NewDay BondCo Plc

Investor quarterly reporting package

30 June 2022

Disclaimer

This quarterly report (this "Document") is being provided in accordance with (1) Section 4.03(a)(2) of the indenture, dated as of January 25, 2017, among NewDay BondCo plc, Deutsche Trustee Company Limited, as trustee, HSBC Corporate Trustee Company (UK) Limited, as security agent, the guarantors and certain other parties thereto, and (ii) clause 25 of the £30m Super Senior Revolving Facility Agreement dated January 25, 2017 among NewDay Group (Jersey) Limited (the "Company"), Citigroup Global Markets Limited, Credit Suisse AG, London branch, HSBC Bank plc and certain other parties thereto, in compliance with the obligations thereunder.

This Document comprises (i) the unaudited consolidated interim financial information of the Company for the three months and half-year ended 30 June 2022 (contained in the Appendix to this Document) and (ii) additional financial and non-financial information in relation to the Company together with its subsidiaries and subsidiary undertakings (the "Group"). **All financial information contained in this Document relates to the consolidated financial results of the Company (and not, except where expressly stated to be the case, NewDay BondCo plc)**. The financial information contained in this Document has not been audited or verified by any independent accounting firm. All non-financial information contained in this Document relates to the business, assets and operations of the Group.

Certain financial data included in this Document consists of "non-IFRS financial measures". These non-IFRS (International Financial Reporting Standards) financial measures, as defined by the Company, may not be comparable to similarly-titled measures as presented by other companies, nor should they be considered as an alternative to the historical financial results or other indicators of the Company's cash flow based on IFRS. Even though the non-IFRS financial measures are used by management to assess the Company's financial position, financial results and liquidity and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of the Company's financial position or results of operations as reported under IFRS. The inclusion of such non-IFRS financial measures in this Document 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, advisors 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 when making an investment decision.

References to adjusted EBITDA throughout this Document in respect of periods commencing on or after 1 January 2022 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 UK IFRS at the relevant time. However, references to "adjusted EBITDA" throughout this Document in respect of periods ended on or prior to 31 December 2021 (which have also been calculated in accordance with UK IFRS at the relevant time) 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 Unsecured Personal Loans 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 Document. In particular, except where otherwise expressly stated to be the case, references to "Senior Secured Debt to adjusted EBITDA" and "adjusted EBITDA to pro forma cash interest expense" contained in this Document have been calculated (subject to certain adjustments) in accordance with UK IFRS as in force as at 30 June 2022 (or, in respect of periods ending prior to 30 June 2022, UK IFRS at the relevant time). As a result, such figures will differ significantly from the calculation of Consolidated Senior Secured Net Leverage Ratio and Fixed Charge Corporate Debt Coverage Ratio (as defined under the terms of the Senior Secured Debt and Revolving Credit Facility).

This Document may contain forward-looking statements. All statements other than statements of historical fact included in this Document are forward-looking statements. Forward-looking statements express the Company's current expectations and projections relating to their financial condition, results of operations, plans, objectives, future performance and business. These statements may include, without limitation, any statements preceded by, followed by or including words such as "aim," "anticipate," "believe," "can have," "could," "estimate," "expect," "intend," "likely," "may," "plan," "project," "should," "target," "will," "would" and other words and terms of similar meaning or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control (including, but not limited to, the effects of the COVID-19 pandemic and uncertainties about its impact and duration) that could cause the Company's actual results, performance or achievements to be materially different from the expected results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which it will operate in the future. You acknowledge that circumstances may change and the contents of this Document may become outdated as a result. Further information on the primary risks of the business and the Group's risk management process is set out in the 'Managing our risk' and 'Our principal risks' sections of the 2021 Annual Report and Financial Statements (as updated by the quarterly reports produced throughout the year); these documents are available at www.newday.co.uk. All forward-looking statements made on or after the date of this Document and attributable to the Company or any member of the Group are expressly qualified in their entirety by the primary risks set out in these documents. Many of these risks 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.

The information contained in this Document 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 Document. The information and opinions in this Document are provided as at the date of this Document 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 Document or its contents or otherwise arising in connection with this Document, or any action taken by you or any of your officers, employees, agents or associates on the basis of the information in this Document.

Introduction

Q2 Highlights

- Record underlying profit before tax up 28% to £97m (HY 2021: £76m[1]).
- Acquired 427k new customer accounts (HY 2021: 401k).
- 38% increase in total customer spend to £3.6bn (HY 2021: £2.6bn).
- Strong growth in gross receivables up 21% to £3.5bn (30 June 2021: £2.9bn).
- Strong underlying risk-adjusted margin of 12.6% (HY 2021: 12.9%).
- Charge-off rate improved to 8.8% (HY 2021: 9.2%).
- Continued reduction in underlying cost-income ratio and now at 28.9% (HY 2021: 32.6%).
- Merchant partnership with John Lewis & Partners to launch in August 2022. Legacy HSBC customers offered a balance transfer to NewDay.
- Signed up a fast-growing online retailer to *Newpay*. Launch expected in 2023.
- In July, signed up The Hut Group to *Newpay 1:Many*. Launch expected in Q3.
- Signed up Antelope Loans to provide 'origination-as-a-service' unsecured personal loans. Launch expected in Q3.
- 93% of active accounts registered for e-servicing (30 June 2021: 89%).
- Average Net Promoter Score of +73 (HY 2021: +68) and an average Net Easy Score of +72 (HY 2021: +73).
- Free cash flow available for growth and debt service of £78m (HY 2021: £98m).
- Variable funding note (VFN) headroom of £2.1bn to fund receivables growth (30 June 2021: £1.0bn).
- Net corporate Senior Secured Debt to adjusted EBITDA ratio of 0.4x[2] (31 December 2021: 0.4x).
- Adjusted EBITDA to pro forma cash interest expense coverage of 8.5x[2] (31 December 2021: 7.6x).

[1] From continuing operations.

[2] The calculations of (i) adjusted EBITDA, (ii) net corporate Senior Secured Debt to adjusted EBITDA and (iii) adjusted EBITDA to pro forma cash interest expense, have each been calculated (subject to certain adjustments) in accordance with UK IFRS as in force as at 30 June 2022 (or, in respect of periods ending prior to 30 June 2022, UK IFRS at the relevant time). As a result, such figures/ratios will differ significantly from all ratios, baskets and calculations made in accordance with the terms of the Senior Secured Debt and/or Revolving Credit Facility (in particular, the "Fixed Charge Corporate Debt Coverage Ratio" and "Consolidated Senior Secured Net Leverage Ratio") which are currently calculated in accordance with 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').

Key performance indicators and other unaudited financial data

	Half-year ended June 2022	Half-year ended June 2021	Year ended June 2022	Year ended December 2021
Gross receivables (£m)	3,502.1	2,884.2	3,502.1	3,285.6
Direct to Consumer (£m)	2,332.5	1,807.3	2,332.5	2,112.1
Merchant Offering (£m)	1,169.6	1,076.9	1,169.6	1,173.5
Underlying risk-adjusted income (£m)	212.3	180.3	421.9	389.9
Underlying profit before tax from continuing operations (£m)	97.4	75.8	193.6	172.0
Adjusted EBITDA[1] (£m)	102.8	81.2	204.6	183.0
Free cash flow available for growth and debt service (£m)	78.0	98.4	168.2	188.6
Net revenue margin (%)	23.5	22.9	23.8	23.4
Impairment rate (%)	11.0	10.0	10.6	10.1
Direct to Consumer (%)	13.3	11.1	12.9	11.8
Merchant Offering (%)	6.5	8.2	6.4	7.2
Charge-off rate (%)	8.8	9.2	8.4	8.5
Direct to Consumer (%)	10.0	11.2	9.6	10.1
Merchant Offering (%)	6.5	6.0	6.1	5.9
Underlying risk-adjusted margin (%)	12.6	12.9	13.1	13.3
Underlying cost-income ratio (%)	28.9	32.6	29.9	31.8
Servicing costs margin (%)	2.8	3.1	2.7	2.9
Advance rate[2] (%)	89.3	86.1	89.3	88.2
Direct to Consumer[2] (%)	87.5	83.7	87.5	85.9
Merchant Offering[2] (%)	92.7	90.0	92.7	92.3
Advance rate[2] at hedged exchange rates (%)	88.1	87.1	88.1	88.6
Direct to Consumer[2] (%)	85.9	85.3	85.9	86.5
Total accounts (m)	4.7	4.8	4.7	4.6
New accounts (k)	427	401	933	907
Ratio of net corporate Senior Secured Debt to adjusted EBITDA[1,2]	n/a	n/a	0.4x	0.4x
Ratio of adjusted EBITDA to pro forma cash interest expense[1]	n/a	n/a	8.5x	7.6x

[1] See footnote 2 on page 2.

[2] In the normal course of business, the Group issues new funding which is used to replace maturing debt and depending on timing this can lead to funding overlaps which temporarily increase the Group's cash balance and the amount of debt it has undertaken which is not reflective of the Group's underlying position. Accordingly, the calculations of (i) net corporate Senior Secured Debt to adjusted EBITDA and (ii) advance rate, have both been adjusted to remove the impact of such funding overlaps where relevant.

Overview

The financial information on pages 2 to 12 reflects the performance of the Group for the half-year and year ended 30 June 2022.

The Group continues to grow. Record profitability was reported with underlying profit before tax of £97m (HY 2021: £76m). Receivables increased by 21% to £3.5bn (30 June 2021: £2.9bn). This was powered by spend which increased by 38% to £3.6bn (HY 2021: £2.6bn) and 427k new customer accounts (HY 2021: 401k).

The following table reconciles the statutory result to underlying profit before tax from continuing operations and adjusted EBITDA.

	Half-year ended June 2022 £m	Half-year ended June 2021 £m	Year ended June 2022 £m	Year ended December 2021 £m
Profit before tax from continuing operations	**53.6**	**24.5**	**107.8**	**78.7**
Senior Secured Debt interest and related costs	13.2	18.5	25.3	30.6
Fair value unwind	-	(0.4)	(0.7)	(1.1)
Payment protection insurance (PPI)	(1.2)	4.5	(1.0)	4.7
Platform development costs	3.8	-	5.5	1.7
Other	0.5	-	0.5	-
Depreciation and amortisation of intangibles assets arising on the Acquisition	27.5	28.7	56.2	57.4
Underlying profit before tax from continuing operations	**97.4**	**75.8**	**193.6**	**172.0**
Underlying depreciation and amortisation	5.4	5.4	11.0	11.0
Adjusted EBITDA[1]	**102.8**	**81.2**	**204.6**	**183.0**

For the half-year ended 30 June 2022, the Group reported a statutory profit before tax from continuing operations of £54m (HY 2021: £25m). The statutory result before tax for the current and comparative periods include a number of items, detailed below, which do not relate to the Group's underlying business performance.

- Senior Secured Debt interest and related costs includes the interest charge and other costs associated with the issuance and servicing of the 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). As at 30 June 2022, the Senior Secured Debt and Revolving Credit Facility totalled £325m (30 June 2021: £425m).
- Fair value unwind reflects the amortisation of fair value adjustments on the Group's acquired receivables. The fair value adjustments were fully unwound at the end of 2021.
- PPI reflects revisions to expected PPI remediation expenses including costs incurred from third parties that process customer complaints on behalf of the Group. As at 30 June 2022, the Group reported a PPI provision of £6m (30 June 2021: £9m).
- Platform development costs are expenses incurred to enhance the capabilities of the Group's in-house operating platforms. These costs relate to a one-off project expected to go fully live in 2025.
- Other relates to non-recurring expenses incurred on specific projects that are not representative of underlying performance.
- Depreciation and amortisation relates to the amortisation of the purchase price that was attributed to intangible assets arising on completion of the Group's acquisition of NewDay Group Holdings S.à r.l. together with its subsidiaries and structured entities (the 'Acquisition') on 26 January 2017.

