* card to transfer certain customers to a new card to ensure we continued to help them move forward with credit.

A significant area of focus has been the underlying credit performance of the portfolio, which has remained strong throughout 2021 with lower entry rates into collections, flow rates through arrears and charge-offs relative to the pre-pandemic experience. There was a continued focus on customers throughout the year and both payments and customer outcomes of payment deferrals remained strong, with low breakage rates and really encouraging voice of customer feedback.

Information and cyber security remained key areas of focus throughout 2021, building upon the strong improvements seen in 2020 with improved testing and control enhancements.

From a regulatory perspective, consideration was given to a number of regulatory changes through the year, including the business's readiness for PSD2, operational resilience and our response to the Dear CEO letter sent by the FCA to all mainstream consumer credit lenders.

The Committee continues to scan the horizon for emerging regulatory risks as well as regulatory developments and evolving guidance. The Committee anticipates more oversight in the BNPL market following the Woolard Review and our focus will be on ensuring our FCA-regulated *Newpay* product positions the business to be a beneficiary from it if BNPL is brought into the regulatory framework.

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.

As with the previous year, we closely monitored the effectiveness of the risk management framework in order to ensure that the principal and emerging risks identified by the business remained relevant and appropriately managed within the parameters of the Board's agreed risk appetite. Particular focus this year was given to restating our business conduct risk appetite, with a refreshed risk framework created, supported by a conduct risk dashboard to inform the Committee of the assessment against agreed conduct and regulatory risk appetite.

Ongoing oversight of our day-to-day risk management was provided through a bi-annual assessment of a consolidated business-wide risk profile, agreement of our principal risks (and relevant scores) and agreement of accepted risks ensuring the Committee remained fully informed of the business' risk management position.

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 regularly. Although not members of the Committee, the Chief Executive Officer, Chief Risk Officer and Chief Financial Officer attend each meeting. Other members of senior management and the external auditor are invited as and when required to ensure that the Committee has all the information it requires to operate effectively.

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

Roles and responsibilities

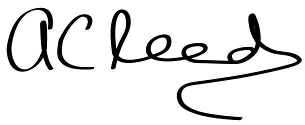
The main roles and responsibilities of the Committee, as set out in the terms of reference, are:

- to oversee the risk management framework and challenge the processes and methodologies used for identifying, measuring, managing, monitoring and reporting all key risks facing the business;
- to recommend to the Board how to improve the risk management framework including the monitoring of risk exposures, risk appetite, capital and liquidity and any significant risk issues;
- to review the output, effectiveness and resources of the Enterprise Risk 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 2021

As part of discharging its duties the Committee convened several times during the year and delivered the following key outcomes:

- 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;
- reviewed and challenged the proposed risk appetite statements and metrics, to ensure they were in line with our strategic objectives, and subsequently renewed the conduct risk management framework and the supporting conduct risk appetite metrics to better reflect industry insights and practices;
- reviewed and challenged the risk profile of the business using the principal risk radar and focused on the management of risks and issues within the business (in particular credit risk);
- reviewed the improvements made in cyber security in 2020 and the planned security initiatives for 2021, including the resiliency and security of customer data across the business' services and platforms;
- provided oversight and ongoing challenge to management's approach to managing credit risk, including credit performance, impairment performance and payment deferrals alongside customer outcomes. The Committee particularly focused on the uncertainty of macroeconomic impacts driven by Brexit and COVID-19. Flow rates and debt distributions through arrears stages were also reviewed;
- reviewed progress of our collections function transformation strategy of our new, in-house collections platform to provide customers with both a self-service collections journey as well as an agent platform to support customers when this is needed or preferred;
- regularly assessed performance against risk appetite, and monitored any breaches or trends towards breaches, challenging management to deliver action plans to improve when appropriate;
- provided oversight of the regulatory horizon and management response to regulation and legislation, including the business' readiness for PSD2, operational resilience and NewDay's response to the Dear CEO letter sent by the FCA to all mainstream consumer credit lenders;
- reviewed and challenged new product approvals to ensure that proposals were in line with strategic objectives;
- challenged management on customer outcomes, particularly relating to affordability and accessibility for customers in relation to new technology and digital customer journeys; and
- considered updates in relation to other matters during the year to understand management's plans, for example stress test scenarios against forecasted plans.



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

Board Remuneration and Nomination Committee

"In 2021, the Committee continued its focus on ensuring our people-related policies and practices were suited to the fast-changing external environment, in support of NewDay's strategy."

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. Its responsibilities include supporting the Chair in reviewing and recommending changes to the composition of the Board and its committees.

The Committee determines and sets remuneration for the Chair of the Board, Executive Directors and senior management. It also reviews the Group's remuneration policy. In 2021, the Committee assessed the Group's compensation and benefits programme through an annual market benchmarking exercise to ensure we remained competitive in attracting and retaining talent in a buoyant labour market.

Changes to the composition of the Management Committee and senior management teams are reviewed by the Committee, ensuring that they have the appropriate mix of experience, expertise and diversity to lead the business. In 2021, the Committee conducted a rigorous review of talent and approved the remuneration packages of key hires. No appointments to the Management Committee were made in the year.

The Committee helps secure the long-term health and progression of the business, in alignment with shareholder interests. In 2021, the Committee continued its focus on ensuring the Group's people-related policies and practices were suited to the fast-changing external environment, in support of NewDay's strategy.

The Group's rewards reflect the achievement of a range of performance, culture and risk management goals. The Committee reviews and adjusts annually a balanced scorecard of metrics which, with Board approval, helps determine annual bonuses and remuneration awards. It evaluates the business performance of the Group and its overall ratings distribution. The Committee also assesses the performance and determines the rating of each member of the management team.

In 2021, the Committee reviewed the progress of the people agenda, including the management of the impact of the pandemic on our people. In support of this, the Committee endorsed the introduction of NewDay's hybrid flexible working policy, NewWork. Despite the significant challenges in the environment, the Group's annual engagement survey results were outstanding for the performance year. This reflects the strong culture that underpins the values and pursuit of NewDay's purpose.

Committee composition, skills and experience

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

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

The diverse backgrounds of the Committee members and their combined skills and range of risk and business experience (as detailed on pages 60 and 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 2021

During the year the Committee delivered the following key outcomes:

- reviewed and evaluated management performance in 2020;
- recommended performance objectives for 2021 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

Group business review and results

The Group's business model is outlined on page 10 and the KPIs and financial review on pages 28 to 37 contain highlights of the financial performance and capital structure for the year. The Group reported a profit before tax from continuing operations of £79m for the year ended 31 December 2021. A reconciliation of the statutory profit to underlying profit before tax from continuing operations, referred to throughout the Strategic Report, is provided on page 31.

The Chief Executive Officer's review on page 16 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 2021.

Principal risks and management

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, as well as the overall financial position of the Group, its cash flows, liquidity position and borrowing facilities, are described in the KPIs and financial review on pages 28 to 37 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 ongoing 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 £1.4bn of funding or facilities 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. As at 31 December 2021, we reported a cash balance of £304m.

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 remains uncertain, we have considered the impact of this uncertainty on the Group's forecast profitability and ability to refinance maturing debt, including through conducting severely stressed but plausible scenario analysis. Considering the scenario analysis and our current funding position, we feel that we are well placed to continue trading as a going concern for the next 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 pages 14 and 40.

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 38.

Directors' insurance

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

Research and development activities

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

Issuance of shares

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

Directors

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

- Grant Collins; and
- Carl Hansen.

Auditor and disclosure of information to auditor

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

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

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

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

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

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

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

The maintenance and integrity of the Group's website is the responsibility of the Directors; the work carried out by the independent auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the Financial Statements or the audit report since 24 February 2022. The auditor has carried out no procedures of any nature subsequent to 24 February 2022 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

24 February 2022

Independent auditor's report

Opinion

We have audited the Financial Statements of NewDay Group (Jersey) Limited (the 'Company') for the year ended 31 December 2021 which comprise 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 UK-adopted International Financial Reporting Standards, of the state of the Group's and parent Company's affairs as at 31 December 2021 and of the Group's and the parent Company's result for the year then ended; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group 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, Audit Committee, Internal Audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the Internal Audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board, Board Audit Committee and Board Risk Committee minutes;
- considering remuneration incentive schemes and performance targets for management under the Group's Management Incentive Plan; and
- using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk associated with revenue recognition under the effective interest rate (EIR) method arising from the judgements in relation to customer behavioural profiles and the risk that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the estimation of expected credit losses (ECL), and the valuation of goodwill and acquired intangibles. We also identified a fraud risk related to estimation of ECL, valuation of the Merchant Offering 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 Merchant Offering CGU goodwill by reference to the Group's historical performance, its budget, and potential retention of retail partners; and
- challenging the assumptions and performing sensitivity analysis to assess 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 receivables related to the Merchant Offering 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;
- proper returns adequate for our audit have not been received from branches not visited by us;
- 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 76, 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.

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

24 February 2022

Income statements and statements of comprehensive income

	Note	Group Year ended 31 December 2021 £m	Group Year ended 31 December 2020 £m	Company Year ended 31 December 2021 £m	Company Year ended 31 December 2020 £m
Continuing operations					
Interest and similar income	5	705.8	654.6	171.5	68.5
Interest and similar expense	6	(93.1)	(95.3)	(30.8)	(34.2)
Net interest income		**612.7**	**559.3**	**140.7**	**34.3**
Fee and commission income	7	66.6	68.8	–	–
Impairment losses on loans and advances to customers	12	(296.1)	(449.6)	–	–
Risk-adjusted income		**383.2**	**178.5**	**140.7**	**34.3**
Personnel expense	8	(106.8)	(87.4)	–	–
Other operating expenses	9	(197.7)	(220.0)	(0.7)	(0.4)
Total operating expenses		**(304.5)**	**(307.4)**	**(0.7)**	**(0.4)**
Profit/(loss) before tax from continuing operations		**78.7**	**(128.9)**	**140.0**	**33.9**
Tax (expense)/income	10	(18.0)	4.8	–	–
Profit/(loss) after tax from continuing operations		**60.7**	**(124.1)**	**140.0**	**33.9**
Discontinued operation					
Profit/(loss) after tax from discontinued operation	4	3.4	(4.5)	–	–
Profit/(loss) after tax		**64.1**	**(128.6)**	**140.0**	**33.9**
Other comprehensive (expense)/income					
Items that may subsequently be reclassified to the income statement:					
Effective portion of changes in fair value of cash flow hedges		4.7	(10.4)	–	–
Net income statement transfer from hedging reserve		(5.1)	13.3	–	–
Other comprehensive (expense)/income		**(0.4)**	**2.9**	**–**	**–**
Total comprehensive income/(expense)		**63.7**	**(125.7)**	**140.0**	**33.9**

The notes on pages 84 to 124 form an integral part of these statutory Financial Statements.