[1] See footnote 2 on page 2.

The following table reconciles adjusted EBITDA to free cash flow available for growth and debt service:

	Half-year ended June 2022 £m	Half-year ended June 2021 £m	Year ended June 2022 £m	Year ended December 2021 £m
Adjusted EBITDA[1]	**102.8**	**81.2**	**204.6**	**183.0**
Change in ECL allowance	18.9	-	37.7	18.8
Adjusted EBITDA excluding change in ECL allowance[1]	**121.7**	**81.2**	**242.3**	**201.8**
Change in working capital	(19.4)	28.2	(30.8)	16.8
PPI provision utilisation	(0.8)	(0.6)	(2.5)	(2.3)
Capital expenditure	(8.2)	(4.0)	(13.3)	(9.1)
Platform development and other costs	(4.3)	-	(6.0)	(1.7)
Tax paid	(11.0)	(6.4)	(21.5)	(16.9)
Free cash flow available for growth and debt service	**78.0**	**98.4**	**168.2**	**188.6**

Business developments

The Group reported 21% receivables growth with closing receivables of £3.5bn (30 June 2021: £2.9bn). This was powered by 38% growth in spend and 427k new customer accounts (HY 2021: 401k). Continued record profitability was reported with underlying profit before tax of £97m (HY 2021: £76m).

As at 30 June 2022, the Group reported a 5.7%[2] share of UK credit card receivables (30 June 2021: 5.1%). The impact of inflation remains closely monitored, however in the half-year there has been no significant change in customer spend levels driven by inflationary pressures. The Group continues to target online spend and e-tail partnerships to grow market share. Online spend as a proportion of retail spend was 45% and 61% for Direct to Consumer and Merchant Offering respectively (HY 2021: 50% and 66%), which outperforms the proportion of total UK spend that is online[3]. In the last twelve months, approximately 1 in 6 credit cards issued in the UK were issued by the Group[4].

The Group has been active in developing its new business pipeline. The John Lewis & Partners co-branded credit card programme is expected to launch in August 2022 with legacy HSBC customers offered a balance transfer to NewDay. Additionally in Q2, the Group signed an agreement with a fast-growing online retailer to provide a white-labelled credit product through *Newpay*, this is expected to launch in 2023.

Through Deko, a sister company, the Group continues the development of its *Newpay* product through *Newpay 1:Many* to create a diverse portfolio of merchants. As at 30 June 2022, 126 merchants have signed-up to *Newpay 1:Many*. In July, the Group also signed up The Hut Group to *Newpay 1:Many* with a launch expected in Q3. Furthermore, the Group signed an agreement with Antelope Loans to originate unsecured personal loans operating on an 'origination-as-a-service' basis, this is expected to launch in Q3 2022. The Group continues to explore new business opportunities to monetise its leading digital platform.

The Group continues to work to mitigate the impact of the Amazon contract termination. As previously reported, the Group retains the accounts associated with the partnership and new *Pulse*-branded cards will be issued to certain customers in due course. The cessation of the partnership is not expected to have a significant impact on the financial performance of the Group.

The Group's Manifesto is embedded throughout the business and expresses the Group's purpose of helping people move forward with credit. This helps drive positive customer outcomes with the Group achieving a high average year-to-date Net Promoter Score of +73 (HY 2021: +68) and an average year-to-date Net Easy Score of +72 (HY 2021: +73). Additionally, as at 30 June 2022, 442k customers have registered for the Group's financial education tool *Aqua Coach*.

In the half-year ended 30 June 2022, the Group processed 89m spend transactions (HY 2021: 61m) and had 89m app logins (HY 2021: 66m). As at 30 June 2022, 93% of active accounts were registered for e-servicing (30 June 2021: 89%) and 74% of accounts were registered for e-statements (30 June 2021: 63%). Continued enhancements in the Group's digital infrastructure led to a 13% reduction in call volumes per 1,000 active accounts period-on-period and customer complaint levels remain low.

[1] See footnote 2 on page 2.

[2] Bank of England data. Receivables and spend share metrics calculated as total NewDay volumes as a proportion of Bank of England data credit card volumes.

[3] Compared to Office for National Statistics data (internet spend as a proportion of total retail spend).

[4] Estimated based on eBenchmarkers data and includes accounts originated through the Group's *Newpay* product.

The Group and its owners are exploring strategic options for the business to support its further development and growth. This may include, amongst other things, a private sale and/or opportunistic acquisitions in each case subject to market conditions and/or on-market or off-market purchases of the remaining £325m Senior Secured Debt (or refinancing all or some part of it) or other refinancing arrangements. However, no final decision has been made in this regard and therefore there is no certainty that the Group will carry out any such transaction.

Environmental, social and governance (ESG) matters

NewDay recognises the important role that its products play in society. Through its Manifesto the Group strives 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 the Group's purpose to help people move forward with credit. Delivering long-term sustainability is a fundamental objective at Board level. The Group recognises the importance of minimising its impact on the environment, being a responsible lender and employer.

In Q2, the Group extended its *Aqua Coach* support to certain applicants who are declined or ineligible. Such individuals will benefit from two co-branded services with LOQBOX, a credit building advice service, and TransUnion designed to help them move forward on their journey towards accessing credit. This support is focussed on tips, simulations, monitoring, and education on credit scores and also provides regular, refundable, savings that are reported as loan repayments to credit rating agencies to help build credit scores.

Additionally, in July 2022, relevant entities within the Group successfully achieved ISO 27001 information security certification. Cyber security is of high importance to our customers, Board and stakeholders and this certification shows that we are committed to managing information safely and securely as a trusted partner.

The Group's strategy and outcomes regarding ESG matters is detailed in its Sustainability Report which can be found on the Group's website at newday.co.uk.

Acquiring new customers that create long-lasting relationships

The Group continues targeted investment in acquiring new customers with the aim of delivering sustainable increases in profits from long-term customers. The following table shows the performance of the Group segmented by new and existing customers[1].

	Underlying profit before tax from continuing operations			
	Half-year ended June 2022 £m	**Half-year ended June 2021 £m**	**Year ended June 2022 £m**	**Year ended December 2021 £m**
New customers	(51.8)	(43.6)	(103.5)	(95.3)
Existing customers	149.2	119.4	297.1	267.3
Total	**97.4**	**75.8**	**193.6**	**172.0**

Digital capabilities

The Group's platforms are fully cloud-based, developed by an in-house engineering team and built on infrastructure provided by leading technology organisations, such as AWS, Microsoft and Fiserv. This enables the rapid launch of new products and partners while driving a significant reduction in operational costs.

The digital platform is designed to 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 the Group's growing transactional data assets.

The Group continues to enhance its platforms and technology to deliver market innovation and a leading digital customer experience. In 2022, amongst other things, the Group i) introduced personalised collections journeys for customers in need of financial assistance; ii) implemented improvements to persistent debt related journeys to offer enhanced payment options; and iii) built capability to launch an 'origination-as-a-service' product offering.

[1] New customers are those that have been with the Group for less than 12 months. Existing customers are those that have been with the Group for more than 12 months.

Management discussion and analysis

Description of income statement components

A brief description of the component parts of the Group’s income statement are:

Interest income

Interest income primarily relates to income earned on all interest-earning assets, which mainly comprise loans and advances to customers.

Cost of funds

Cost of funds primarily relates to the interest expense on interest-bearing liabilities, which mainly comprise debt funding.

Fee and commission income

Fee and commission income primarily relates to card fees based on customer transaction events and certain card servicing activities, interchange fees and other income, including insurance commission, profit shares and merchant transaction fee commission.

Impairment losses on loans and advances to customers

Expected credit loss (ECL) allowances are recognised on origination of financial assets, based on their anticipated credit loss. The 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 asset.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition (or if it was purchased or originated credit-impaired) and 12-month ECL measurement applies if it has not.

Operating costs

Operating costs primarily include servicing costs, administrative costs, commissions to retailers, advertising and marketing costs, professional fees, movements in provisions (other than ECL allowances on loans and advances to customers), IT costs, change costs, collection fees, lease liability interest expense, depreciation of property and equipment and amortisation of intangible assets.

Salaries and benefits

Salaries and benefits represent costs relating to employees including contributions payable to a defined contribution pension plan and redundancy-related expenses.

Consolidated management basis income statement

The table below details the management basis income statement:

	Half-year ended June 2022 £m	Half-year ended June 2021 £m	Year ended June 2022 £m	Year ended December 2021 £m
Interest income	411.9	331.8	780.5	700.4
Cost of funds	(44.9)	(29.5)	(77.2)	(61.8)
Net interest income	**367.0**	**302.3**	**703.3**	**638.6**
Fee and commission income	30.1	18.2	59.4	47.5
Net revenue	**397.1**	**320.5**	**762.7**	**686.1**
Impairment losses on loans and advances to customers	(184.8)	(140.2)	(340.8)	(296.2)
Underlying risk-adjusted income	**212.3**	**180.3**	**421.9**	**389.9**
Servicing costs	(47.3)	(43.9)	(87.8)	(84.4)
Change costs	(24.1)	(20.7)	(47.6)	(44.2)
Marketing and partner payments	(21.4)	(15.0)	(48.2)	(41.8)
Collection fees	14.6	11.2	27.7	24.3
Contribution	**134.1**	**111.9**	**266.0**	**243.8**
Salaries, benefits and overheads	(36.7)	(36.1)	(72.4)	(71.8)
Underlying profit before tax from continuing operations	**97.4**	**75.8**	**193.6**	**172.0**
Add back: depreciation and amortisation	5.4	5.4	11.0	11.0
Adjusted EBITDA[1]	**102.8**	**81.2**	**204.6**	**183.0**
Senior Secured Debt interest and related costs	(13.2)	(18.5)	(25.3)	(30.6)
Fair value unwind	-	0.4	0.7	1.1
PPI	1.2	(4.5)	1.0	(4.7)
Platform development costs	(3.8)	-	(5.5)	(1.7)
Other	(0.5)	-	(0.5)	-
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition	(32.9)	(34.1)	(67.2)	(68.4)
Profit before tax from continuing operations	**53.6**	**24.5**	**107.8**	**78.7**

Interest income

Group interest income increased by 24% to £412m (HY 2021: £332m) and was driven by the 21% growth in receivables, which was powered by higher customer spend and 427k new customers.

Cost of funds

Funding costs increased by 52% to £45m (HY 2021: £30m). This was driven primarily by increased borrowings to fund receivables growth, increases in base rates and fees associated with new deals.

Fee and commission income

Fee and commission income increased to £30m (HY 2021: £18m) and resulted from a 38% increase in spend activity period-on-period and fewer balances on payment holidays (and payment freezes in 2021 only).

[1] See footnote 2 on page 2.

Impairment losses on loans and advances to customers

The Group's impairment charge increased by 32% to £185m (HY 2021: £140m) and was driven in part by receivables growth and ongoing revisions to the UK economic outlook including inflationary pressures. Underlying collection performance remained strong and performance metrics are normalising post-COVID-19. The proportion of Direct to Consumer customers with two missed payments (or more) after six months increased over the last year to 5.2% (30 June 2021: 3.4%[1]) but remains below pre-COVID-19 levels of 9.0% in 2019. In Merchant Offering, the rate also increased to 4.0% (30 June 2021: 2.2%[1]) which is higher than pre-COVID-19 levels, of 3.5% in 2019, reflecting the newer partnerships that target prime and near-prime customers. The average Delphi score[2] reduced to 1,022 for Direct to Consumer (30 June 2021: 1,028) whilst for Merchant Offering it reduced to 1,186 (30 June 2021: 1,192).

As at 30 June 2022, the Group's ECL allowance increased to £588m and represents 16.8% coverage of gross receivables (31 December 2021: £569m, or 17.3%). The Group's impairment rate for the period increased to 11.0% (HY 2021: 10.0%).

Operating costs

Servicing costs increased by 8% to £47m for the half-year (HY 2021: £44m) whilst receivables increased by 21%, evidencing the scalability of the Group's platform.

Change costs increased by 16% to £24m (HY 2021: £21m) which was primarily driven by costs incurred on strategic projects aimed at broadening the Group's digital capabilities.

Marketing and partner payment costs increased by 43% to £21m (HY 2021: £15m) with the increase primarily representing additional costs incurred to market the Group's digital credit product, *Bip*.

Collection fees increased by 30% to £15m (HY 2021: £11m) and was mainly driven by the receivables growth.

Salaries, benefits and overheads

Salaries, benefits and overheads were broadly in line period-on-period at £37m (HY 2021: £36m).

Underlying cost-income ratio

A focus on cost control and a 24% increase in net revenue resulted in the Group's underlying cost-income ratio improving to 28.9% (HY 2021: £32.6%).

Adjusted EBITDA

Adjusted EBITDA increased to £103m[3] (HY 2021: £81m) and represents a strong underlying trading performance. Adjusted EBITDA for the three months ended 30 June 2022 was £53m[3] (Q2 2021: £45m).

Cash flows

The following table reconciles the movement in the Group's cash balance during the period. As at 30 June 2022, the Group's cash balance did not include any cash arising from funding overlaps (30 June 2021: £284m) but included £62m of restricted cash (30 June 2021: £52m). Cash held outside of the securitisation structures was £139m as at the period end (30 June 2021: £161m).

	Half-year ended June 2022 £m	**Half-year ended June 2021 £m**	**Year ended June 2022 £m**	**Year ended December 2021 £m**
Net cash (used in)/generated from operating activities	(142.6)	38.3	(467.7)	(286.8)
Net cash (used in)/generated from investing activities	(8.2)	63.2	(13.3)	58.1
Net cash generated from/(used in) financing activities	161.5	(60.7)	170.7	(51.5)
Net increase/(decrease) in cash and cash equivalents	**10.7**	**40.8**	**(310.3)**	**(280.2)**
Cash and cash equivalents at the start of the period	304.4	584.6	625.4	584.6
Cash and cash equivalents at the end of the period	**315.1**	**625.4**	**315.1**	**304.4**

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

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

[3] See footnote 2 on page 2.

Net cash (used in)/generated from operating activities

Net cash used in operating activities was £143m (HY 2021: £38m generated from) and was primarily driven by investment in receivables growth.

Net cash (used in)/generated from investing activities

Net cash used in investing activities of £8m (HY 2021: £63m generated from) represents investment in intangible assets and property and equipment. The prior period comparative includes £67m of cash received from the sale of the UPL receivables portfolio.

Net cash generated from/(used in) financing activities

Net cash generated from financing activities of £162m (HY 2021: £61m used in) consists of issuances and repayments of asset-backed securities and drawdowns of VFNs to fund receivables growth. Additionally, this balance includes a £13m cash payment to the Group's immediate parent company.

Funding

The Group proactively monitors its funding requirements to ensure it remains appropriately positioned to finance its operations and it has the right to extend the maturity date of all its asset-backed debt by one year (excluding the Senior Secured Debt and Revolving Credit Facility). In Q2, the Group completed the two following financing transactions.

- Issuing £300m of asset-backed securities (of which £26m was retained within the Group) from the Direct to Consumer securitisation programme, including $100m raised from US capital markets. This debt was used to refinance debt which matured in June 2022.
- A £150m VFN expansion in the Direct to Consumer securitisation programme, which is in addition to the £150m expansion completed in Q1.

After the period end, the Group completed two further transactions listed below.

- Issuing £334m of asset-backed securities (of which £60m was retained within the Group) from the Direct to Consumer securitisation programme. This debt was used to repay drawn VFN balances.
- Signing an interest rate swap on £150m of notional debt to further reduce its exposure to increases in the Bank of England base rate that cannot be passed on to customers. This brings the total hedged notional debt arising from interest rate swaps to £550m.

As at 30 June 2022, the Group reported VFN headroom of £2.1bn (including the £650m VFN associated with the John Lewis & Partners credit card partnership) and:

- 17% of the Group's borrowings will be due for repayment in less than one year, 47% will be due in one to two years and 36% will be due in over two years; and
- the average maturity of the Group's funding facilities was 1.7 years.

The Group has two asset-backed term debt deals maturing in Q4 2022. It is currently anticipated that these deals will be refinanced through existing VFN facilities.

Segmental analysis

The Group's reportable operating segments comprise Direct to Consumer, Merchant Offering and Platform Services. Each segment offers different products and services and is managed in line with the Group's management and internal reporting structure. Segment performance is assessed on the basis of contribution. The segments are detailed below.

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

These segments reflect how internal reporting is provided to management and how management allocate resources and assess performance.

Direct to Consumer segmental performance

	Half-year ended June 2022 £m	Half-year ended June 2021 £m	Year ended June 2022 £m	Year ended December 2021 £m
Net interest income	267.6	208.9	505.3	446.6
Fee and commission income	21.7	12.2	40.7	31.2
Net revenue	**289.3**	**221.1**	**546.0**	**477.8**
Impairment losses on loans and advances to customers	(146.9)	(96.5)	(268.7)	(218.3)
Underlying risk-adjusted income	**142.4**	**124.6**	**277.3**	**259.5**
Servicing costs	(27.5)	(22.3)	(48.9)	(43.7)
Change costs	(13.3)	(9.6)	(26.1)	(22.4)
Marketing costs	(12.1)	(6.7)	(27.7)	(22.3)
Collection fees	10.1	6.7	18.8	15.4
Contribution	**99.6**	**92.7**	**193.4**	**186.5**

The Direct to Consumer segment opened 311k new customer accounts in the period (HY 2021: 257k) and customer accounts totalled 1,925k as at 30 June 2022 (30 June 2021: 1,608k). The portfolio reported 29% growth in receivables to £2,333m (30 June 2021: £1,807m). Spend levels increased by 49% period-on-period to £1,986m (HY 2021: £1,334m).

Net interest income increased by 28% to £267m (HY 2021: £209m) which was in line with the receivables growth.

Fee and commission income increased by 78% to £22m (HY 2021: £12m) and resulted from the increased spend activity and fewer accounts on payment holidays or freezes.

Impairment increased by 52% to £147m (HY 2021: £97m). Underlying collection performance remains strong with charge-off rates improving to 10.0% (HY 2021: 11.2%). The proportion of receivables entering delinquency is starting to normalise post-COVID-19 with an increase to 3.3% (30 June 2021: 2.7%). As at 30 June 2022, the ECL allowance was £478m which represents a small increase from the 2021 year end and 20.5% coverage of gross receivables (31 December 2021: £461m, or 21.8%). The segment's impairment rate for the period increased to 13.3% (HY 2021: 11.1%).

Servicing costs increased by 23% to £28m (HY 2021: £22m) primarily due to the higher account volumes.

Change costs increased by 39% to £13m (HY 2021: £10m) as a result of continued investment in enhancing digital capabilities.

Marketing costs increased by 81% to £12m (HY 2021: £7m) with the increase mostly due to the higher new account volumes and additional costs incurred to market *Bip*.

Collection fees increased by 51% to £10m (HY 2021: £7m) and was driven by the receivables growth and fewer accounts taking payment holidays or freezes.

As a result of the factors above, the segment reported a contribution of £100m for the half-year ended 30 June 2022 (HY 2021: £93m).

Merchant Offering segmental performance

	Half-year ended June 2022 £m	Half-year ended June 2021 £m	Year ended June 2022 £m	Year ended December 2021 £m
Net interest income	99.4	93.4	198.0	192.0
Fee and commission income	7.7	5.7	17.7	15.7
Net revenue	**107.1**	**99.1**	**215.7**	**207.7**
Impairment losses on loans and advances to customers	(37.9)	(43.7)	(72.1)	(77.9)
Underlying risk-adjusted income	**69.2**	**55.4**	**143.6**	**129.8**
Servicing costs	(19.8)	(21.6)	(38.9)	(40.7)
Change costs	(8.9)	(7.7)	(17.1)	(15.9)
Marketing and partner payments	(9.2)	(8.3)	(20.4)	(19.5)
Collection fees	4.5	4.5	8.9	8.9
Contribution	**35.8**	**22.3**	**76.1**	**62.6**

The Merchant Offering segment opened 116k new customer accounts in the period (HY 2021: 144k) and customer accounts totalled 2,785k as at 30 June 2022 (30 June 2021: 3,161k). The portfolio reported an increase in receivables of 9% to £1,170m (30 June 2021: £1,077m). Spend levels increased by 27% period-on-period to £1,602m (HY 2021: £1,263m).

Net interest income increased by 6% to £99m (HY 2021: £93m) which was driven by receivables growth and partly offset by higher funding costs.

Fee and commission income increased by 35% to £8m (HY 2021: £6m) primarily due to the higher spend activity.

Impairment reduced by 13% to £38m (HY 2021: £44m). Underlying collection performance is starting to normalise post-COVID-19 with the proportion of receivables entering delinquency increasing to 1.9% (30 June 2021: 1.7%). The charge-off rate increased to 6.5% (HY 2021: 6.0%) which is expected given the targeted shift to online-originated accounts, which have an associated higher risk compared to store-originated accounts, together with targeting prime and near-prime customers. As at 30 June 2022, the ECL allowance was £110m which represents an uplift in coverage to 9.4% of gross receivables (31 December 2021: £108m, or 9.2%), reflecting the targeted widening risk profile of the portfolio. The segment's impairment rate for the period reduced to 6.5% (HY 2021: 8.2%).

Servicing costs reduced by 8% to £20m (HY 2021: £22m) primarily due to fewer accounts.

Change costs increased by 16% to £9m (HY 2021: £8m) which was driven by costs incurred to develop the Group's digital capabilities with the aim of enhancing customer and partner experiences.

Marketing and partner payment costs increased by 11% to £9m (HY 2021: £8m) reflecting increased partner payments to Amazon arising from customer spend activity.

Collection fees were flat period-on-period at £5m (HY 2021: £5m).

As a result of the factors above, Merchant Offering contribution increased to £36m (HY 2021: £22m).

Platform Services segmental performance

The Platform Services segment reported negative contribution of £1m (HY 2021: £3m negative contribution) resulting from investment in change projects required to develop the business' product offering.