Balance sheets

	Note	Group 31 December 2021 £m	Group 31 December 2020 £m	Company 31 December 2021 £m	Company 31 December 2020 £m
Assets					
Loans and advances to banks	11	304.4	584.6	66.1	47.1
Loans and advances to customers	12	2,844.5	2,404.2	–	–
Other assets	13	47.6	50.8	556.7	573.2
Derivative financial assets	14	1.9	–	–	–
Current tax assets		3.0	1.8	–	–
Deferred tax assets		0.3	2.1	–	–
Property and equipment	15	15.7	19.8	–	–
Intangible assets	16	154.3	210.4	–	–
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		**3,651.6**	**3,622.8**	**1,134.2**	**1,131.7**
Liabilities					
Debt issued and other borrowed funds	19	3,221.2	3,246.8	329.9	458.0
Other liabilities	20	90.0	77.8	1.7	0.1
Derivative financial liabilities	14	16.5	27.5	–	–
Current tax liabilities		0.6	0.1	–	–
Provisions	21	11.1	11.1	–	–
Total liabilities		**3,339.4**	**3,363.3**	**331.6**	**458.1**
Net assets		**312.2**	**259.5**	**802.6**	**673.6**
Equity attributable to owners of the Company					
Share capital and share premium	22	–	–	–	–
Equity instruments	22	593.9	593.9	593.9	593.9
Capital contribution	22	9.2	20.2	9.2	20.2
Hedging reserve	22	(2.5)	(2.1)	–	–
Retained (losses)/profits	22	(288.4)	(352.5)	199.5	59.5
Total equity		**312.2**	**259.5**	**802.6**	**673.6**

The notes on pages 84 to 124 form an integral part of these statutory Financial Statements.

The Financial Statements on pages 80 to 124 were approved and authorised for issue by the Board of Directors on 24 February 2022 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 2020	**–**	**593.9**	**30.5**	**(5.0)**	**(223.9)**	**395.5**
Return on loan from immediate parent company[1]	–	–	(10.3)	–	–	(10.3)
Total comprehensive expense 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**
Return on loan from immediate parent company[1]	–	–	(11.0)	–	–	(11.0)
Total comprehensive income for the year:						
Profit after tax	–	–	–	–	64.1	64.1
Other comprehensive expense	–	–	–	(0.4)	–	(0.4)
As at 31 December 2021	**–**	**593.9**	**9.2**	**(2.5)**	**(288.4)**	**312.2**

Company	Share capital and share premium £m	Equity instruments £m	Capital contribution £m	Retained profits £m	Total equity £m
As at 1 January 2020	**–**	**593.9**	**30.5**	**25.6**	**650.0**
Return 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**
Return on loan from immediate parent company[1]	–	–	(11.0)	–	(11.0)
Total comprehensive income for the year:					
Profit after tax	–	–	–	140.0	140.0
As at 31 December 2021	**–**	**593.9**	**9.2**	**199.5**	**802.6**

1 The Group (and Company) made a return of £11.0m (2020: £10.3m) to Nemean MidCo Limited, its immediate parent, of which £0.7m (2020: £nil) was still to be paid as at the year end. 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 124 form an integral part of these statutory Financial Statements.

Statements of cash flows

	Note	Group: Year ended 31 December 2021 £m	Group: Year ended 31 December 2020 restated[1] £m	Company: Year ended 31 December 2021 £m	Company: Year ended 31 December 2020 £m
Operating activities					
Profit/(loss) after tax		64.1	(128.6)	140.0	33.9
Reconciliation of profit/(loss) after tax to net cash (used in)/generated from operating activities:					
Tax expense/(credit)	10	18.0	(4.8)	–	–
Interest and similar expense	6	93.1	95.3	30.8	34.2
Interest and similar expense from discontinued operation	4	0.1	2.3	–	–
Depreciation of property and equipment	15	4.9	5.4	–	–
Charge on disposal of property and equipment	15	0.6	0.2	–	–
Amortisation and impairment of intangible assets	16	63.5	58.0	–	–
Impairment and charge on disposal of intangible assets	16	0.4	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	296.1	449.6	–	–
Impairment losses on loans and advances to customers from discontinued operation	4	–	16.4	–	–
Changes in operating assets and liabilities:					
Increase in loans and advances to customers including those held for sale		(734.4)	(229.6)	–	–
Decrease/(increase) in other assets		3.2	5.8	16.5	(34.6)
Increase/(decrease) in other liabilities		14.1	(2.4)	0.9	0.1
Decrease in provisions		–	(6.8)	–	–
Interest and similar expense paid		(93.6)	(91.0)	(28.9)	(31.8)
Tax paid		(16.9)	(6.3)	–	–
Net cash (used in)/generated from operating activities		**(286.8)**	**170.2**	**159.3**	**1.8**
Cash flows from investing activities					
Purchases of property and equipment	15	(1.3)	(2.7)	–	–
Investment in intangible assets	16	(7.8)	(8.9)	–	–
Proceeds from the sale of loans and advances to customers held for sale[2]		67.2	–	–	–
Net cash generated from/(used in) investing activities		**58.1**	**(11.6)**	**–**	**–**
Cash flows from financing activities					
Proceeds from debt issued and other borrowed funds	19	1,726.4	1,012.5	50.0	30.0
Repayment of debt issued and other borrowed funds	19	(1,765.0)	(778.6)	(180.0)	–
Payment of principal element of lease liabilities		(2.6)	(3.3)	–	–
Return paid on loan from immediate parent company		(10.3)	(10.3)	(10.3)	(10.3)
Net cash (used in)/generated from financing activities		**(51.5)**	**220.3**	**(140.3)**	**19.7**
Net (decrease)/increase in cash and cash equivalents		(280.2)	378.9	19.0	21.5
Cash and cash equivalents at the start of the year		584.6	205.7	47.1	25.6
Cash and cash equivalents at the end of the year	11	**304.4**	**584.6**	**66.1**	**47.1**

1 In 2021, the Group refined its definition of cash and cash equivalents to include restricted cash. Accordingly, the comparatives have been re-presented to include restricted cash in cash and cash equivalents. The effect has been to increase net cash generated from operating activities for year ended 31 December 2020 by £10.1m.
2 This includes the fair value gain of £4.5m on classification and measurement of loans and advances to customers held for sale as fair value through profit or loss on 1 January 2021.

The notes on pages 84 to 124 form an integral part of these statutory Financial Statements.

Notes to the Financial Statements

1. Corporate information

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

2. Accounting policies

2.1 Basis of preparation

The consolidated Group and Company Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK, whilst the prior year comparatives have been prepared in accordance with IFRS as endorsed by the EU. Both sets of standards were the same as at 1 January 2021 and the Group's accounting policies have been consistently applied in the current year and prior year comparatives.

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 2021 were approved by the Board of Directors on 24 February 2022.

Going concern

As at 24 February 2022, the Group has £576.1m (including £166.4m through a cross-currency interest rate swap) of asset-backed term debt principal within the Direct to Consumer securitisation programme and £293.7m within the Merchant Offering programme maturing in the next twelve months. In order to deliver the growth plans, it is the Directors' intention to refinance the funding due to mature with new asset-backed term debt or VFNs. If new funding cannot be obtained in line with the Group's growth plans, the Directors note that the Group can, if required, exercise an option to extend the maturity date on all its asset-backed term debt and VFNs by one year. As at 24 February 2022, the Group has undrawn VFNs of £669.5m within the Direct to Consumer securitisation programme and £796.9m within the Merchant Offering securitisation programme (excluding the facility related to the new merchant partnership detailed in note 29) with a maturity in excess of twelve months which can be used to fund future growth and refinance any other maturing debt (subject to sufficient headroom).

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

As part of the stress scenarios, the Directors also considered the impact of the UK economic outlook on the Group (including the ongoing impact of the COVID-19 pandemic), as well as the closure of the capital markets and a restriction on the Group's ability to raise new finance. 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 most severe but plausible stress scenario considered by the Directors assumes a downturn where unemployment peaks at 11.9% in 2022 and there is limited ability to raise new financing. In this scenario, the Directors would be required to take mitigating action to reduce growth plans, tighten credit amongst the Group's customers as well as reducing costs and discretionary spend. However, the Group would continue to operate within the financing available under its existing facilities and funding covenants.

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

Presentation of the Financial Statements

The Financial Statements are presented in Sterling and all values are rounded to the nearest £0.1m, except where otherwise indicated. The Group presents its balance sheets in order of liquidity (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 2021. The subsidiaries and SEs are disclosed in note 27. The Financial Statements of the Group's subsidiaries (including SEs that the Group consolidates) are prepared for the same reporting period as the Company using consistent accounting policies.

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

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

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

2.2 Summary of significant accounting policies

(1) Foreign currency translation

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

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

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

(ii) Classification of financial assets and financial liabilities

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

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

Non-derivative financial liabilities are held at amortised cost and derivative financial liabilities at FVTPL.

(iii) Loans and advances to banks

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

(iv) Loans and advances to customers

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

(v) Debt issued and other borrowed funds

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

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

Notes to the Financial Statements continued

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- the rights to receive cash flows from the asset have expired; 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 2021, the Group reported a £61.4m 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 2020: £54.7m). For POCI financial assets, a credit-adjusted EIR is calculated using estimated future cash flows including ECL.

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

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

In 2021, the Group performed an annual review of EIR methodology and identified two main items for revision. Firstly, the data used to estimate cash flows from customers taking interest-free promotional periods was revised to more accurately estimate repayment behaviour including recognition of when an account is written-off. Secondly, the accounting policy for the recognition of upfront fees was revised to amortise the fees over the life of the underlying spend that generated the fee rather than, in previous years, the life of the associated customer account. Had the revision to the cash flows and accounting policy change been implemented in the 2020 Financial Statements there would have been a net immaterial impact on interest and similar income, accordingly the prior year results have not been restated.

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

The Group extends short-term concessions to customers in the form of payment holidays which suspend interest and fees for the duration of the intervention. These concessions have been accounted for as a non-substantial modification and therefore have not resulted in derecognition of the underlying asset. As at 31 December 2021, the total loans and advances to customers that were on a payment holiday was £54.9m (31 December 2020: £75.2m). In the year ended 31 December 2021, the Group reported a loss on modification of £9.8m (2020: £21.2m) on balances totalling £180.9m at the point of modification (2020: £397.5m). None of the loss has been recorded within interest and similar income (2020: £14.7m) and instead all £9.8m has been recorded within impairment losses on loans and advances to customers (2020: £6.5m) because in 2021 all modifications are deemed to be resulting from financial difficulties of the customers.

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

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

Notes to the Financial Statements continued

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

(ii) Fee and commission income

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

Netting off against fee and commission income are fee and commission expenses which principally consist of scheme fees arising from using the Mastercard network and cash back the Group pays to its customers on qualifying spend.

(iii) Customer cashback programmes

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

(iv) Loyalty programmes

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

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

(v) Personnel expense

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

(vi) Defined contribution pension plan

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

(vii) Share-based payment transactions

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

(viii) Servicing costs

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

(ix) Capitalisation of expenditure

Expenditure relating to specific projects 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.

Notes to the Financial Statements continued

2. Accounting policies continued

2.2 Summary of significant accounting policies continued

(10) Intangible assets

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

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

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

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

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

Changes in the expected useful economic life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. In 2021, the amortisation method for the Group's acquired intellectual property intangible assets was changed from a straight-line method to a unit-of-production method to better reflect the expected usage of the assets over their remaining lives.

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.

Notes to the Financial Statements continued

2. Accounting policies continued

2.3 Significant accounting judgements, estimates and assumptions

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

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:

(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 2021 £m	31 December 2020 £m
+/-5% relative change in the PD	+/-18.4	+/-19.0
+/-1 pence movement per pound of receivable on recoveries from debt sales assumed in the LGD	-/+3.1	-/+3.4

(ii) Significant increase in credit risk

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

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

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

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

As at 31 December 2021, 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 £3.1m reduction or £4.5m increase in the Group's ECL allowance respectively (31 December 2020: £2.3m reduction or £3.5m 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.

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.

(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 2021, 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 % Peak	Minimum	Average	ECL allowance assuming 100% probability weighting £m	Probability weighting used in reported ECL allowance %
31 December 2021					
Upside	4.2	3.8	3.9	477.2	5
Base	4.6	4.1	4.3	502.0	50
Downside 1	9.1	4.2	6.3	644.2	40
Downside 2	11.9	4.2	7.3	727.0	5
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

A summary of the assumptions in each scenario as at 31 December 2021 is as follows:

- the upside scenario assumes a continued rebound to the UK economy as COVID-19 restrictions on all sectors are lifted and Brexit-related issues are resolved with new trade agreements resulting in an improvement in consumer confidence. The unemployment rate is expected to gradually reduce from 4.2% at the beginning of 2022 to pre-pandemic levels of 3.8% by the end of 2025;
- the base scenario assumes a phased rebound to the UK economy with an impact on trade resulting from labour shortages in certain industries. Consumer confidence increases as restrictions are lifted and the unemployment rate is forecast to peak at 4.6% in Q2 2022 before gradually falling almost back to pre-pandemic levels by the end of the five-year outlook period, reaching 4.1%;
- the downside 1 scenario assumes the UK economy takes longer to recover and gets a short-term shock due to the emergence of new COVID-19 variants, inflation and labour challenges in certain industries. The unemployment rate peaks at 9.1% at the end of 2022 and remains elevated before gradually reducing to 4.6% at the end of the five-year outlook period; and
- the downside 2 scenario assumes the UK economy is hit harder with many sectors experiencing bankruptcies and the UK receiving sanctions from the EU for breaches of the Northern Ireland Protocol. The UK economy is expected to take longer to recover with the unemployment rate reaching 11.9% at the end of 2022 and remaining elevated for the duration of the forecast period as the economy struggles to recover. The unemployment rate reduces to 4.8% by the end of the five-year outlook period which is significantly above the pre-pandemic rate.

The changes to the probability weighting applied to each scenario represent changes to management's view of the likelihood of each scenario occurring and reflect the uncertainty in the UK economic outlook at the prevailing date, for instance wider economic pressures including inflation resulted in a shift in probability weighting from the base scenario to the downside 1 scenario as at 31 December 2021. The ECL allowance assuming a 100% probability weighting applied to each scenario also includes the impact of different forecast economic outcomes on the post model adjustments.

As at 31 December 2021, the impact of probability-weighting these scenarios and overlaying other forward-looking information increased the ECL allowance on loans and advances to customers by £67.0m compared to the base scenario ECL allowance (31 December 2020: £22.2m).

(v) Post model adjustments (PMAs)

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

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
COVID-19 related	19.2	38.5
Forward-looking information	25.4	24.6
Model performance	21.9	21.2
Total PMAs	**66.5**	**84.3**

Notes to the Financial Statements continued

2. Accounting policies continued

2.3 Significant accounting judgements, estimates and assumptions continued

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

- COVID-19 related PMAs represent adjustments to ECL arising from changes in customer behaviour and model inputs driven by the pandemic that are not captured appropriately by the underlying model methodology. This includes the additional losses expected to be incurred on accounts that have taken a payment deferral, such as a payment holiday or payment freeze;
- the forward-looking information PMA represents the use of proxies to consider the impact on ECL of multiple economic scenarios. The Group uses its Direct to Consumer model as a proxy for considering the impact of changes in forward-looking information on ECL for portfolios which do not have a bespoke forward-looking model. The Group also uses a PMA to incorporate the impact of forecast changes in disposable income on ECL; and
- model performance PMAs represent adjustments to modelled outcomes including normalisation for recent experience and the outcome of periodic model validations.

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

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

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

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

As at 31 December 2021, the Group reported an EIR adjustment to loans and advances to customers in respect of interest-free periods of £37.4m (31 December 2020: £33.2m). Net interest and similar income recognised in relation to the interest-free promotional periods totalled £4.2m, or 1%, of interest and similar income for the year ended 31 December 2021 (2020: £9.7m or 1%).

As at 31 December 2021, if the estimated cash flows used in the EIR model for interest-free promotional products changed by +/-5% the EIR adjustment to loans and advances to customers would increase/decrease by £1.5m/£1.5m (31 December 2020: £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.

(i) Impairment of goodwill

In 2021, the Group performed an annual impairment review of goodwill by comparing the discounted estimated future cash flows of the cash-generating units with their carrying value including goodwill. The impairment review is dependent on a number of key assumptions which have a significant impact on the outcome including:

- 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% (2020: 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. 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 2021, the Group reported a goodwill carrying value of £279.9m (31 December 2020: £279.9m) and no impairment charge in the year (2020: £nil). If the discount rate used in the impairment assessment 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% (2020: 12%).

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

(ii) Impairment of acquired intangible assets

As at 31 December 2021, the reported carrying value of the Group's acquired intangible assets was £133.8m (31 December 2020: £191.2m). In accordance with IAS 36, intangible assets arising on the Acquisition are measured at fair value on the date they were acquired less accumulated amortisation and impairment losses. Accordingly, at each reporting date the Group is required to assess whether there is any indication that the assets may be impaired. If there is an indication that an asset may be impaired, the asset's recoverable amount must be calculated and the carrying value should be reduced to the recoverable amount should it be lower.

As at 31 December 2021, the Group has reviewed all available information that may indicate its acquired intangible assets are impaired and assessed there to be no impairment triggers. Accordingly, no impairment has been recognised on the acquired intangible assets in the year. See note 16 for further details of the Group's acquired intangible assets.

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 2021, the Group reported a PPI provision of £7.7m (31 December 2020: £5.3m) and the Group uplifted its PPI provision by £4.7m in 2021 (2020: £7.7m). 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 is higher than initially estimated. The total cost associated with PPI for the Group since its inception is £68.2m (2020: £63.5m), of which £2.3m was remediated in the year ended 31 December 2021 (2020: £12.3m).

As at 31 December 2020, the Group had an open enquiry from a third party, with which it is jointly liable for certain PPI-related costs, to contribute an amount of £7.3m to a historic remediation exercise on previously settled claims. At that time, the third party had not established a basis for the claim and management deemed it unlikely the Group would be required to contribute the amount claimed. As at 31 December 2020, the Group recorded this as a contingent liability. In 2021, the Group received a revised claim from the third party and uplifted its provision to reflect the anticipated amount payable in this matter.

See note 21 for further details of the PPI provision.

2.4 Adoption of new and revised standards

The following new amendments to existing standards are mandatory for the first time for the year ended 31 December 2021 but do not have a significant impact on the Group or Company:

- amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 for interest rate benchmark reform (phase 2).

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 16 'Leases' – COVID-19-related rent concessions beyond 30 June 2021. The amendments extend the time period over which the practical expedient introduced by earlier amendments is available for use;
- annual improvements to IFRS Standards 2018-2020 cycle. Minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41;
- amendments to IFRS 3 'Business combinations' – reference to the Conceptual Framework. The amendments update certain references to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations;
- amendments to IAS 16 'Property, plant and equipment' – proceeds before intended use. The amendments require amounts received from selling items produced while the company is preparing the asset for its intended use to be recognised in profit or loss, and not as an adjustment to the cost of the asset;
- amendments to IAS 37 'Provisions, contingent liabilities and contingent assets' – onerous contracts: cost of fulfilling a contract. The amendments specify which costs to include when assessing whether a contract will be loss making;
- amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2. The amendments provide more guidance on the definition of a current and non-current liability, and guidance on relevant accounting policy disclosures;
- amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The amendments introduce a new definition for accounting estimates and clarify the relationship between accounting policies and accounting estimates; and
- amendments to IAS 12 'Income Taxes'. The amendments clarify how companies should account for deferred tax on certain transactions, such as leases and decommissioning provisions.

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

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 2021, the Group's reportable segments comprise Direct to Consumer, Merchant Offering and Platform Services, which are the segments reported to the chief operating decision maker, which is deemed to be the Chief Executive Officer and the Management Committee. Each segment offers different products and services and are managed in line with the Group's management and internal reporting structure. The segments are as follows:

- Direct to Consumer (previously Own-brand): this segment serves customers who are typically new to credit or have a limited or poor credit history. The segment issues credit cards under the *Aqua*, *Marbles* and *Fluid* brands and digital credit under the *Bip* brand. The segment also includes two closed portfolios;
- Merchant Offering (previously Co-brand): this segment provides co-branded credit products in partnership with established retail and consumer brands, and an own-branded *Pulse* card to customers from previous partnerships that have since ended. The segment also offers finance products to customers through its digital revolving credit product, *Newpay*. In addition, the segment has a small portfolio of other closed credit cards and point-of-sale finance products; and
- Platform Services: this segment provides digital platform solutions for end-to-end servicing of unsecured credit products financed and owned by third parties. This segment was established in 2021 for reporting to the chief operating decision maker and prior period comparatives have not been revised for this segment because its comparative results in prior periods were immaterial.

Notes to the Financial Statements continued

3. Segment information continued

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

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

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

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

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

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

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

Senior Secured Debt interest and related costs represents the interest and related costs on the £425.0m Senior Secured Debt of which £100.0m was repaid in 2021 (leaving £325.0m of notes outstanding as at 31 December 2021 excluding accrued interest) and £30.0m Revolving Credit Facility, which are excluded from underlying profit on a segmental basis.

Other largely represents one-off items which do not represent underlying performance including 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. 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 2020 in line with reporting to the chief operating decision maker.