Appendix

Consolidated interim financial information

NewDay Group (Jersey) Limited

Consolidated interim financial information

30 June 2022

Consolidated interim financial information

Consolidated income statement and consolidated statement of comprehensive income

	Note	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Year ended 31 December 2021 £m
Continuing operations				
Interest and similar income	3	412.1	332.2	705.8
Interest and similar expense	3	(58.3)	(48.4)	(93.1)
Net interest income		**353.8**	**283.8**	**612.7**
Fee and commission income	3	44.1	29.1	66.6
Impairment losses on loans and advances to customers	3, 6	(184.4)	(141.7)	(296.1)
Risk-adjusted income	3	**213.5**	**171.2**	**383.2**
Personnel expense		(63.8)	(51.5)	(106.8)
Other operating expenses		(96.1)	(95.2)	(197.7)
Total operating expenses	3	**(159.9)**	**(146.7)**	**(304.5)**
Profit before tax from continuing operations	3	**53.6**	**24.5**	**78.7**
Tax expense		(8.7)	(7.7)	(18.0)
Profit after tax from continuing operations		**44.9**	**16.8**	**60.7**
Discontinued operation				
Profit after tax from discontinued operation	4	-	3.4	3.4
Profit after tax		**44.9**	**20.2**	**64.1**
Other comprehensive income/(expense)				
Items that may subsequently be reclassified to the income statement				
Effective portion of changes in fair value of cash flow hedges		57.1	(3.3)	4.7
Net income statement transfer from hedging reserve		(51.4)	5.7	(5.1)
Other comprehensive income/(expense)		**5.7**	**2.4**	**(0.4)**
Total comprehensive income		**50.6**	**22.6**	**63.7**

Notes 1 to 16 form an integral part of this consolidated interim financial information.

Consolidated income statement and consolidated statement of comprehensive income

	Quarter ended 30 June 2022 £m	Quarter ended 30 June 2021 £m
Continuing operations		
Interest and similar income	212.6	168.7
Interest and similar expense	(32.5)	(25.5)
Net interest income	**180.1**	**143.2**
Fee and commission income	23.7	15.6
Impairment losses on loans and advances to customers	(94.3)	(74.6)
Risk-adjusted income	**109.5**	**84.2**
Personnel expense	(32.8)	(26.1)
Other operating expenses	(47.3)	(44.8)
Total operating expenses	**(80.1)**	**(70.9)**
Profit before tax from continuing operations	**29.4**	**13.3**
Tax expense	(2.9)	(3.7)
Profit after tax from continuing operations	**26.5**	**9.6**
Discontinued operation		
Profit after tax from discontinued operation	-	0.1
Profit after tax	**26.5**	**9.7**
Other comprehensive income/(expense)		
Items that may subsequently be reclassified to the income statement		
Effective portion of changes in fair value of cash flow hedges	43.9	(5.2)
Net income statement transfer from hedging reserve	(40.6)	4.8
Other comprehensive income/(expense)	**3.3**	**(0.4)**
Total comprehensive income	**29.8**	**9.3**

Notes 1 to 16 form an integral part of this consolidated interim financial information.

Consolidated balance sheet

	Note	As at 30 June 2022 £m	As at 30 June 2021 £m	As at 31 December 2021 £m
Assets				
Loans and advances to banks	5	315.1	625.4	304.4
Loans and advances to customers	6	3,047.3	2,448.4	2,844.5
Other assets		56.9	41.1	47.6
Derivative financial assets	7	43.0	-	1.9
Current tax assets		4.9	0.8	3.0
Deferred tax assets		0.3	2.1	0.3
Property and equipment		14.4	17.6	15.7
Intangible assets	8	130.9	182.5	154.3
Goodwill		279.9	279.9	279.9
Total assets		**3,892.7**	**3,597.8**	**3,651.6**
Liabilities				
Debt issued and other borrowed funds	9	3,449.3	3,186.4	3,221.2
Other liabilities		83.4	89.2	90.0
Derivative financial liabilities	7	-	31.5	16.5
Current tax liabilities		0.2	0.4	0.6
Provisions	10	9.9	14.2	11.1
Total liabilities		**3,542.8**	**3,321.7**	**3,339.4**
Net assets		**349.9**	**276.1**	**312.2**
Equity attributable to owners of the Company				
Share capital and share premium		-	-	-
Equity instruments		593.9	593.9	593.9
Capital contribution		-	14.2	9.2
Hedging reserve		3.2	0.3	(2.5)
Retained losses		(247.2)	(332.3)	(288.4)
Total equity		**349.9**	**276.1**	**312.2**

Notes 1 to 16 form an integral part of this consolidated interim financial information.

Consolidated statement of changes in equity

	Share capital and share premium £m	Equity instruments £m	Capital contribution £m	Hedging reserve £m	Retained losses £m	Total equity £m
As at 31 December 2021	-	593.9	9.2	(2.5)	(288.4)	312.2
Return paid on loan from immediate parent company[1]	-	-	(9.2)	-	(3.7)	(12.9)
Total comprehensive income for the period:						
Profit after tax	-	-	-	-	44.9	44.9
Other comprehensive income	-	-	-	5.7	-	5.7
As at 30 June 2022	**-**	**593.9**	**-**	**3.2**	**(247.2)**	**349.9**

	Share capital and share premium £m	Equity instruments £m	Capital contribution £m	Hedging reserve £m	Retained losses £m	Total equity £m
As at 31 December 2020	-	593.9	20.2	(2.1)	(352.5)	259.5
Return paid on loan from immediate parent company[1]	-	-	(6.0)	-	-	(6.0)
Total comprehensive income for the period:						
Profit after tax	-	-	-	-	20.2	20.2
Other comprehensive income	-	-	-	2.4	-	2.4
As at 30 June 2021	**-**	**593.9**	**14.2**	**0.3**	**(332.3)**	**276.1**
Return paid on loan from immediate parent company[1]	-	-	(5.0)	-	-	(5.0)
Total comprehensive income for the period:						
Profit after tax	-	-	-	-	43.9	43.9
Other comprehensive expense	-	-	-	(2.8)	-	(2.8)
As at 31 December 2021	**-**	**593.9**	**9.2**	**(2.5)**	**(288.4)**	**312.2**

[1] The Group made a return of £12.9m (HY 2021: £6.0m, 2021: £11.0m) to Nemean Midco Limited, its immediate parent. The return was made in accordance with the £529.2m loan agreement between NewDay Group (Jersey) Limited and Nemean Midco Limited which, consistent with the requirements of IFRS, is reported as an equity instrument in the Group's financial statements.

Notes 1 to 16 form an integral part of this consolidated interim financial information.

Consolidated statement of cash flows

	Note	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Year ended 31 December 2021 £m
Operating activities				
Profit after tax		44.9	20.2	64.1
Reconciliation of profit after tax to net cash (used in)/ generated from operating activities:				
Tax expense		8.7	7.7	18.0
Interest and similar expense		58.3	48.4	93.1
Interest and similar expense from discontinued operation	4	-	0.1	0.1
Depreciation of property and equipment		2.3	2.5	4.9
Charge on disposal of property and equipment		-	-	0.6
Amortisation and impairment of intangible assets	8	30.6	31.6	63.5
Impairment and charge on disposal of intangible assets	8	-	-	0.4
Impairment losses on loans and advances to customers		184.4	141.7	296.1
Changes in operating assets and liabilities:				
Increase in loans and advances to customers including those held for sale		(387.2)	(183.9)	(734.4)
(Increase)/decrease in other assets		(9.3)	9.7	3.2
(Decrease)/increase in other liabilities		(5.3)	12.0	14.1
(Decrease)/increase in provisions		(1.2)	3.1	-
Interest and similar expense paid		(57.8)	(48.4)	(93.6)
Tax paid		(11.0)	(6.4)	(16.9)
Net cash (used in)/generated from operating activities		**(142.6)**	**38.3**	**(286.8)**
Cash flows from investing activities				
Purchases of property and equipment		(1.0)	(0.3)	(1.3)
Investment in intangible assets	8	(7.2)	(3.7)	(7.8)
Proceeds from sale of loans and advances to customers held for sale	4	-	67.2	67.2
Net cash (used in)/generated from investing activities		**(8.2)**	**63.2**	**58.1**
Cash flows from financing activities				
Proceeds from debt issued and other borrowed funds	9	526.9	534.7	1,726.4
Repayment of debt issued and other borrowed funds	9	(351.2)	(588.8)	(1,765.0)
Payment of principal element of lease liabilities		(1.3)	(1.3)	(2.6)
Return paid on loan from immediate parent company		(12.9)	(5.3)	(10.3)
Net cash generated from/(used in) financing activities		**161.5**	**(60.7)**	**(51.5)**
Net increase/(decrease) in cash and cash equivalents		10.7	40.8	(280.2)
Cash and cash equivalents at the start of the period		304.4	584.6	584.6
Cash and cash equivalents at the end of the period	5	**315.1**	**625.4**	**304.4**

Notes 1 to 16 form an integral part of this consolidated interim financial information.

Consolidated statement of cash flows

	Note	Quarter ended 30 June 2022 £m	Quarter ended 30 June 2021 £m
Operating activities			
Profit after tax		26.5	9.7
Reconciliation of profit after tax to net cash used in operating activities:			
Tax expense		2.9	3.7
Interest and similar expense		32.5	25.5
Depreciation of property and equipment		1.2	1.2
Amortisation and impairment of intangible assets		15.3	15.9
Impairment losses on loans and advances to customers		94.3	74.6
Changes in operating assets and liabilities:			
Increase in loans and advances to customers		(247.4)	(206.9)
Increase in other assets		(7.6)	(1.6)
Decrease in other liabilities		(4.6)	(4.3)
Increase in provisions		0.1	3.9
Interest and similar expense paid		(27.6)	(20.0)
Tax paid		(5.2)	(2.3)
Net cash used in operating activities		**(119.6)**	**(100.6)**
Cash flows from investing activities			
Purchases of property and equipment		0.1	-
Investment in intangible assets		(4.1)	(1.5)
Net cash used in investing activities		**(4.0)**	**(1.5)**
Cash flows from financing activities			
Proceeds from debt issued and other borrowed funds		403.4	155.8
Repayment of debt issued and other borrowed funds		(272.7)	(336.9)
Payment of principal element of lease liabilities		(0.6)	(0.7)
Return paid on loan from immediate parent company		(9.4)	(5.3)
Net cash generated from/(used in) financing activities		**120.7**	**(187.1)**
Net decrease in cash and cash equivalents		(2.9)	(289.2)
Cash and cash equivalents at the start of the period		318.0	914.6
Cash and cash equivalents at the end of the period	5	**315.1**	**625.4**

Notes 1 to 16 form an integral part of this consolidated interim financial information.

Notes to the consolidated interim financial information

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 interim financial information (the interim financial information) do not constitute statutory Financial Statements within the meaning of section 105 of the Companies (Jersey) Law 1991. The Annual Report and Financial Statements of NewDay Group (Jersey) Limited (the statutory Financial Statements) for the year ended 31 December 2021 were approved by the Board of Directors of NewDay Group (Jersey) Limited on 24 February 2022. Those statutory Financial Statements contained an unqualified audit report and did not draw attention to any matters of emphasis. The statutory Financial Statements are available on the Group's website (www.newday.co.uk).

The interim financial information and prior period comparatives herein have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK. The Group's accounting policies have been consistently applied in the current period and prior period comparatives. The interim financial information for the six months ended 30 June 2022 was approved by the Board of Directors on 2 August 2022.

Going concern

As at 2 August 2022, the Group has £303.4m (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 12 months. In order to deliver the growth plans, it is the Directors' intention to refinance the funding due to mature with new asset-backed term debt and/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 at its own discretion to extend the maturity date on all its asset-backed term debt and VFNs by one year. As at 2 August 2022, the Group has undrawn VFNs of £903.9m within the Direct to Consumer and £771.9m within the Merchant Offering securitisation programmes (excluding a £650.0m facility specific to the John Lewis & Partners portfolio) 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 potential closure of capital markets and other restrictions on the Group's ability to raise new finance. In the event that there is limited headroom available within the Group's financing structures, the Directors also have the ability to alter the Group's growth plans to reduce funding requirements.