Year ended 31 December 2020	Direct to Consumer £m	Merchant Offering £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
Net revenue	**436.2**	**201.2**	**637.4**
Impairment losses on loans and advances to customers	(348.0)	(98.6)	(446.6)
Underlying risk-adjusted income	**88.2**	**102.6**	**190.8**
Servicing costs	(45.4)	(52.2)	(97.6)
Change costs	(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 from continuing operations			**(21.6)**
Add back: depreciation and amortisation			10.1
Adjusted EBITDA			**(11.5)**
Senior Secured Debt interest and related costs			(34.1)
Customer refund provision			0.7
Fair value unwind			(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**

Notes to the Financial Statements continued

3. Segment information continued

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	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	654.6	–	–	(1.2)	653.4
Cost of funds	(95.3)	–	34.1	1.0	(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)
Underlying risk-adjusted income	**178.5**	**(24.6)**	**34.1**	**2.8**	**190.8**
Total operating expenses	(307.4)	24.6	(34.1)	(2.8)	(319.7)
Loss before tax from continuing operations	**(128.9)**	**–**	**–**	**–**	**(128.9)**

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

	31 December 2021			31 December 2020		
	Direct to Consumer £m	**Merchant Offering £m**	**Group £m**	Direct to Consumer £m	Merchant Offering £m	Group £m
Gross receivables	**2,112.1**	**1,173.5**	**3,285.6**	**1,718.2**	**1,126.3**	**2,844.5**
Deferred origination costs[1]	52.5	8.9	61.4	45.7	9.0	54.7
EIR method adjustment for interest-free promotional periods (note 2.3)	24.5	12.9	37.4	20.5	12.7	33.2
Other[2]	16.0	13.1	29.1	11.5	10.5	22.0
Gross loans and advances to customers	**2,205.1**	**1,208.4**	**3,413.5**	**1,795.9**	**1,158.5**	**2,954.4**

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

4. Discontinued operation

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

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

a) Results of discontinued operation

	Note	UPL Year ended 31 December 2021 £m	UPL Year ended 31 December 2020 £m
Interest and similar income		–	18.0
Interest and similar expense		(0.1)	(2.3)
Net interest (expense)/income		**(0.1)**	**15.7**
Impairment losses on loans and advances to customers		–	(16.4)
Risk-adjusted expense		**(0.1)**	**(0.7)**
Servicing costs		(0.3)	(2.1)
Advertising and marketing costs		–	(0.1)
Project expenses		–	(1.1)
Impairment and charge on disposal of intangible assets		–	(0.5)
Amortisation of intangible assets		–	–
Total operating expenses		**(0.3)**	**(3.8)**
Fair value gain on classification and measurement of loans and advances to customers held for sale as FVTPL on 1 January 2021		4.5	–
Fair value gain recognised in period on loans and advances to customers held for sale		0.8	–
Costs incurred to sell loans and advances to customers held for sale		(1.5)	–
Profit/(loss) before tax from discontinued operation		**3.4**	**(4.5)**
Tax expense	10	–	–
Profit/(loss) after tax from discontinued operation		**3.4**	**(4.5)**

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

b) Cash flows generated from discontinued operation

	UPL Year ended 31 December 2021 £m	UPL Year ended 31 December 2020 £m
Net cash generated from operating activities	5.3	30.4
Net cash generated from investing activities	67.2	–
Net cash used in financing activities	(54.2)	(22.5)
Net cash flows generated from discontinued operation	**18.3**	**7.9**

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 2021. 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, as detailed in the following table.

	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**

Notes to the Financial Statements continued

5. Interest and similar income

	Group		Company	
	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Interest income from loans and advances to customers	705.8	654.5	–	–
Interest income from banks	–	0.1	–	–
Interest income from loans with Group undertakings	–	–	51.5	47.5
Interest income from TPECs	–	–	120.0	21.0
Interest and similar income	**705.8**	**654.6**	**171.5**	**68.5**

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

6. Interest and similar expense

	Group		Company	
	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Interest expense on debt issued and other borrowed funds	92.4	94.3	3.6	3.3
Interest expense on amounts owed to Group undertakings	–	–	27.2	30.9
Fair value unwind	–	0.3	–	–
Other	0.7	0.7	–	–
Interest and similar expense	**93.1**	**95.3**	**30.8**	**34.2**

Other includes £0.6m of cost which represents the interest expense arising from the unwind of lease liabilities (2020: £0.6m).

7. Fee and commission income

	Group		Company	
	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Card fees	58.9	57.5	–	–
Interchange fees	16.9	13.4	–	–
Other income	4.7	5.8	–	–
Fee and commission expenses	(13.9)	(7.9)	–	–
Fee and commission income	**66.6**	**68.8**	**–**	**–**

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

8. Personnel expense

	Group		Company	
	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Wages and salaries	87.0	70.4	–	–
Social security costs	9.1	6.8	–	–
Pension contributions	5.5	5.2	–	–
Other staff costs	5.2	5.0	–	–
Personnel expense	**106.8**	**87.4**	**–**	**–**
Average number of full time equivalent employees	1,129	1,141	–	–
Number of full time equivalent employees as at the year end	1,121	1,085	–	–

In 2021, the Group incurred £22.8m of project-related personnel expenses (2020: £20.0m).

The Company has no employees (2020: none). No Directors' remuneration was paid by the Company during the year (2020: £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 2021 £m	Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Servicing costs	44.3	55.8	–	–
Commission to retailers, advertising and marketing costs	35.2	48.2	–	–
Administrative costs	10.1	10.1	0.5	0.4
IT and communications	15.7	13.4	–	–
Professional fees	4.8	3.4	0.1	–
Project expenses	13.4	13.2	0.1	–
Depreciation of property and equipment (see note 15)	4.9	5.4	–	–
Charge on disposal of property and equipment (see note 15)	0.6	0.2	–	–
Amortisation and impairment of intangible assets (see note 16)	63.5	58.0	–	–
Impairment and charge on disposal of intangible assets (see note 16)	0.4	6.2	–	–
Uplift in PPI provision	4.7	7.7	–	–
Other expenses	0.1	(1.6)	–	–
Other operating expenses	**197.7**	**220.0**	**0.7**	**0.4**

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.

Notes to the Financial Statements *continued*

9. Other operating expenses continued

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

	Group	
	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Audit of consolidated Group and Company Financial Statements	0.5	0.2
Audit of the Financial Statements of the Company's subsidiaries	1.4	0.6
Other assurance services	0.1	0.1
Fees payable to the external auditor	**2.0**	**0.9**

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. In 2021, KPMG LLP performed additional audit-related services which resulted in an increase in fees. See page 70 for further information.

10. Tax expense

	Group		Company	
	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Current tax expense/(income)	16.2	(3.1)	–	–
Deferred tax expense/(income)	1.8	(1.7)	–	–
Tax expense/(income) from continuing operations	**18.0**	**(4.8)**	–	**–**

This discontinued operation incurred no tax in the year (2020: £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		Company	
	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Profit/(loss) before tax from continuing operations	78.7	(128.9)	140.0	33.9
Tax charge/(credit) at average UK corporation tax rate of 19% (2020: 19%)	15.0	(24.5)	26.6	6.4
Effects of:				
Disallowable items and allowable deductions[1]	2.3	12.6	(22.8)	(4.0)
Profits subject to corporation tax under securitisation vehicle rules	7.7	12.7	–	–
Adjustment in respect of foreign tax rates	(3.8)	(2.5)	(3.8)	(2.4)
Prior year adjustment	0.3	(3.1)	–	–
Brought forward losses utilised	(3.5)	–	–	–
Tax expense/(income) from continuing operations	**18.0**	**(4.8)**	**–**	**–**

1 Disallowable items and allowable deductions for the Group largely relates to disallowable amortisation and depreciation, and for the Company relates to interest on the TPECs.

For the year ended 31 December 2021, the enacted UK corporation tax rate applicable to the Group was 19% (2020: 19%). For the year ended 31 December 2021, the Jersey tax regime rate applicable to the Company was 0% (2020: 0%).

As at 31 December 2021, the Group holds a deferred tax asset of £0.3m (31 December 2020: £2.1m) resulting from temporary differences. There was no tax recognised through the Group's or Company's statement of other comprehensive income in the year (2020: £nil).

11. Loans and advances to banks

	Group		Company	
	31 December 2021 £m	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m
Loans and advances to banks	246.2	520.9	66.1	47.1
Restricted cash	58.2	63.7	–	–
Loans and advances to banks	**304.4**	**584.6**	**66.1**	**47.1**

Loans and advances to banks are held with large commercial banks and represent cash and cash equivalents in the cash flow statement. Restricted cash of £58.2m (31 December 2020: £63.7m) are demand deposits that is ring-fenced cash for credit balances on loans and advances to customers and cash restricted due to covenants in place in accordance with the Group's funding structure.

As at 31 December 2021, the Group's cash balance did not have any balances arising from funding overlaps (31 December 2020: £244.3m), being when funds are raised in advance of the maturity of the debt it is replacing, and £127.6m of cash is held by entities outside of the securitisation structure (31 December 2020: £132.9m).

12. Loans and advances to customers

	Group		Company	
	31 December 2021 £m	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m
Gross loans and advances to customers	3,413.5	2,954.4	–	–
ECL allowance on loans and advances to customers	(569.0)	(550.2)	–	–
Loans and advances to customers	**2,844.5**	**2,404.2**	**–**	**–**

There is no fixed term for repayment of revolving credit agreements other than a contractual requirement for customers to make a minimum monthly repayment towards their outstanding balance.

For details of the ECL assessment performed on loans and advances to customers see note 24.2. See note 3 for a reconciliation between gross receivables and gross loans and advances to customers.

Transfers of financial assets

The Group transfers certain receivables to recovery agencies, in the ordinary course of business, for a proportion of their carrying value. During the year the Group sold and derecognised certain loans and advances to customers for the purpose of expediting recovery of these balances for total net proceeds of £39.0m (2020: £52.8m). 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 2021 £m	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m
Other receivables	32.3	35.5	–	–
Prepayments and accrued income	14.8	14.8	0.1	0.1
Amounts due from related parties	0.5	0.5	0.5	0.5
Amounts due from Group undertakings	–	–	556.1	572.6
Other assets	**47.6**	**50.8**	**556.7**	**573.2**

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.

Notes to the Financial Statements continued

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 terms of the instruments exactly match (with the exception of the foreign currency basis spreads) and this results in a perfect economic hedge but gives rise to an accounting mismatch as derivatives are measured at fair value and asset-backed term debt is measured at amortised cost. This results in the Group hedging each foreign currency denominated asset-backed term instrument in its entirety.

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

The Group has designated its derivative financial instruments as hedging instruments in qualifying cash flow hedges. Their fair value has been calculated by discounting contractual future cash flows using relevant market interest rate yield curves and forward foreign exchange rates 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 2021			As at 31 December 2020	
Group	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Liabilities £m
Cash flow hedges	403.3	1.9	(16.5)	328.7	(27.5)
Derivative financial instruments	**403.3**	**1.9**	**(16.5)**	**328.7**	**(27.5)**

In the year, excluding £13.4m of foreign exchange rate movements, the Group settled maturing cash flow hedges with a notional value of £187.7m (31 December 2020: £nil) and issued a further three cash flow hedges totalling £248.9m (31 December 2020: £nil). The fair value of the settled hedges was a £10.5m liability as at 31 December 2020.

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 (2020: £nil). Foreign currency basis spreads of the financial instruments are excluded from the designated hedging instrument and are recognised in the income statement as a cost of hedging.

The Company held no derivative financial instruments during the year (2020: £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 2021	4.7	4.0	8.0	17.8	34.5
Additions	1.2	0.1	–	0.1	1.4
Disposals	(2.0)	(0.4)	–	(0.7)	(3.1)
Cost as at 31 December 2021	**3.9**	**3.7**	**8.0**	**17.2**	**32.8**
Depreciation as at 1 January 2021	(2.7)	(2.9)	(3.7)	(5.4)	(14.7)
Charge to the income statement for the year	(1.2)	(0.6)	(0.8)	(2.3)	(4.9)
Disposals	1.5	0.3	–	0.7	2.5
Depreciation as at 31 December 2021	**(2.4)**	**(3.2)**	**(4.5)**	**(7.0)**	**(17.1)**
Net book value as at 31 December 2021	**1.5**	**0.5**	**3.5**	**10.2**	**15.7**
Net book value as at 31 December 2020	2.0	1.1	4.3	12.4	19.8

The right-of-use assets consist solely of land and buildings leased by the Group. The total cash outflow in the year arising from right-of-use leases was £3.2m (2020: £4.0m).

The Company held no property and equipment during the year (2020: £nil).

16. Intangible assets

Group	Acquired customer and retail partner relationships £m	Acquired brand and trade names £m	Acquired intellectual property £m	Internally generated intangibles £m	Total intangible assets £m
Cost as at 1 January 2021	313.4	27.8	51.9	26.7	419.8
Additions	–	–	–	7.8	7.8
Disposals	–	–	–	(2.7)	(2.7)
Cost as at 31 December 2021	**313.4**	**27.8**	**51.9**	**31.8**	**424.9**
Amortisation as at 1 January 2021	(167.5)	(5.4)	(29.0)	(7.5)	(209.4)
Charge to the income statement for the year	(46.0)	(1.3)	(10.1)	(6.1)	(63.5)
Disposals	–	–	–	2.3	2.3
Amortisation as at 31 December 2021	**(213.5)**	**(6.7)**	**(39.1)**	**(11.3)**	**(270.6)**
Net book value as at 31 December 2021	**99.9**	**21.1**	**12.8**	**20.5**	**154.3**
Net book value as at 31 December 2020	145.9	22.4	22.9	19.2	210.4

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.

The Company held no intangible assets during the year (2020: £nil).

17. Investment in subsidiaries

Company	£m
As at 31 December 2020	511.4
As at 31 December 2021	**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.

In 2021, an impairment assessment was performed on the carrying value of the investments which concluded that no impairment was required (2020: £nil).

18. Goodwill

Group	£m
As at 31 December 2020	279.9
As at 31 December 2021	**279.9**

On 26 January 2017, the Company acquired 100% of the issued share capital and preferred equity certificates in NewDay Group Holdings S.à r.l. for cash consideration of £990.5m. NewDay Group Holdings S.à r.l. was the parent company of the Predecessor Group.

The allocation of the consideration was subject to a purchase price allocation exercise. The excess of consideration over the net assets acquired was allocated to goodwill. Goodwill is allocated to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. £240.5m of goodwill was allocated to Direct to Consumer and £39.4m was allocated to Merchant Offering.

In line with the requirements of IAS 38, an annual impairment assessment has been completed and no impairment was identified (2020: £nil). See note 2.3 for further details.

19. Debt issued and other borrowed funds

	Group		Company	
	31 December 2021 £m	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m
Senior Secured Debt and associated facilities	335.0	465.4	–	30.2
Asset-backed term debt	2,192.3	1,979.7	–	–
Variable funding notes	709.1	817.2	–	–
Intercompany loan agreement	–	–	335.0	435.2
	3,236.4	**3,262.3**	**335.0**	**465.4**
Capitalised debt funding fees	(15.2)	(15.5)	(5.1)	(7.4)
Debt issued and other borrowed funds	**3,221.2**	**3,246.8**	**329.9**	**458.0**

In connection with the Acquisition, on 25 January 2017 NewDay BondCo plc (formerly Nemean BondCo plc) issued £425.0m Senior Secured Notes comprising £275.0m Fixed Rate Senior Secured Notes due in 2024 and £150.0m Floating Rate Senior Secured Notes that were due in 2023 before being repaid. In July 2021, the Group completed a financing transaction which repaid in full the £150.0m Floating Rate Senior Secured Notes. These notes were repaid using £100.0m of cash and £50.0m raised from an issuance of additional Fixed Rate Senior Secured Notes.

In addition, the Company and certain subsidiaries of the Group entered into a £30.0m Super Senior Revolving Credit Facility and, in March 2020, the Group completed a £30.0m drawdown from this facility which was subsequently repaid in full in January 2021.

Debt issued and other borrowed funds includes publicly listed asset-backed securities and variable funding notes provided by a number of different investors. The debt, provided at SOFR or SONIA plus margin after transitioning away from LIBOR during 2021, is backed by securitised outstanding loans and advances to customers. As at 31 December 2021, £1,817.2m is used to fund the Direct to Consumer portfolio (31 December 2020: £1,443.7m) and £1,084.2m is used to fund the Merchant Offering portfolio (31 December 2020: £1,299.0m). Following the sale of the UPL loans and advances to customers in February 2021, the UPL VFN was repaid in full and there is no longer any outstanding debt in this portfolio (31 December 2020: £54.2m).

Of the debt issued and other borrowed funds, £403.5m is denominated in US Dollars (31 December 2020: £329.4m) 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 2021 £m**	**Proceeds from debt issued £m**	**Repayment of debt issued £m**	**Other £m**	**As at 31 December 2021 £m**
Senior Secured Debt and associated facilities	465.4	50.0	(180.0)	(0.4)	335.0
Asset-backed term debt	1,979.7	1,001.2	(801.5)	12.9	2,192.3
Variable funding notes	817.2	675.2	(783.5)	0.2	709.1
Debt issued and other borrowed funds	**3,262.3**	**1,726.4**	**(1,765.0)**	**12.7**	**3,236.4**

Group	As at 1 January 2020 £m	Cash flows: Proceeds from debt issued £m	Cash flows: Repayment of debt issued £m	Non-cash movements: 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**

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.

In 2021, the Group completed several financing transactions including:
- raising £1.0bn of asset-backed debt from the Direct to Consumer securitisation programme, including $339.4m raised from US capital markets;
- delivering a £400.0m expansion of a VFN facility in our Merchant Offering portfolio and at the same time adding a new large international bank to the lending panel and extending its maturity to 2024;
- obtaining investor consent to extend the maturity of a $205.0m bond within the Direct to Consumer securitisation programme by 14 months to November 2022, bringing it into line with the associated sterling bonds from the same issuance;
- repaying in full the UPL VFN using the proceeds from the receivables sale completed in February;
- repaying early the £150.0m floating rate Senior Secured Debt with £100.0m of cash and £50.0m raised from the issuance of additional fixed rate Senior Secured Debt which has the same interest rate and maturity as the existing fixed rate notes;
- repaying £30.0m drawn in 2020 from the Revolving Credit Facility; and
- transitioning all funding away from LIBOR.

On 26 January 2017, the Company entered into an intercompany loan agreement with NewDay UK Limited pursuant to which the Company borrowed £425.0m comprising: (i) a fixed rate loan of £275.0m at an interest rate of 7.375% per annum due 2024; and (ii) a floating rate loan of £150.0m at an interest rate of three-month LIBOR plus a margin of 6.5% per annum that was originally due in 2023. In 2021, the floating rate loan was settled and a further £50.0m fixed rate loan was issued with the same terms as the original fixed rate loan.

The scheduled maturities of debt issued and other borrowed funds are as follows:

	Group: 31 December 2021 £m	Group: 31 December 2020 £m	Company: 31 December 2021 £m	Company: 31 December 2020 £m
Debt issued and other borrowed funds repayable in:				
Less than one year	856.0	1,129.2	–	–
Between one and two years	379.4	1,098.7	–	30.2
Between two and five years	2,001.0	980.2	335.0	435.2
Other	–	54.2	–	–
	3,236.4	**3,262.3**	**335.0**	**465.4**

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

Notes to the Financial Statements continued

20. Other liabilities

	Group		Company	
	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m
Trade payables and accruals	69.4	57.3	1.3	–
Other payables	8.6	6.0	–	–
Lease liabilities	11.9	14.5	–	–
Pension contributions	0.1	–	–	–
Amounts owed to Group undertakings	–	–	0.4	0.1
Other liabilities	**90.0**	**77.8**	**1.7**	**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 2021 £m	31 December 2020 £m
Lease liabilities:		
Less than one year	2.8	2.7
Between one and two years	2.9	2.7
Between two and five years	6.2	7.6
More than five years	–	1.5
	11.9	**14.5**

21. Provisions

Group	PPI provision £m	Other provisions £m	Total provisions £m
As at 1 January 2020	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**
Arising during the year	4.7	2.1	6.8
Utilised during the year	(2.3)	(4.5)	(6.8)
As at 31 December 2021	**7.7**	**3.4**	**11.1**

The Company held no provisions during the year ended 31 December 2021 (2020: £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 had an open enquiry from a third party, with which it is jointly liable for certain PPI-related costs, to contribute an amount of £7.3m to a historic remediation exercise on previously settled claims. At that time, the third party had not established a basis for the claim and management deemed it unlikely the Group would be required to contribute the amount claimed. As at 31 December 2020, the Group recorded this as a contingent liability. In 2021, the Group received a revised claim from the third party and uplifted its provision to reflect the anticipated amount payable in this matter. In addition, the Group updated the provision for other expected PPI remediation costs which resulted in a total uplift of £4.7m.

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

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 2021 £m	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m
Share capital and share premium	–	–	–	–
Equity instruments	593.9	593.9	593.9	593.9
Capital contribution	9.2	20.2	9.2	20.2
Hedging reserve	(2.5)	(2.1)	–	–
Retained (losses)/profits	(288.4)	(352.5)	199.5	59.5
Total equity	**312.2**	**259.5**	**802.6**	**673.6**

	Company	
Called up share capital ordinary shares (1 pence)	**Number of shares**	**Nominal value £**
Issued upon incorporation	101	1.01
As at 31 December 2020 and 31 December 2021	**101**	**1.01**

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

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.

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 (2020: 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 2020: 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 (2020: none).

Group **As at 31 December 2021**	**Level 1** **£m**	**Level 2** **£m**	**Level 3** **£m**	**Total carrying value** **£m**	**Fair value** **£m**
Financial assets					
Loans and advances to banks	–	304.4	–	304.4	304.4
Loans and advances to customers	–	–	2,844.5	2,844.5	3,060.9
Other assets	–	32.8	–	32.8	32.8
Total financial assets	**–**	**337.2**	**2,844.5**	**3,181.7**	**3,398.1**
Financial liabilities					
Debt issued and other borrowed funds	–	(3,221.2)	–	(3,221.2)	(3,223.4)
Other liabilities	–	(89.9)	–	(89.9)	(89.9)
Total financial liabilities	**–**	**(3,311.1)**	**–**	**(3,311.1)**	**(3,313.3)**

Group As at 31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £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)**

Company As at 31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	–	66.1	–	66.1	66.1
Other assets	–	0.5	556.2	556.7	556.7
Total financial assets	**–**	**66.6**	**556.2**	**622.8**	**622.8**
Financial liabilities					
Debt issued and other borrowed funds	–	(329.9)	–	(329.9)	(331.4)
Other liabilities	–	(1.7)	–	(1.7)	(1.7)
Total financial liabilities	**–**	**(331.6)**	**–**	**(331.6)**	**(333.1)**

Company As at 31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £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)**

Loans and advances to banks

These items have a short-term maturity (usually less than three months) and it is assumed that their carrying value approximates to their fair value as a result of their short time horizon to maturity. These have been classified as level 2.