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

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

Notes to the consolidated interim financial information (continued)

2.1 Basis of preparation (continued)

Basis of consolidation

The interim financial information comprise the consolidated financial statements of the Company and its subsidiaries (together with certain structured entities (SEs) that the Group consolidates) as at 30 June 2022. The subsidiaries and SEs consolidated into the interim financial information are disclosed in note 27 of the 2021 statutory Financial Statements. 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.

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

2.2 Summary of significant accounting policies

The accounting policies adopted in the interim financial information are consistent with those adopted and disclosed in the statutory Financial Statements for the year ended 31 December 2021 and are detailed in those statutory Financial Statements, except for corporation tax which in interim periods is accrued using the expected effective tax rate for the full year.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of 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 expense during the reporting period. The significant accounting judgements, estimates and assumptions exercised by management in determining the amounts recognised in the interim financial statements are consistent with those adopted in the statutory Financial Statements for the year ended 31 December 2021 with the exception of those used in the expected credit loss (ECL) allowance on loans and advances to customers. The changes to the ECL allowance are detailed further below.

A full assessment of the judgements, estimates and assumptions for the year ended 31 December 2021 are detailed on page 92 to 95 of the 2021 Annual Report and Financial Statements.

ECL allowance on loans and advances to customers

The changes to the significant accounting judgements, estimates and assumptions used within the ECL allowance on loans and advances to customers are the use of: i) forward-looking information; and ii) post model adjustments (PMAs).

Forward-looking information

The Group continues to monitor the UK economic outlook. The forward-looking information incorporated into the Group's ECL allowance is adjusted when the economic outlook changes. The following table details the key forward-looking information incorporated into the Group's ECL allowance over the five-year outlook period used in the Group's ECL provisioning model.

	UK unemployment rate forecast over five-year outlook period %			ECL allowance assuming 100% probability weighting	Probability weighting used in reported ECL allowance
	Peak	Minimum	Average	£m	%
30 June 2022					
Upside	3.9	2.5	3.1	541.4	5%
Base	4.1	3.6	3.9	565.5	70%
Downside 1	6.1	3.8	5.1	641.3	20%
Downside 2	8.1	3.8	6.3	731.3	5%

Notes to the consolidated interim financial information (continued)

2.3 Significant accounting judgements, estimates and assumptions (continued)

	UK unemployment rate forecast over five-year outlook period %			ECL allowance assuming 100% probability weighting	Probability weighting used in reported ECL allowance
	Peak	**Minimum**	**Average**	**£m**	**%**
30 June 2021					
Upside	5.2	3.9	4.4	495.4	20
Base	5.8	4.3	4.8	519.3	40
Downside 1	9.1	4.5	6.4	604.4	35
Downside 2	11.9	4.7	7.3	638.0	5
31 December 2021					
Upside	4.2	3.8	3.9	477.2	5
Base	4.6	4.1	4.3	502.0	50
Downside 1	9.1	4.2	6.3	644.2	40
Downside 2	11.9	4.2	7.3	727.0	5

A summary of the assumptions in each scenario as at 30 June 2022 is detailed below. Each scenario also includes the expected impact of the worsening inflationary outlook on disposable incomes. This has been incorporated into the modelled ECL in each scenario through a forward-looking information PMA.

- The upside scenario assumes a continued rebound to the UK economy resulting in an improvement in consumer confidence with travel issues being eased, resolution to the war in Ukraine and new trade agreements being finalised. The unemployment rate is expected to gradually reduce to a low of 2.5% by the end of the five-year outlook period.
- The base scenario assumes a stable UK unemployment rate position, reflecting the impact of labour shortages in some sectors of the economy amidst a backdrop of an uncertain geopolitical landscape. The current level of job vacancies reduces the risk of a high unemployment peak, with the unemployment rate remaining broadly flat over the five-year outlook period reaching its peak of 4.1% during 2024 and finishing the forecast period at 3.8%.
- The downside 1 scenario assumes the UK economy gets a short-term shock due to the impact of Russian sanctions, inflation and labour challenges in certain industries. The unemployment rate peaks at 6.1% in 2023 before gradually reducing to 4.4% by the end of the five-year outlook period.
- The downside 2 scenario assumes the UK economy is hit harder with many sectors experiencing bankruptcies as a result of Russian sanctions 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 8.1% during 2023 and remaining elevated for the duration of the forecast period as the economy struggles to recover. The unemployment rate reduces to 5.0% by the end of the five-year outlook period.

As at 30 June 2022, the impact of probability-weighting these scenarios uplifted the ECL allowance on loans and advances to customers by £22.4m compared to the base scenario ECL allowance (30 June 2021: £30.9m, 31 December 2021: £67.0m).

PMAs

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

Notes to the consolidated interim financial information (continued)

2.3 Significant accounting judgements, estimates and assumptions (continued)

	As at 30 June 2022 £m	As at 30 June 2021 £m	As at 31 December 2021 £m
COVID-19 related	-	70.7	19.2
Forward-looking information	47.3	25.2	25.4
Model performance	12.2	41.6	21.9
Total PMAs	**59.5**	**137.5**	**66.5**

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

- COVID-19 related PMAs represent adjustments to ECL arising from changes in customer behaviour and model inputs driven by the pandemic that are not captured appropriately by the underlying model methodology. The PMAs have reduced to £nil as at 30 June 2022 because the impact of COVID-19 has dissipated and the specific risks identified by these PMAs have been incorporated into the underlying data within the Group's ECL model.
- The forward-looking information PMAs primarily represent an uplift to ECL arising from disposable income squeezes principally resulting from the forecast increase in inflation driving up household bills, in particular, the impact from rising energy costs expected. The Group's forward-looking information modelling is based solely on unemployment and due to the changing dynamics of the UK economic outlook the Group has incorporated, through a PMA totalling £58.0m (30 June 2021: £nil, 31 December 2021: £21.5m), the potential impact on ECL arising from inflationary pressures. The PMA assumes a range of cost of living squeezes between £100 to £300 per month. In addition to this, the Group has a £10.7m PMA which reduces overall ECL (30 June 2021: £12.1m uplift in ECL, 31 December 2021: £3.9m uplift in ECL) for the use of proxies to model the impact on ECL of multiple economic scenarios. Specifically, the Group uses its Direct to Consumer model as a proxy for considering the impact of changes in forward-looking unemployment information on ECL for portfolios which do not have a bespoke forward-looking model.
- Model performance PMAs represent adjustments to modelled outcomes including normalisation for recent experience and the outcome of periodic model validations.

See note 12.2 for further details of the Group's ECL allowance.

2.4 Adoption of new and revised standards

The following amendments to existing standards are mandatory for the first time for the period ended 30 June 2022 but do not have a significant impact on the Group.

- Amendments to IFRS 16 'Leases' – COVID-19-related rent concessions beyond 30 June 2021. The amendments extend the time period over which the practical expedient introduced by earlier amendments is available for use.
- Annual improvements to IFRS standards 2018-2020 cycle. Minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.
- Amendments to IAS 37 'Provisions, contingent liabilities and contingent assets' – onerous contracts: cost of fulfilling a contract. The amendments specify which costs to include when assessing whether a contract will be loss-making.
- Amendments to IAS 16 'Property, plant and equipment' – proceeds before intended use. The amendments require amounts received from selling items produced while preparing the asset for its intended use to be recognised in profit or loss, and not as an adjustment to the cost of the asset.
- Amendments to IFRS 3 'Business combinations' – reference to the Conceptual Framework. The amendments update certain references to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Notes to the consolidated interim financial information (continued)

2.5 Standards issued but not yet effective

The following amendments to existing standards have been issued by the International Accounting Standards Board but have not been early adopted by the Group.

- Amendments to IAS 1 'Presentation of Financial Statements'. 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.
- 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 amendments noted above are not expected to have a significant impact on the Group's Financial Statements.

3. Segment information

The Group's reportable operating segments comprise Direct to Consumer, Merchant Offering and Platform Services. Each segment offers different products and services and is managed in line with the Group's management and internal reporting structure. Segment performance is assessed on the basis of contribution. The segments are detailed below.

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

These segments reflect how internal reporting is provided to management and how management allocate resources and assess 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 currently only offers products to customers in the UK. Capital expenditure is not allocated to individual segments as property and equipment is managed at Group level.

Notes to the consolidated interim financial information (continued)

3. Segment information (continued)

The table below presents the performance on a segmental basis, for the six months ended 30 June 2022, in line with reporting to the chief operating decision maker:

Six months ended 30 June 2022	Direct to Consumer £m	Merchant Offering £m	Platform Services £m	Total £m
Interest income	296.4	115.5	-	411.9
Cost of funds	(28.8)	(16.1)	-	(44.9)
Net interest income	**267.6**	**99.4**	**-**	**367.0**
Fee and commission income	21.7	7.7	0.7	30.1
Net revenue	**289.3**	**107.1**	**0.7**	**397.1**
Impairment losses on loans and advances to customers	(146.9)	(37.9)	-	(184.8)
Underlying risk-adjusted income	**142.4**	**69.2**	**0.7**	**212.3**
Servicing costs	(27.5)	(19.8)	-	(47.3)
Change costs	(13.3)	(8.9)	(1.9)	(24.1)
Marketing and partner payments	(12.1)	(9.2)	(0.1)	(21.4)
Collection fees	10.1	4.5	-	14.6
Contribution	**99.6**	**35.8**	**(1.3)**	**134.1**
Salaries, benefits and overheads				(36.7)
Underlying profit before tax				**97.4**
Add back: depreciation and amortisation				5.4
Adjusted EBITDA[1]				**102.8**
Senior Secured Debt interest and related costs				(13.2)
PPI				1.2
Platform development costs				(3.8)
Other				(0.5)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(32.9)
Profit before tax				**53.6**
Gross receivables	**2,332.5**	**1,169.6**	**-**	**3,502.1**

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

Six months ended 30 June 2022 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	412.1	0.1	-	(0.3)	411.9
Cost of funds	(58.3)	-	13.2	0.2	(44.9)
Fee and commission income	44.1	(13.9)	-	(0.1)	30.1
Impairment losses on loans and advances to customers	(184.4)	-	-	(0.4)	(184.8)
Underlying risk-adjusted income	**213.5**	**(13.8)**	**13.2**	**(0.6)**	**212.3**
Total operating expenses	(159.9)	13.8	(13.2)	0.6	(158.7)[2]
Profit before tax	**53.6**	**-**	**-**	**-**	**53.6**

[1] See footnote 2 on page 2.

[2] Includes all items below risk-adjusted income on the segmental basis income statement above.

Notes to the consolidated interim financial information (continued)

3. Segment information (continued)

Fee income primarily 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 was 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 interest and related costs on the Senior Secured Debt and Revolving Credit Facility, which are excluded from underlying profit on a segmental basis where appropriate.

The table below presents the performance on a segmental basis, for the six months ended 30 June 2021, in line with reporting to the chief operating decision maker:

Six months ended 30 June 2021	**Direct to Consumer £m**	**Merchant Offering £m**	**Platform Services £m**	**Total £m**
Interest income	228.1	103.7	-	331.8
Cost of funds	(19.2)	(10.3)	-	(29.5)
Net interest income	**208.9**	**93.4**	**-**	**302.3**
Fee and commission income	12.2	5.7	0.3	18.2
Net revenue	**221.1**	**99.1**	**0.3**	**320.5**
Impairment losses on loans and advances to customers	(96.5)	(43.7)	-	(140.2)
Underlying risk-adjusted income	**124.6**	**55.4**	**0.3**	**180.3**
Servicing costs	(22.3)	(21.6)	-	(43.9)
Change costs	(9.6)	(7.7)	(3.4)	(20.7)
Marketing and partner payments	(6.7)	(8.3)	-	(15.0)
Collection fees	6.7	4.5	-	11.2
Contribution	**92.7**	**22.3**	**(3.1)**	**111.9**
Salaries, benefits and overheads				(36.1)
Underlying profit before tax from continuing operations				**75.8**
Add back: depreciation and amortisation				5.4
Adjusted EBITDA[1]				**81.2**
Senior Secured Debt interest and related costs				(18.5)
Fair value unwind				0.4
PPI				(4.5)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(34.1)
Profit before tax from continuing operations				**24.5**
Gross receivables	**1,807.3**	**1,076.9**	**-**	**2,884.2**

[1] See footnote 2 on page 2.