Loans and advances to customers

This contains the receivables related to credit agreements that have been issued by the Group. The fair value of these instruments is based on valuation inputs that have been derived from historical performance of the Group's portfolios which would not be observable to a market participant and as such these financial instruments have been classified as level 3.

Other assets

With the exception of the loan note held by the Company, other assets of the Group and Company consist of other receivables. The fair value of these receivable balances approximates to their carrying value as there have been no significant changes to market conditions that would have caused a difference between the two values. As the assets can be repriced using market observable inputs these have been classified as level 2. The loan note held by the Company, issued by NewDay UK Limited, cannot be repriced using market observable data and therefore has been classified as level 3.

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.

Notes to the Financial Statements *continued*

23. Fair value of financial instruments continued

Debt issued and other borrowed funds

The debt issued contains Senior Secured Debt and associated facilities, asset-backed term securities and variable funding notes. For the Senior Secured Debt, excluding the Revolving Credit Facility, and asset-backed term debt an observable market price is available; however, such debt is not actively traded, therefore the fair value has been estimated using prices quoted by banks and they have been classified as level 2. The 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.

Other liabilities

Other liabilities of the Group largely consist of accounts payable. The fair value of other liabilities approximates to their carrying value because there have been no significant changes to market conditions that would have caused a difference between these two values. These have been classified as level 2 because these items can be repriced using market observable inputs.

24. Risk management

24.1 Introduction

Risk is inherent in the Group's activities, but is managed through a process of ongoing identification, measurement and monitoring, with respect to predetermined risk appetite settings and other controls performed by the Board. The Group controls risk via the operation of a risk management framework.

Sound risk management is critical to ensure the Group meets its regulatory requirements, and delivers on the strategic and financial goals agreed with shareholders, whilst also preserving the Group's brand and reputation. The financial risks faced by the Group include:

- credit risk;
- liquidity, funding and cash management risk;
- market risk; and
- regulatory and conduct risk.

See pages 48 to 56 for details of the Group's principal risks and how they are addressed.

Risk measurement and reporting systems

As part of the overall risk management strategy, risks are measured, monitored and reported to ensure the Group understands the risks it faces. The Group has a definition and categorisation model that forms a key part of the risk management framework.

The Group uses qualitative and quantitative methods (including the use of statistical models) to compute both expected and unexpected losses.

Monitoring and control processes are set by the Board, delegated to the Board Risk Committee and subsequently delegated down to the individual business committees and ultimately to all employees of the Group.

Information is compiled from all parts of the business in order to identify, analyse and control risks on a timely basis. Appropriate key risk indicators and other information are presented and discussed at the Board Risk Committee, Enterprise Risk Management Committee and specific sub-committees on a regular basis.

24.2 Credit risk

The Group is exposed to credit risk on loans and advances to customers and other financial assets. Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and monitoring exposures in relation to such limits.

Credit risk exposure from customers is managed throughout the life cycle, underpinned by proprietary credit models which have been developed from customers' historical credit performance and are used to forecast a probability of default for a given level of credit. At the point of originating a new account, the risk profile is assessed against the credit policy and scorecard cut-off, aligned to the product applied for, to determine the terms and credit limit offered. Credit assessment utilises a combination of customer-provided data as well as data sourced from multiple credit reference agencies. A monthly assessment of existing customers' risk profiles determines if their credit limit is still appropriate for their borrowing needs. The proprietary credit models utilise spend and payment behaviour from products held by the Group as well as products with other providers to determine if a credit limit increase or decrease should be extended to the customer.

Risk-based arrears management combined with specific contact strategies ensure that letters, inbound and outbound telephony, e-servicing, web chat, SMS and email are deployed in a way which manages credit risk and aims to ensure appropriate customer outcomes. Contact is established with customers to understand the reason behind missed payments and to understand if potential future concerns exist over payments due. Strategies are then deployed to ensure that customers in arrears are supported in returning to an up-to-date position or appropriate forbearance arrangements are put in place.

The Group has a range of treatments for customers who are experiencing financial stress through concessions which can be applied on a short-term or permanent basis where there is no detriment to the customer. Forbearance or other temporary arrangements are designed with the aim of ensuring that the customer's product remains sustainable and aligned to their personal circumstances. A customer identified as being in financial difficulty will be managed on an individual basis, with the appropriate understanding of their personal circumstances and priority debt being key factors in judging if a suitable arrangement can be made so the debt repayment becomes affordable and sustainable. From 2020, and up to the passing of the FCA deadline in Q3 2021, the Group broadened its range of payment relief concessions for customers to include payment freezes. Payment freezes were offered in line with FCA COVID-19 support guidance and were available for up-to-date customers and provided a three-month payment suspension whilst allowing them to continue to spend on their credit product. During this period, interest continued to accrue but certain fees were 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 credit product is suspended.

The provision of such arrangements is managed through the operational centres and governed using several processes, including, but not limited to: operational policy framework; controls against the execution of the policy; regular quality assurance reviews; and monitoring of customer outcomes through regular reporting. Forbearance arrangements, which typically include a temporary suspension of fees and interest, are available to customers who complete an income and expenditure assessment and conclude that their contractual minimum payment is unaffordable. These arrangements are tailored to individual customer circumstances and, on the condition that an agreed and affordable monthly payment is made, can range from the suspension of fees for a short time period through to an indefinite suspension of fees and interest.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of customers. Credit limits are established using a credit risk classification system, which assigns each customer a risk rating. Customer risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and to take corrective action where appropriate.

Credit risk exposure is also impacted by the macroeconomic environment. Adverse movements in economic trends in the UK can cause detrimental effects on the recovery of the Group's loans and advances to customers. The unemployment rate is deemed to be a key variable influencing the recoverability of customer balances and this is factored into the Group's ECL assessment, see note 2.3 for further details. Additionally, from 2021, prevailing inflationary pressures are expected to squeeze disposable incomes which could adversely impact expected credit losses. The Group actively monitors such pressures and updates its ECL allowance when necessary.

Credit quality analysis

The following table details the internal measures used to determine the credit quality of loans and advances to customers. As shown in the table, loans and advances to customers in risk grades 1, 2 and 3 are currently continuing to make payments when due.

Credit quality	12-month probability of default	Credit quality description
Risk grade 1	0%–5.89%	Up-to-date accounts which have a very high likelihood of being fully recovered
Risk grade 2	5.90%–19.99%	Up-to-date accounts which have a high likelihood of being fully recovered
Risk grade 3	20.00%–99.99%	Up-to-date accounts which may be fully recovered but where the likelihood of default is higher
Delinquent		Accounts that are up to two monthly payments in arrears and have not defaulted
Defaulted		Accounts that are at least three monthly payments in arrears, forborne, insolvent or bankrupt

The Group extends certain short-term arrangements, being payment holidays and payment freezes, to customers which temporarily suspend the requirement for them to make their contractual monthly payment. As at 31 December 2021, the total loans and advances to customers that were on either a payment holiday or payment freeze was £54.9m (31 December 2020: £107.7m), with a maximum balance at any one point in time during the year of £107.2m (2020: £364.1m). As at 31 December 2021, 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 £nil (31 December 2020: £43.6m), and those accounts that have finished an arrangement in the last three months and are currently up-to-date, totalling £3.8m (31 December 2020: £52.3m), are reported in stage 2; and
- accounts on a second arrangement payment holiday or payment freeze, totalling £nil (31 December 2020: £42.7m), are reported in stage 3.

24. Risk management continued

24.2 Credit risk continued

Furthermore, as at 31 December 2021, the impact of applying additional PMAs (see note 2.3) resulted in £108.6m of up-to-date accounts transitioning to stage 2 (31 December 2020: £76.2m). 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 2021				
Group	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	1,297.0	12.7	–	0.7	1,310.4
Risk grade 2	1,262.4	86.7	–	1.1	1,350.2
Risk grade 3	147.8	193.7	–	0.3	341.8
Delinquent	–	89.2	–	0.1	89.3
Defaulted	–	–	320.9	0.9	321.8
Gross loans and advances to customers	**2,707.2**	**382.3**	**320.9**	**3.1**	**3,413.5**
ECL allowance	(216.4)	(150.9)	(200.6)	(1.1)	(569.0)
Loans and advances to customers	**2,490.8**	**231.4**	**120.3**	**2.0**	**2,844.5**

	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**

Loans and advances to banks and other financial assets are all classified as stage 1 as at 31 December 2021 (31 December 2020: 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.

	As at 31 December 2021				
Direct to Consumer	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	416.5	2.6	–	0.5	419.6
Risk grade 2	1,096.4	54.4	–	1.1	1,151.9
Risk grade 3	142.8	174.7	–	0.3	317.8
Delinquent	–	65.9	–	0.1	66.0
Defaulted	–	–	249.3	0.5	249.8
Gross loans and advances to customers	**1,655.7**	**297.6**	**249.3**	**2.5**	**2,205.1**
ECL allowance	(173.6)	(128.3)	(158.0)	(0.9)	(460.8)
Loans and advances to customers	**1,482.1**	**169.3**	**91.3**	**1.6**	**1,744.3**

Direct to Consumer	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**

Merchant Offering	**As at 31 December 2021**				
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	880.5	10.1	–	0.2	890.8
Risk grade 2	166.0	32.3	–	–	198.3
Risk grade 3	5.0	19.0	–	–	24.0
Delinquent	–	23.3	–	–	23.3
Defaulted	–	–	71.6	0.4	72.0
Gross loans and advances to customers	**1,051.5**	**84.7**	**71.6**	**0.6**	**1,208.4**
ECL allowance	(42.8)	(22.6)	(42.6)	(0.2)	(108.2)
Loans and advances to customers	**1,008.7**	**62.1**	**29.0**	**0.4**	**1,100.2**

Merchant Offering	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**

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**

The UPL loans and advances to customers were sold in February 2021 therefore the balance is nil as at 31 December 2021.

Notes to the Financial Statements continued

24. Risk management continued

24.2 Credit risk continued

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 revolving credit facilities this period is extended to the behavioural life of the facility if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual period. This longer period is estimated taking into account the credit risk management actions that the Group expects to take, and that serve to mitigate ECL, including reducing credit limits and cancellation of the facility.

The provisioning methodology together with significant modelling techniques and assumptions are assessed for appropriateness annually through a model validation exercise. The significant judgements in the provisioning methodology are also regularly reviewed by the Board Audit Committee, see page 68 for further details.

See note 2.3 for further details of the significant accounting judgements, estimates and assumptions in the ECL on loans and advances to customers.

The following tables reconcile the movement in the ECL allowance during both years.

Group	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
ECL allowance as at 31 December 2020	(213.9)	(168.1)	(178.6)	(2.7)	(563.3)
Transfers between stages:					
– to stage 1	(33.4)	28.7	4.7	–	–
– to stage 2	16.3	(19.6)	3.3	–	–
– to stage 3	15.3	17.9	(33.2)	–	–
Remeasurement of ECL[1]	33.1	6.7	10.2	1.4	51.4
Release of ECL on loans and advances to customers settled in the year	12.3	4.0	4.9	0.2	21.4
Release of ECL on loans and advances to customers held for sale which were sold in the year	4.7	3.3	5.1	–	13.1
ECL on new loans and advances to customers originated in the year	(50.8)	(23.8)	(17.0)	–	(91.6)
ECL allowance as at 31 December 2021	**(216.4)**	**(150.9)**	**(200.6)**	**(1.1)**	**(569.0)**

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)**

1 Includes changes in the ECL driven by changes in credit risk (both within and between stages) and write-offs.

Collateral held

The Group's primary business is to provide short-term credit to customers using the Group's various branded store and credit products. In the course of providing credit to customers, the Group has credit risk assessment practices which provide approval for individuals to be extended credit. In providing these products it is not the policy of the Group to obtain collateral or other credit enhancements which reduce exposure to credit risk, other than the individual's commitment to repay outstanding balances.

Other commitments provided

As at 31 December 2021, the Group has undrawn facilities on its loans and advances to customers that are available to draw totalling £8,697.1m (31 December 2020: £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 revolving credit products such as credit cards and digital credit. All customer receivables are contractually repayable on demand and have been disclosed as such. Individual customer behaviour varies and the finance products are used as revolving facilities where drawdowns and repayments towards outstanding balances are made over time.

Of the £3,236.4m debt issued (31 December 2020: £3,262.3m), which includes the accrued interest, £856.0m (31 December 2020: £1,129.2m) has a scheduled maturity of less than one year and £2,380.4m (31 December 2020: £2,078.9m) has a scheduled maturity of one to five years.

Total committed funding facilities

The Group's total committed funding facilities as at 31 December 2021 were £4,573.2m (31 December 2020: £4,186.5m) of which £1,349.7m (31 December 2020: £937.7m) was undrawn.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the contractual maturity profile of the undiscounted cash flows of the Group's financial liabilities as at 31 December 2021. 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 As at 31 December 2021	**On demand £m**	**Less than 3 months £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Financial liabilities						
Debt issued and other borrowed funds	–	17.8	905.8	2,442.2	–	3,365.8
Other liabilities	–	89.9	–	–	–	89.9
Derivative financial liabilities	–	0.1	14.9	0.3	–	15.3
	–	**107.8**	**920.7**	**2,442.5**	**–**	**3,471.0**

Group As at 31 December 2020	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Financial liabilities						
Debt issued and other borrowed funds	–	30.1	1,204.2	2,168.3	–	3,402.6
Other liabilities	–	77.8	–	–	–	77.8
Derivative financial liabilities	–	0.2	25.9	–	–	26.1
	–	**108.1**	**1,230.1**	**2,168.3**	**–**	**3,506.5**

Securitisation vehicles

In the ordinary course of business, the Group enters into transactions that result in the transfer of the right to receive repayments in respect of loans and advances to customers to securitisation vehicles. In accordance with the accounting policy set out in note 2.2(3), the transferred loans and advances to customers continue to be recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Group transfers financial assets that are not derecognised in their entirety or for which the Group has continuing involvement through securitisation activities. The Group transfers loans and advances to customers to securitisation vehicles but retains substantially all of the risks and rewards of ownership. The Group benefits to the extent that the surplus income generated by the transferred assets exceeds the administration costs of the securitisations, the cost of funding the assets and the cost of any losses associated with the assets and the administration costs of servicing the assets. Refer to note 28 for further details on the structure.

Notes to the Financial Statements continued

24. Risk management continued

24.3 Liquidity, funding and cash management risk continued

The results of the securitisation vehicles are consolidated into the Group. The following table shows the carrying value and fair value of the assets transferred to securitisation vehicles and the related carrying value and fair value of the associated liability.

Group As at 31 December 2021	Carrying value of transferred assets not derecognised £m	Carrying value of associated liabilities £m	Fair value of transferred assets not derecognised £m	Fair value of associated liabilities £m	Net fair value £m
NewDay Funding Transferor Ltd	1,691.7	(1,810.8)	1,865.3	(1,810.3)	55.0
NewDay Partnership Transferor plc	1,100.2	(1,080.5)	1,143.0	(1,081.7)	61.3
	2,791.9	**(2,891.3)**	**3,008.3**	**(2,892.0)**	**116.3**

Group As at 31 December 2020	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	1,293.1	(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)**

Included within the carrying value of associated liabilities are £10.1m of capitalised debt funding fees (31 December 2020: £8.1m). As 31 December 2020, included within the liabilities of NewDay Partnership Transferor plc was £244.3m of debt arising from a funding overlap.

24.4 Market risk

Market risk is defined as the risk that market movements will negatively affect the value of the Group's assets and liabilities. The main market risk that the Group is exposed to is interest rate risk. Foreign exchange risk also impacts the Group's debt however this is mitigated by the use of cross-currency interest rate swaps.

The main source of interest rate risk for the Group arises where there is a significant difference between the interest rate bases on assets compared to liabilities. The Group's assets are predominantly variable rate and are sensitive to interest rate movements to the extent that the Group is prohibited from repricing the portfolio of assets. The terms and conditions of the majority of the Group's loans and advances to customers allow it to choose to pass on any increases in the Bank of England base rate to customers holding certain products of the Group, insulating the Group against future bank base rate rises by hedging against interest expenses. The Group's funding is predominantly SONIA based floating rate and therefore is also sensitive to interest rate movements. The Group also issues US Dollar denominated funding which accrues interest linked to USD SOFR. This funding has been hedged to SONIA through cross-currency interest rate swaps. The following tables analyse the Group's assets and liabilities by reference to the period of time before that asset or liability can be repriced to realign interest rates.

Contractual repricing profile

Group As at 31 December 2021	Less than 3 months £m	3 to 12 months £m	Over 1 year £m	Non-repricing or non-interest bearing £m	Total £m
Financial assets					
Loans and advances to banks	85.2	–	–	219.2	304.4
Loans and advances to customers	2,243.1	205.0	31.6	364.8	2,844.5
Other assets	–	–	–	32.8	32.8
Derivative assets	1.9	–	–	–	1.9
Financial liabilities					
Debt issued and other borrowed funds	(2,901.4)	–	–	(319.8)	(3,221.2)
Other liabilities	–	–	–	(89.9)	(89.9)
Derivative financial liabilities	(16.5)	–	–	–	(16.5)
Net repricing difference	**(587.7)**	**205.0**	**31.6**	**207.1**	**(144.0)**

Group 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)**

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 2021. Total sensitivity of the income statement is based on the assumption that there are parallel shifts in the yield curve.

Interest rate risk sensitivity

	Sensitivity of profit or loss		
Group	Increase/ (decrease) in basis points	**Year ended 31 December 2021 £m**	Year ended 31 December 2020 £m
Loans and advances to customers	25/(25)	7.6/(7.6)	7.0/(7.0)
Debt issued and other borrowed funds	25/(25)	(7.3)/7.3	(7.5)/7.5

24.5 Regulatory and conduct risk

Regulatory risk is the risk of regulatory sanction, material financial loss or reputational damage if the organisation fails to design and implement operational processes, systems and controls such that it can maintain compliance with all applicable regulatory requirements. The Board Risk Committee reviews and discusses proposed regulatory changes that the Group is subject to. Regulatory developments form part of the Board Risk Committee's updates to the Board which assesses the impact of regulatory change on the Group's balance sheet and risk profile.

Conduct risk is the risk of customer detriment arising from inappropriate culture, products and processes. Conduct risk can arise through the design of products that do not meet customers' needs, mishandling complaints where the Group has behaved inappropriately towards its customers, inappropriate sale processes and exhibiting behaviour that does not meet market or regulatory standards. Avoiding poor customer outcomes requires focus on treating customers fairly including assessing affordability and sustainability of lending and handling vulnerable customers sensitively. The Group mitigates conduct risk by ensuring colleagues have appropriate training, monitoring various operational metrics that track activities which affect customers, monitoring customer complaints, implementing process improvements and adhering to service standards. The outcomes of this reporting are monitored by the Board and the Board Risk Committee.

Notes to the Financial Statements continued

25. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

Group	As at 31 December 2021			As at 31 December 2020		
	< 12 months £m	> 12 months £m	Total £m	< 12 months £m	> 12 months £m	Total £m
Assets						
Loans and advances to banks	246.2	58.2	304.4	520.9	63.7	584.6
Loans and advances to customers	2,437.8	406.7	2,844.5	1,922.9	481.3	2,404.2
Other assets	42.8	4.8	47.6	45.0	5.8	50.8
Derivative financial assets	–	1.9	1.9	–	–	–
Current tax assets	3.0	–	3.0	1.8	–	1.8
Deferred tax assets	–	0.3	0.3	–	2.1	2.1
Property and equipment	–	15.7	15.7	–	19.8	19.8
Intangible assets	–	154.3	154.3	–	210.4	210.4
Goodwill	–	279.9	279.9	–	279.9	279.9
Loans and advances to customers held for sale	–	–	–	69.2	–	69.2
Total assets	**2,729.8**	**921.8**	**3,651.6**	**2,559.8**	**1,063.0**	**3,622.8**
Liabilities						
Debt issued and other borrowed funds	(855.1)	(2,366.1)	(3,221.2)	(1,181.5)	(2,065.3)	(3,246.8)
Other liabilities	(80.8)	(9.2)	(90.0)	(65.9)	(11.9)	(77.8)
Derivative financial liabilities	(15.6)	(0.9)	(16.5)	(27.5)	–	(27.5)
Current tax liabilities	(0.6)	–	(0.6)	(0.1)	–	(0.1)
Provisions	(9.3)	(1.8)	(11.1)	(9.3)	(1.8)	(11.1)
Total liabilities	**(961.4)**	**(2,378.0)**	**(3,339.4)**	**(1,284.3)**	**(2,079.0)**	**(3,363.3)**

Company	As at 31 December 2021			As at 31 December 2020		
	< 12 months £m	> 12 months £m	Total £m	< 12 months £m	> 12 months £m	Total £m
Assets						
Loans and advances to banks	66.1	–	66.1	47.1	–	47.1
Other assets	51.5	505.2	556.7	85.8	487.4	573.2
Investment in subsidiaries	–	511.4	511.4	–	511.4	511.4
Total assets	**117.6**	**1,016.6**	**1,134.2**	**132.9**	**998.8**	**1,131.7**
Liabilities						
Debt issued and other borrowed funds	–	(329.9)	(329.9)	–	(458.0)	(458.0)
Other liabilities	(1.7)	–	(1.7)	(0.1)	–	(0.1)
Total liabilities	**(1.7)**	**(329.9)**	**(331.6)**	**(0.1)**	**(458.0)**	**(458.1)**

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.

Commitments

The Group had capital expenditure commitments contracted with third parties but not provided for of £0.3m as at 31 December 2021 (31 December 2020: £0.6m).