Notes to the consolidated interim financial information (continued)

3. Segment information (continued)

Six months ended 30 June 2021 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	332.2	-	-	(0.4)	331.8
Cost of funds	(48.4)	-	18.5	0.4	(29.5)
Fee and commission income	29.1	(10.9)	-	-	18.2
Impairment losses on loans and advances to customers	(141.7)	-	-	1.5	(140.2)
Underlying risk-adjusted income	**171.2**	**(10.9)**	**18.5**	**1.5**	**180.3**
Total operating expenses	(146.7)	10.9	(18.5)	(1.5)	(155.8)[1]
Profit before tax from continuing operations	**24.5**	**-**	**-**	**-**	**24.5**

[1] See footnote 2 on page 26.

The table below presents the performance on a segmental basis, for the period 1 April 2022 to 30 June 2022, in line with reporting to the chief operating decision maker:

Quarter ended 30 June 2022	Direct to Consumer £m	Merchant Offering £m	Platform Services £m	Total £m
Interest income	152.8	59.7	-	212.5
Cost of funds	(16.9)	(9.0)	-	(25.9)
Net interest income	**135.9**	**50.7**	**-**	**186.6**
Fee and commission income	11.8	4.4	0.3	16.5
Net revenue	**147.7**	**55.1**	**0.3**	**203.1**
Impairment losses on loans and advances to customers	(81.1)	(13.2)	-	(94.3)
Underlying risk-adjusted income	**66.6**	**41.9**	**0.3**	**108.8**
Servicing costs	(14.4)	(10.0)	-	(24.4)
Change costs	(6.6)	(4.1)	(0.9)	(11.6)
Marketing and partner payments	(6.6)	(4.6)	(0.1)	(11.3)
Collection fees	5.3	2.3	-	7.6
Contribution	**44.3**	**25.5**	**(0.7)**	**69.1**
Salaries, benefits and overheads				(18.4)
Underlying profit before tax				**50.7**
Add back: depreciation and amortisation				2.7
Adjusted EBITDA[2]				**53.4**
Senior Secured Debt interest and related costs				(6.6)
PPI				0.7
Platform development costs				(1.8)
Other				0.2
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(16.5)
Profit before tax				**29.4**
Gross receivables	**2,332.5**	**1,169.6**	**-**	**3,502.1**

[2] See footnote 2 on page 2.

Notes to the consolidated interim financial information (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:

Quarter ended 30 June 2022 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	212.6	0.1	-	(0.2)	212.5
Cost of funds	(32.5)	-	6.6	-	(25.9)
Fee and commission income	23.7	(7.1)	-	(0.1)	16.5
Impairment losses on loans and advances to customers	(94.3)	-	-	-	(94.3)
Underlying risk-adjusted income	**109.5**	**(7.0)**	**6.6**	**(0.3)**	**108.8**
Total operating expenses	(80.1)	7.0	(6.6)	0.3	(79.4)[1]
Profit before tax	**29.4**	**-**	**-**	**-**	**29.4**

[1] See footnote 2 on page 26.

The table below presents the performance on a segmental basis, for the period 1 April 2021 to 30 June 2021, in line with reporting to the chief operating decision maker:

Quarter ended 30 June 2021	Direct to Consumer £m	Merchant Offering £m	Platform Services £m	Total £m
Interest income	116.5	52.0	-	168.5
Cost of funds	(10.1)	(4.9)	-	(15.0)
Net interest income	**106.4**	**47.1**	**-**	**153.5**
Fee and commission income	6.8	2.9	0.2	9.9
Net revenue	**113.2**	**50.0**	**0.2**	**163.4**
Impairment losses on loans and advances to customers	(58.7)	(14.9)	-	(73.6)
Underlying risk-adjusted income	**54.5**	**35.1**	**0.2**	**89.8**
Servicing costs	(11.2)	(10.6)	-	(21.8)
Change costs	(4.8)	(3.8)	(1.7)	(10.3)
Marketing and partner payments	(3.4)	(1.1)	-	(4.5)
Collection fees	3.5	2.3	-	5.8
Contribution	**38.6**	**21.9**	**(1.5)**	**59.0**
Salaries, benefits and overheads				(16.7)
Underlying profit before tax from continuing operations				**42.3**
Add back: depreciation and amortisation				2.7
Adjusted EBITDA[2]				**45.0**
Senior Secured Debt interest and related costs				(10.2)
Fair value unwind				0.1
PPI				(4.5)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(17.1)
Profit before tax from continuing operations				**13.3**
Gross receivables	**1,807.3**	**1,076.9**	**-**	**2,884.2**

[2] See footnote 2 on page 2.

Notes to the consolidated interim financial information (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:

Quarter ended 30 June 2021 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	168.7	-	-	(0.2)	168.5
Cost of funds	(25.5)	-	10.2	0.3	(15.0)
Fee and commission income	15.6	(5.7)	-	-	9.9
Impairment losses on loans and advances to customers	(74.6)	-	-	1.0	(73.6)
Underlying risk-adjusted income	**84.2**	**(5.7)**	**10.2**	**1.1**	**89.8**
Total operating expenses	(70.9)	5.7	(10.2)	(1.1)	(76.5)[1]
Profit before tax	**13.3**	**-**	**-**	**-**	**13.3**

[1] See footnote 2 on page 26.

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

	As at 30 June 2022			As at 30 June 2021		
	Direct to Consumer £m	Merchant Offering £m	Group £m	Direct to Consumer £m	Merchant Offering £m	Group £m
Gross receivables	**2,332.5**	**1,169.6**	**3,502.1**	**1,807.3**	**1,076.9**	**2,884.2**
Deferred origination costs[2]	57.1	6.9	64.0	46.9	7.7	54.6
EIR method adjustment for interest-free promotional periods	24.4	14.1	38.5	29.3	14.0	43.3
Other[3]	16.9	13.7	30.6	9.1	7.4	16.5
Gross loans and advances to customers	**2,430.9**	**1,204.3**	**3,635.2**	**1,892.6**	**1,106.0**	**2,998.6**

	As at 31 December 2021		
	Direct to Consumer £m	Merchant Offering £m	Group £m
Gross receivables	**2,112.1**	**1,173.5**	**3,285.6**
Deferred origination costs[2]	52.5	8.9	61.4
EIR method adjustment for interest-free promotional periods	24.5	12.9	37.4
Other[3]	16.0	13.1	29.1
Gross loans and advances to customers	**2,205.1**	**1,208.4**	**3,413.5**

[2] 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.

[3] 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 asset; and reclassification of accounts that are in a credit position.

Seasonality

Seasonal Christmas spending and peak promotional periods by Merchant Offering partners throughout the year drive an increase in interest income earned in the months following this activity. However, as the business has been delivering strong growth in receivables, this growth has a more significant impact on reported profits than underlying seasonality drivers.

Notes to the consolidated interim financial information (continued)

4. Discontinued operation

Following a strategic review of its operations, the Group closed its UPL segment to new lending in March 2020. Towards the end of 2020, the Group made the decision to market for sale the UPL loans and advances to customers portfolio and committed to a plan to sell the loans. This sale was concluded in February 2021 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

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Year ended 31 December 2021 £m
Interest and similar income	-	-	-
Interest and similar expense	-	(0.1)	(0.1)
Net interest expense	**-**	**(0.1)**	**(0.1)**
Impairment losses on loans and advances to customers	-	-	-
Underlying risk-adjusted expense	**-**	**(0.1)**	**(0.1)**
Servicing costs	-	(0.3)	(0.3)
Total operating expenses	**-**	**(0.3)**	**(0.3)**
Fair value gain on classification and measurement of loans and advances to customers held for sale as FVTPL on 1 January 2021	-	4.5	4.5
Fair value gain recognised in period on loans and advances to customers held for sale	-	0.8	0.8
Costs incurred to sell loans and advances to customers held for sale	-	(1.5)	(1.5)
Profit before tax from discontinued operation	**-**	**3.4**	**3.4**
Tax expense	-	-	-
Profit after tax from discontinued operation	**-**	**3.4**	**3.4**

Notes to the consolidated interim financial information (continued)

4. Discontinued operation (continued)

	Quarter ended 30 June 2022 £m	Quarter ended 30 June 2021 £m
Interest and similar income	-	-
Interest and similar expense	-	-
Net interest income	**-**	**-**
Impairment losses on loans and advances to customers	-	-
Risk-adjusted expense	**-**	**-**
Servicing income	-	0.1
Total operating income	**-**	**0.1**
Profit before tax from discontinued operation	**-**	**0.1**
Tax expense	-	-
Profit after tax from discontinued operation	**-**	**0.1**

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

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Year ended 31 December 2021 £m
Net cash generated from operating activities	-	5.3	5.3
Net cash generated from investing activities	-	67.2	67.2
Net cash used in financing activities	-	(54.2)	(54.2)
Net cash flows generated from discontinued operation	**-**	**18.3**	**18.3**

	Quarter ended 30 June 2022 £m	Quarter ended 30 June 2021 £m
Net cash generated from operating activities	-	0.1
Net cash flows generated from discontinued operation	**-**	**0.1**

Notes to the consolidated interim financial information (continued)

5. Loans and advances to banks

	As at 30 June 2022 £m	As at 30 June 2021 £m	As at 31 December 2021 £m
Loans and advances to banks	253.2	573.2	246.2
Restricted cash	61.9	52.2	58.2
Loans and advances to banks	**315.1**	**625.4**	**304.4**

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 £61.9m (30 June 2021: £52.2m, 31 December 2021: £58.2m) are demand deposits that is ring-fenced cash for credit balances on loans and advances to customers and cash restricted due to covenants in place in accordance with the Group's funding structure.

As at 30 June 2022, the Group's cash balance included £nil arising from funding overlaps (30 June 2021: £283.9m, 31 December 2021: £nil), being where funds are raised in advance of the maturity of the debt it is replacing and £139.3m of the cash and cash equivalents balance is held by entities outside of the securitisation structure (30 June 2021: £160.8m, 31 December 2021: £127.6m).

6. Loans and advances to customers

	As at 30 June 2022 £m	As at 30 June 2021 £m	As at 31 December 2021 £m
Gross loans and advances to customers	3,635.2	2,998.6	3,413.5
ECL allowance	(587.9)	(550.2)	(569.0)
Loans and advances to customers	**3,047.3**	**2,448.4**	**2,844.5**

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

For details of the credit risk arising on loans and advances to customers see note 12.2.

7. Derivative financial instruments

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

The Group 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.