27. Related party disclosures

Group	Maximum balance during the year 2021 £m	Year ended 31 December 2021 £m	As at 31 December 2021 £m	Maximum balance during the year 2020 £m	Year ended 31 December 2020 £m	As at 31 December 2020 £m
Transactions with key management personnel						
Total emoluments	n/a	7.9	n/a	n/a	5.2	n/a
Total pension contributions	n/a	–	n/a	n/a	–	n/a
Highest paid key management personnel	n/a	2.2	n/a	n/a	1.2	n/a
Highest pension contribution to key management personnel	n/a	–	n/a	n/a	–	n/a
Transactions with other related parties						
Other operating expenses paid to related parties	n/a	0.1	n/a	n/a	–	n/a
Receivables due from related parties	0.1	n/a	0.1	–	n/a	–
Loans to related parties	0.5	n/a	0.5	0.5	n/a	0.5

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 2021 were £36k (31 December 2020: £35k). All transactions are subject to standard commercial interest rates on an arm's length basis.

The other operating expenses paid to and receivables due from related parties relate to a trading agreement with Pay4Later Limited, a sister company of the Group.

Company	Maximum balance during the year 2021 £m	Year ended 31 December 2021 £m	As at 31 December 2021 £m	Maximum balance during the year 2020 £m	Year ended 31 December 2020 £m	As at 31 December 2020 £m
Transactions with other related parties						
Loans to related parties	588.4	n/a	556.1	573.1	n/a	573.1
Interest income from related parties	n/a	171.5	n/a	n/a	68.5	n/a
Loans from related parties	435.3	n/a	335.0	435.2	n/a	435.2
Interest expense to related parties	n/a	27.2	n/a	n/a	30.9	n/a
Other liabilities owed to related parties	0.4	n/a	0.4	0.1	n/a	0.1

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 2021, there was an outstanding balance of £0.5m on the facility (31 December 2020: £0.5m).

In 2021, the Company paid £16k to a related party in relation to services provided by the Directors (2020: £16k).

Notes to the Financial Statements continued

27. Related party disclosures continued

Consolidated subsidiaries and structured entities

The consolidated Financial Statements include the Financial Statements of NewDay Group (Jersey) Limited and the subsidiaries and structured entities in the following table:

Name	Country of incorporation	Share class held as at 31 December 2021	% equity interest as at 31 December 2021	Share class held as at 31 December 2020	% equity interest as at 31 December 2020
NewDay Group UK Limited	UK	Ordinary	100%	Ordinary	100%
NewDay BondCo plc	UK	Ordinary	100%	Ordinary	100%
NewDay UK Limited	UK	Ordinary	100%	Ordinary	100%
NewDay Group Holdings S.à r.l.	Luxembourg	Ordinary	100%	Ordinary	100%
NewDay Holdings Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Intermediate Holdings Limited (formerly 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	UK	Ordinary	100%	Ordinary	100%
NewDay Partnership Transferor plc	UK	Ordinary	100%	Ordinary	100%
NewDay Funding Transferor Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay UPL Transferor Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Partnership Tertiary Funding Ltd	UK	Ordinary	100%	Ordinary	100%
NewDay Partnership Receivables Trustee Ltd	Jersey	n/a	SE	n/a	SE
NewDay Partnership Loan Note Issuer Ltd	UK	n/a	SE	n/a	SE
NewDay Partnership Funding 2015-1 plc	UK	n/a	SE	n/a	SE
NewDay Partnership Funding 2017-1 plc	UK	n/a	SE	n/a	SE
NewDay Partnership Funding 2020-1 plc	UK	n/a	SE	n/a	SE
NewDay Funding Master Issuer plc	UK	n/a	SE	n/a	SE
NewDay Funding 2017-1 plc	UK	n/a	SE	n/a	SE
NewDay Funding 2018-1 plc	UK	n/a	SE	n/a	SE
NewDay Funding 2018-2 plc	UK	n/a	SE	n/a	SE
NewDay Funding 2019-1 plc	UK	n/a	SE	n/a	SE
NewDay Funding 2019-2 plc	UK	n/a	SE	n/a	SE
NewDay Funding Loan Note Issuer Ltd	UK	n/a	SE	n/a	SE
NewDay Funding Receivables Trustee Ltd	Jersey	n/a	SE	n/a	SE
NewDay Secondary Funding Limited	UK	n/a	SE	n/a	SE
NewDay Partnership Secondary Funding Ltd	UK	n/a	SE	n/a	SE
Progressive Credit Limited[1]	UK	Ordinary	100%	Ordinary	100%
SAV Credit Limited[1]	UK	Ordinary	100%	Ordinary	100%

1 These subsidiaries are dormant entities as at 31 December 2021 and 31 December 2020.

The Company's immediate parent company is Nemean MidCo Limited. The ultimate parent undertaking is Nemean TopCo Limited, a private limited company incorporated in Jersey.

With the exception of the following entities the principal place of business for the subsidiaries and structured entities listed above is the UK and their registered address is 7 Handyside Street, London, N1C 4DA.

Name	Principal place of business	Registered address
NewDay Group Holdings S.à r.l.	Luxembourg	6, rue Jean Monnet, L-2180, Luxembourg
NewDay Partnership Receivables Trustee Ltd	Jersey	44 Esplanade, St Helier, Jersey, JE4 9WG
NewDay Partnership Loan Note Issuer Ltd	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Partnership Funding 2015-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Partnership Funding 2017-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Partnership Funding 2020-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding Master Issuer plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2017-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2018-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2018-2 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2019-1 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding 2019-2 plc	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding Loan Note Issuer Ltd	UK	1 Bartholomew Lane, London, EC2N 2AX
NewDay Funding Receivables Trustee Ltd	Jersey	44 Esplanade, St Helier, Jersey, JE4 9WG
NewDay Secondary Funding Limited	UK	20 Farringdon Street, 8th floor, London, EC4A 4AB
NewDay Partnership Secondary Funding Ltd	UK	20 Farringdon Street, 8th floor, London, EC4A 4AB

28. Structured entities

The Group has four financing arrangements which involve structured entities.

The Merchant Offering business is funded by a master trust securitisation and a private securitisation. The structures have issued multiple series of debt instruments external to the Group, backed by the cash flow of the Merchant Offering receivables portfolio. As at 31 December 2021, the master trust has in issue two series of publicly listed term debt sold to capital market investors and two series of senior variable funding notes sold to six major banks which acts as a revolving facility. As at 31 December 2021, the private securitisation has issued a series of senior and mezzanine variable funding notes sold to four major banks which acts as a revolving facility.

The Direct to Consumer 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 Direct to Consumer receivables portfolio. As at 31 December 2021, the master trust has in issue five series of publicly listed term debt sold to capital market investors and two series of senior variable funding notes sold to five major banks, which acts as a revolving facility. As at 31 December 2021, 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 Direct to Consumer and Merchant Offering portfolios are various structured entities where all of the ordinary shares are held by a third party trustee for charitable purposes. The consolidated subsidiary and structured entities table in note 27 has further details of the structured entities consolidated into the Group's Financial Statements for the year ended 31 December 2021, on the basis that the Group has the power to direct relevant activities, is exposed to variable returns of the entities and is able to use its power to affect those returns. Within the master trust securitisations, there are also entities which are not consolidated into the Financial Statements of the Group on the basis that the Group does not have control over these entities because it is not exposed, or does not have rights, to variable returns of the entities. These entities are NewDay Partnership Securitisation Holdings Ltd in the Merchant Offering master trust securitisation and NewDay Funding Securitisation Holdings Ltd in the Direct to Consumer master trust securitisation.

Notes to the Financial Statements continued

29. Post balance sheet events

In February 2022, the Group:

- signed an agreement with a major new merchant to provide a co-branded credit card programme which will launch in 2022. To fund the expected receivables from this partnership, and also in February, the Group completed a financing transaction which raised a £650.0m VFN from its Merchant Offering securitisation programme; and
- raised a £150.0m VFN from its Direct to Consumer 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. 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 True Potential, Miller Insurance Services, Premium Credit, Partnership Assurance (now part of Just group) and Guardian Financial Services in the UK, as well as Compre Group which has operations across the UK, Bermuda and continental Europe. 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 with a network of 24 offices throughout Europe, Asia, South America and the US, with approximately $122bn of assets under management. Since its founding in 1981, CVC has secured commitments in excess of $165bn from some of the world's leading institutional investors across its private equity and credit strategies. Funds managed or advised by CVC are invested in over 100 companies worldwide, which have combined annual sales of approximately $120bn and employ more than 500,000 people. CVC's financial services team has invested over €6bn of equity capital in the financial services sector since the team's inception in 2008, including its historic and current portfolio companies, Paysafe, Pension Insurance Corporation, Skrill, Domestic & General and Brit Insurance in the United Kingdom, Avolon in Ireland, April in France, Republic Finance and Cunningham Lindsey in the United States, Fidelis in Bermuda, Cerved in Italy, Sun Hung Kai in China and Rizal Commercial Banking Corporation and SPi Global in the Philippines.

Cautionary statement
This report comprises the Annual Report and Financial Statements of NewDay Group (Jersey) Limited (the 'Company') for the period ended 31 December 2021. Underlying and adjusted metrics referred to on pages 1 to 77 exclude a number of non-recurring items as detailed on page 31. Definitions of key performance indicators are included on pages 28 to 29.

Notwithstanding the above, as set out on page 58, with the exception of the Directors' report set out on pages 76 to 77, the governance and risk framework described in this report relate to the governance and risk framework established for the Group's UK subsidiaries. References to the 'Board', 'Group', 'NewDay' and 'Company' should be construed accordingly (where appropriate).

The financial information contained in this report may not be directly comparable to any financial information published by Nemean Topco Limited, NewDay Group plc, Pay4Later Limited (trading as Deko) or any other entity not consolidated in the financial information contained in this report. In particular, the financial information contained herein excludes the financials of Pay4Later Limited (trading as Deko).

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

References to adjusted EBITDA throughout this report in respect of periods ended prior to 31 December 2020 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 EU IFRS at the relevant time. However, references to "adjusted EBITDA" throughout this report in respect of years ended 31 December 2020 (which have been calculated in accordance with EU IFRS) and 31 December 2021 (which have been calculated in accordance with UK IFRS) are not the same as "Consolidated EBITDA" as defined in the legal documentation relating to the Senior Secured Debt and Revolving Credit Facility due to the fact that adjusted EBITDA for such periods excludes the performance of the UPL business. In addition, all ratios, baskets and calculations required under the terms of the Senior Secured Debt and Revolving Credit Facility are based on UK IFRS as in force as at 1 January 2021 (subject to certain adjustments permitted or required under the terms of the Senior Secured Debt and Revolving Credit Facility which, amongst other things, disregard the impact of IFRS 9 'Financial Instruments' and IFRS 16 'Leases'). 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 pro forma cash interest expense" contained in this report have been calculated (subject to certain adjustments) in accordance with UK IFRS as in force as at 31 December 2021 (or, in respect of periods ending prior to 31 December 2021, EU 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.

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