Notes to the consolidated interim financial information (continued)

7. Derivative financial instruments (continued)

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

	As at 30 June 2022			**As at 30 June 2021**		
	Notional amount £m	**Assets £m**	**Liabilities £m**	**Notional amount £m**	**Assets £m**	**Liabilities £m**
Interest rate swaps	400.0	6.2	-	-	-	-
Cross-currency interest rate swaps	531.1	36.8	-	421.2	-	(31.5)
Derivative financial instruments	**931.1**	**43.0**	**-**	**421.2**	**-**	**(31.5)**

	As at 31 December 2021		
	Notional amount £m	**Assets £m**	**Liabilities £m**
Cross-currency interest rate swaps	403.3	1.9	(16.5)
Derivative financial instruments	**403.3**	**1.9**	**(16.5)**

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

	Cross-currency interest rate swaps £m	**Interest rate swaps £m**
As at 31 December 2020	328.7	-
Issued	98.8	-
Foreign exchange movements	(6.3)	-
As at 30 June 2021	**421.2**	**-**
Issued	150.1	-
Settled	(187.7)	-
Foreign exchange movements	19.7	-
As at 31 December 2021	**403.3**	**-**
Issued	76.3	400.0
Foreign exchange movements	51.5	-
As at 30 June 2022	**531.1**	**400.0**

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

Notes to the consolidated interim financial information (continued)

8. Intangible assets

	Acquired customer and retail partner relationships £m	Acquired brand and trade names £m	Acquired intellectual property £m	Internally generated intangibles £m	Total £m
Cost as at 1 January 2022	313.4	27.8	51.9	31.8	424.9
Additions	-	-	-	7.2	7.2
Cost as at 30 June 2022	**313.4**	**27.8**	**51.9**	**39.0**	**432.1**
Amortisation as at 1 January 2022	(213.5)	(6.7)	(39.1)	(11.3)	(270.6)
Charge to the income statement	(23.0)	(0.7)	(3.8)	(3.1)	(30.6)
Amortisation as at 30 June 2022	**(236.5)**	**(7.4)**	**(42.9)**	**(14.4)**	**(301.2)**
Net book value as at 30 June 2022	**76.9**	**20.4**	**9.0**	**24.6**	**130.9**
Net book value as at 31 December 2021	99.9	21.1	12.8	20.5	154.3
Net book value as at 30 June 2021	122.9	21.7	17.9	20.0	182.5

9. Debt issued and other borrowed funds

	As at 30 June 2022 £m	As at 30 June 2021 £m	As at 31 December 2021 £m
Senior Secured Debt and associated facilities	335.0	435.4	335.0
Asset-backed term debt	2,246.1	2,090.6	2,192.3
Variable funding notes	884.2	675.0	709.1
	3,465.3	3,201.0	3,236.4
Capitalised debt funding fees	(16.0)	(14.6)	(15.2)
Debt issued and other borrowed funds	**3,449.3**	**3,186.4**	**3,221.2**

In connection with the Acquisition in 2017, NewDay BondCo plc issued £425.0m Senior Secured Debt comprising £275.0m Fixed Rate Senior Secured Notes due 2024 and £150.0m Floating Rate Senior Secured Notes due in 2023. 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, leaving £325.0m of notes outstanding.

In addition, certain subsidiaries of the Group entered into a £30.0m Super Senior Revolving Credit Facility which is undrawn as at 30 June 2022 (30 June 2021: undrawn, 31 December 2021: undrawn).

Debt issued and other borrowed funds includes publicly listed asset-backed securities and variable funding notes provided by a number of different investors. The debt is provided at SOFR or SONIA plus margin and is backed by securitised outstanding loans and advances to customers. As at 30 June 2022, £2,045.0m is to fund the Direct to Consumer portfolio (30 June 2021: £1,795.4m, 31 December 2021: £1,817.2m) and £1,085.3m is to fund the Merchant Offering portfolio (30 June 2021: £970.2m, 31 December 2021: £1,084.2m).

Notes to the consolidated interim financial information (continued)

9. Debt issued and other borrowed funds (continued)

A reconciliation of debt issued and other borrowed funds during the six months ended 30 June 2022 is as follows:

		Cash flows		Non-cash movements	
	As at 1 January 2022 £m	**Proceeds from debt issued £m**	**Repayment of debt issued £m**	**Other £m**	**As at 30 June 2022 £m**
Senior Secured Debt and associated facilities	335.0	-	-	-	335.0
Asset-backed term debt	2,192.3	273.9	(272.7)	52.6	2,246.1
Variable funding notes	709.1	253.0	(78.5)	0.6	884.2
Debt issued and other borrowed funds	**3,236.4**	**526.9**	**(351.2)**	**53.2**	**3,465.3**

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 the half-year ended 30 June 2022, the Group completed the following transactions:

- a £650.0m VFN deal signed from the Merchant Offering securitisation programme which will be used to fund the receivables from the John Lewis & Partners credit card partnership. As at 30 June 2022, since the partnership had not yet launched, no amount had been drawn down on the facility;
- two separate £150.0m (totalling £300.0m) VFN expansions in the Direct to Consumer securitisation programme;
- hedges to swap variable for fixed interest rates on £400.0m of asset-backed debt to reduce the Group's exposure to increases in the Bank of England base rate; and
- a financing transaction which raised £300.0m of asset-backed securities (of which £26.1m was retained within the Group) from the Direct to Consumer securitisation programme and included $100.0m raised from US capital markets. This debt was used to refinance debt which matured in June 2022.

Additionally, in July 2022, the Group completed two further transactions detailed below:

- a £334.0m issuance of asset-backed securities (of which £60.5m was retained within the Group) from the Direct to Consumer securitisation programme. This debt was used to repay drawn VFN balances; and
- signed an interest rate swap to swap variable for fixed interest rates on £150.0m of notional debt to further reduce its exposure to increases in the Bank of England base rate that cannot be passed on to customers. This brings the total hedged notional debt arising from interest rate swaps to £550.0m.

The Group has two asset-backed term debt deals maturing in Q4 2022. It is currently anticipated that these deals will be refinanced through existing VFN facilities.

A reconciliation of debt issued and other borrowed funds during the six months ended 30 June 2021 is as follows:

		Cash flows		Non-cash movements	
	As at 1 January 2021 £m	**Proceeds from debt issued £m**	**Repayment of debt issued £m**	**Other £m**	**As at 30 June 2021 £m**
Senior Secured Debt and associated facilities	465.4	-	(30.0)	-	435.4
Asset-backed term debt	1,979.7	362.4	(244.3)	(7.2)	2,090.6
Variable funding notes	817.2	172.3	(314.5)	-	675.0
Debt issued and other borrowed funds	**3,262.3**	**534.7**	**(588.8)**	**(7.2)**	**3,201.0**

Notes to the consolidated interim financial information (continued)

9. Debt issued and other borrowed funds (continued)

A reconciliation of debt issued and other borrowed funds during the year ended 31 December 2021 is as follows:

		Cash flows		Non-cash movements	
	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**

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

	As at 30 June 2022 £m	**As at 30 June 2021 £m**	**As at 31 December 2021 £m**
Debt issued and other borrowed funds repayable in:			
Less than one year	600.4	983.8	856.0
Between one and two years	1,635.5	870.4	379.4
Between two and five years	1,229.4	1,346.8	2,001.0
	3,465.3	**3,201.0**	**3,236.4**

See note 16 for further details of the financing transactions completed after the balance sheet date.

10. Provisions

The movement in provisions during the period is as follows:

	PPI provision £m	**Other provisions £m**	**Total provisions £m**
As at 1 January 2022	7.7	3.4	11.1
(Released)/arising during the period	(1.2)	1.0	(0.2)
Utilised during the period	(0.8)	(0.2)	(1.0)
As at 30 June 2022	**5.7**	**4.2**	**9.9**

	PPI provision £m	**Other provisions £m**	**Total provisions £m**
As 1 January 2021	5.3	5.8	11.1
Arising during the period	4.5	-	4.5
Utilised during the period	(0.6)	(0.8)	(1.4)
As at 30 June 2021	**9.2**	**5.0**	**14.2**
Arising during the period	0.2	2.1	2.3
Utilised during the period	(1.7)	(3.7)	(5.4)
As at 31 December 2021	**7.7**	**3.4**	**11.1**

Notes to the consolidated interim financial information (continued)

10. Provisions (continued)

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.

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.

11. 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 (30 June 2021: level 2, 31 December 2021: level 2) as they are not traded in an active market and their fair value is determined by discounting expected future cash flows using interest rate yield curves and forward foreign exchange rates prevailing at the period end. See note 7 for further details.

Financial instruments carried at amortised cost
The 2021 Annual Report and Financial Statements details the key principles and valuation methodologies used to estimate the fair value of financial instruments. These have been consistently applied in this interim financial information.

Set out below is a comparison, by class, of the carrying value and fair value of the Group's financial instruments. During the period there have been no transfers between levels (30 June 2021: none, 31 December 2021: none).

As at 30 June 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	-	315.1	-	315.1	315.1
Loans and advances to customers	-	-	3,047.3	3,047.3	3,219.7
Other assets	-	36.1	-	36.1	36.1
Total financial assets	**-**	**351.2**	**3,047.3**	**3,398.5**	**3,570.9**
Financial liabilities					
Debt issued and other borrowed funds	-	(3,449.3)	-	(3,449.3)	(3,413.9)
Other liabilities	-	(83.4)	-	(83.4)	(83.4)
Total financial liabilities	**-**	**(3,532.7)**	**-**	**(3,532.7)**	**(3,497.3)**

Notes to the consolidated interim financial information (continued)

11. Fair value of financial instruments (continued)

As at 30 June 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	-	625.4	-	625.4	625.4
Loans and advances to customers	-	-	2,448.4	2,448.4	2,669.5
Other assets	-	23.3	-	23.3	23.3
Total financial assets	**-**	**648.7**	**2,448.4**	**3,097.1**	**3,318.2**
Financial liabilities					
Debt issued and other borrowed funds	-	(3,186.4)	-	(3,186.4)	(3,189.4)
Other liabilities	-	(89.2)	-	(89.2)	(89.2)
Total financial liabilities	**-**	**(3,275.6)**	**-**	**(3,275.6)**	**(3,278.6)**

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)**

Loans and advances to banks

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

Loans and advances to customers

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

Other assets

Other assets 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.

Debt issued and other borrowed funds

The debt issued contains Senior Secured Debt and associated facilities, asset-backed term securities and variable funding notes. For the Senior Secured Debt, excluding the Revolving Credit Facility, and asset-backed term debt an observable market price is available; however, such debt is not actively traded, therefore the fair value has been estimated using prices quoted by banks and they have been classified as level 2. The senior variable funding notes and Revolving Credit Facility's fair value approximates to its carrying value. The variable funding notes and Revolving Credit Facility are private bilateral agreements that can be drawn upon and repaid by the borrower. These issuances have been classified as level 2.

Notes to the consolidated interim financial information (continued)

11. Fair value of financial instruments (continued)

Other liabilities

Other liabilities 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.

12. Risk management

12.1 Introduction

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

Save to the extent described in the Company's quarterly reports published during the course of the year, the principal risks and uncertainties affecting the Group remain largely unchanged from those disclosed in the 2021 Annual Report and Financial Statements of the Group. An assessment of the principal risks and uncertainties, together with the controls and processes which are in place to monitor and mitigate the risks where possible, are detailed on pages 48 to 56 of the 2021 Annual Report and Financial Statements, and are summarised below.

- Strategic risk: the risks arising from a sub-optimal business strategy or business model that may lead to financial loss, reputational damage or failure to meet internal and/or public policy objectives.
- Macroeconomic risk: the risk that adverse movements in economic trends in the UK have a detrimental effect on the anticipated returns and business strategy of the Group.
- Credit risk: the risk that unexpected losses may arise as a result of customers failing to meet their obligations to repay.
- Regulatory risk: the risk that a change in laws or regulations governing the Group may affect the business model, which may have a material impact on the performance and profitability of the business. Additionally, the risk that the Group fails to comply with legal or regulatory requirements which could lead to reputational damage, enforcement action and/or financial loss.
- Operational risk: the risk of reputational damage, regulatory censure and/or financial loss resulting from inadequate or failed internal processes and systems, people and systems or from external events including internal and external fraud. Based on the Group's operating model, this extends to all of the services and processes provided by third parties.
- Conduct risk: the risk of customer detriment arising from inappropriate culture, products, business model, governance and processes which may result in reputational damage, regulatory censure and/or financial loss;
- Financial risk: the risk of inaccuracies in financial and management reporting and/or inadequate management of liquidity, funding and cash which could impact the Group's reputation or result in financial losses and/or withdrawal of funding.
- Market risk: the risk of direct or indirect losses that arise from fluctuations in values of, or income from, assets or in movements in interest or exchange rates, base rates or credit spreads. This risk also incorporates the risk of funding markets that the Group is dependent on no longer being open or available in adverse macroeconomic environments.

12.2 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, as detailed on pages 112 to 113 of the 2021 Annual Report and Financial Statements.

Credit quality analysis

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 due to the fact that balances are not individually significant. Further details of the Group's ECL impairment assessment methodology are detailed on page 116 of the 2021 Annual Report and Financial Statements.

Notes to the consolidated interim financial information (continued)

12. Risk management (continued)

12.2 Credit risk (continued)

The following table details the internal measures used to determine the credit quality of loans and advances to customers.

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

Loans and advances to customers in risk grades 1, 2 and 3 are currently continuing to make payments when due.

The Group extends certain short-term arrangements, being payment holidays and (up until Q3 2021) payment freezes, to customers which temporarily suspend the requirement for them to make their contractual monthly payment. As at 30 June 2022, the total loans and advances to customers that were on either a payment holiday or payment freeze was £72.5m (30 June 2021: £42.3m; 31 December 2021: £54.9m), with a maximum balance at any one point in time during the period of £72.5m (HY 2021: £107.2m, 2021: £107.2m; both excluding balances arising from loans and advances to customers held for sale).

The following table contains an analysis of the credit risk exposure of the Group's loans and advances to customers for which an ECL allowance is recognised.

	Group				
As at 30 June 2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI[1] £m**	**Total £m**
Risk grade 1	1,283.1	17.0	-	0.6	1,300.7
Risk grade 2	1,333.3	124.2	-	1.1	1,458.6
Risk grade 3	165.1	268.6	-	0.2	433.9
Delinquent	-	134.7	-	0.1	134.8
Defaulted	-	-	306.4	0.8	307.2
Gross loans and advances to customers	**2,781.5**	**544.5**	**306.4**	**2.8**	**3,635.2**
ECL allowance	(172.4)	(231.6)	(183.0)	(0.9)	(587.9)
Loans and advances to customers	**2,609.1**	**312.9**	**123.4**	**1.9**	**3,047.3**

[1] Purchased or originated credit-impaired.

As at 30 June 2022, the amount of receivables in stage 2 has increased from the beginning of the year which is partly driven by the impact of inflationary pressures. This has resulted in a significant increase in credit risk since origination for certain accounts, thereby transitioning such accounts from stage 1 to stage 2.

Notes to the consolidated interim financial information (continued)

12. Risk management (continued)

12.2 Credit risk (continued)

	Group				
As at 30 June 2021	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	1,144.5	11.7	-	0.7	1,156.9
Risk grade 2	1,094.6	88.9	-	1.1	1,184.6
Risk grade 3	123.0	205.3	-	0.3	328.6
Delinquent	-	72.6	-	0.1	72.7
Defaulted	-	-	254.7	1.1	255.8
Gross loans and advances to customers	**2,362.1**	**378.5**	**254.7**	**3.3**	**2,998.6**
ECL allowance	(221.1)	(170.9)	(156.9)	(1.3)	(550.2)
Loans and advances to customers	**2,141.0**	**207.6**	**97.8**	**2.0**	**2,448.4**

	Group				
As at 31 December 2021	**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**

Loans and advances to banks and other financial assets are all classified as stage 1 as at 30 June 2022 (30 June 2021: stage 1, 31 December 2021: stage 1).

The following tables present the credit risk exposure of the Group's loan and advances to customers on a segmental basis:

	Direct to Consumer				
As at 30 June 2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	439.0	3.1	-	0.4	442.5
Risk grade 2	1,170.2	73.7	-	1.1	1,245.0
Risk grade 3	160.0	238.6	-	0.2	398.8
Delinquent	-	103.2	-	0.1	103.3
Defaulted	-	-	240.8	0.5	241.3
Gross loans and advances to customers	**1,769.2**	**418.6**	**240.8**	**2.3**	**2,430.9**
ECL allowance	(147.9)	(185.4)	(144.4)	(0.7)	(478.4)
Loans and advances to customers	**1,621.3**	**233.2**	**96.4**	**1.6**	**1,952.5**

Notes to the consolidated interim financial information (continued)

12. Risk management (continued)

12.2 Credit risk (continued)

	Direct to Consumer				
As at 30 June 2021	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	354.2	2.4	-	0.5	357.1
Risk grade 2	931.6	51.6	-	1.1	984.3
Risk grade 3	118.1	181.7	-	0.3	300.1
Delinquent	-	52.3	-	0.1	52.4
Defaulted	-	-	198.1	0.6	198.7
Gross loans and advances to customers	**1,403.9**	**288.0**	**198.1**	**2.6**	**1,892.6**
ECL allowance	(179.9)	(140.3)	(124.3)	(1.0)	(445.5)
Loans and advances to customers	**1,224.0**	**147.7**	**73.8**	**1.6**	**1,447.1**

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

	Merchant Offering				
As at 30 June 2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	844.1	13.9	-	0.2	858.2
Risk grade 2	163.1	50.5	-	-	213.6
Risk grade 3	5.1	30.0	-	-	35.1
Delinquent	-	31.5	-	-	31.5
Defaulted	-	-	65.6	0.3	65.9
Gross loans and advances to customers	**1,012.3**	**125.9**	**65.6**	**0.5**	**1,204.3**
ECL allowance	(24.5)	(46.2)	(38.6)	(0.2)	(109.5)
Loans and advances to customers	**987.8**	**79.7**	**27.0**	**0.3**	**1,094.8**

Notes to the consolidated interim financial information (continued)

12. Risk management (continued)

12.2 Credit risk (continued)

	Merchant Offering				
As at 30 June 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Risk grade 1	790.3	9.3	-	0.2	799.8
Risk grade 2	163.0	37.3	-	-	200.3
Risk grade 3	4.9	23.6	-	-	28.5
Delinquent	-	20.3	-	-	20.3
Defaulted	-	-	56.6	0.5	57.1
Gross loans and advances to customers	**958.2**	**90.5**	**56.6**	**0.7**	**1,106.0**
ECL allowance	(41.2)	(30.6)	(32.6)	(0.3)	(104.7)
Loans and advances to customers	**917.0**	**59.9**	**24.0**	**0.4**	**1,001.3**

	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**

The following table reconciles the movement in the Group ECL allowance during the period:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
ECL allowance as at 31 December 2021	(216.4)	(150.9)	(200.6)	(1.1)	(569.0)
Transfers between stages	(3.8)	19.0	(15.2)	-	-
Remeasurement of ECL[1]	60.4	(94.8)	34.0	0.2	(0.2)
Release of ECL on loans and advances to customers settled in the period	5.7	2.1	3.3	-	11.1
ECL on new loans and advances to customers originated in the period	(18.3)	(7.0)	(4.5)	-	(29.8)
ECL allowance as at 30 June 2022	**(172.4)**	**(231.6)**	**(183.0)**	**(0.9)**	**(587.9)**

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

Notes to the consolidated interim financial information (continued)

12. Risk management (continued)

12.2 Credit risk (continued)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
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)
Transfers between stages	(13.9)	29.0	(15.1)	-	-
Remeasurement of ECL[1]	17.7	(31.6)	31.4	1.4	18.9
Release of ECL on loans and advances to customers held for sale which were sold in the period	4.7	3.3	5.1	-	13.1
Release of ECL on loans and advances to customers settled in the period	6.0	2.2	2.5	-	10.7
ECL on new loans and advances to customers originated in the period	(21.7)	(5.7)	(2.2)	-	(29.6)
ECL allowance as at 30 June 2021	**(221.1)**	**(170.9)**	**(156.9)**	**(1.3)**	**(550.2)**
Transfers between stages	12.1	(2.0)	(10.1)	-	-
Remeasurement of ECL[1]	15.4	38.3	(21.2)	-	32.5
Release of ECL on loans and advances to customers settled in the period	6.3	1.8	2.4	0.2	10.7
ECL on new loans and advances to customers originated in the period	(29.1)	(18.1)	(14.8)	-	(62.0)
ECL allowance as at 31 December 2021	**(216.4)**	**(150.9)**	**(200.6)**	**(1.1)**	**(569.0)**

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

Notes to the consolidated interim financial information (continued)

13. Maturity analysis of assets and liabilities

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

	As at 30 June 2022			As at 30 June 2021		
	< 12 months £m	> 12 months £m	Total £m	< 12 months £m	> 12 months £m	Total £m
Assets						
Loans and advances to banks	253.2	61.9	315.1	573.2	52.2	625.4
Loans and advances to customers	2,647.7	399.6	3,047.3	1,967.4	481.0	2,448.4
Other assets	52.9	4.0	56.9	35.4	5.7	41.1
Derivative financial assets	2.8	40.2	43.0	-	-	-
Current tax assets	4.9	-	4.9	0.8	-	0.8
Deferred tax assets	-	0.3	0.3	-	2.1	2.1
Property and equipment	-	14.4	14.4	-	17.6	17.6
Intangible assets	-	130.9	130.9	-	182.5	182.5
Goodwill	-	279.9	279.9	-	279.9	279.9
Total assets	**2,961.5**	**931.2**	**3,892.7**	**2,576.8**	**1,021.0**	**3,597.8**
Liabilities						
Debt issued and other borrowed funds	(599.7)	(2,849.6)	(3,449.3)	(982.6)	(2,203.8)	(3,186.4)
Other liabilities	(75.7)	(7.7)	(83.4)	(78.7)	(10.5)	(89.2)
Derivative financial liabilities	-	-	-	(30.5)	(1.0)	(31.5)
Current tax liabilities	(0.2)	-	(0.2)	(0.4)	-	(0.4)
Provisions	(8.1)	(1.8)	(9.9)	(12.4)	(1.8)	(14.2)
Total liabilities	**(683.7)**	**(2,859.1)**	**(3,542.8)**	**(1,104.6)**	**(2,217.1)**	**(3,321.7)**

	As at 31 December 2021		
	< 12 months £m	> 12 months £m	Total £m
Assets			
Loans and advances to banks	246.2	58.2	304.4
Loans and advances to customers	2,437.8	406.7	2,844.5
Other assets	42.8	4.8	47.6
Derivative financial assets	-	1.9	1.9
Current tax assets	3.0	-	3.0
Deferred tax assets	-	0.3	0.3
Property and equipment	-	15.7	15.7
Intangible assets	-	154.3	154.3
Goodwill	-	279.9	279.9
Total assets	**2,729.8**	**921.8**	**3,651.6**
Liabilities			
Debt issued and other borrowed funds	(855.1)	(2,366.1)	(3,221.2)
Other liabilities	(80.8)	(9.2)	(90.0)
Derivative financial liabilities	(15.6)	(0.9)	(16.5)
Current tax liabilities	(0.6)	-	(0.6)
Provisions	(9.3)	(1.8)	(11.1)
Total liabilities	**(961.4)**	**(2,378.0)**	**(3,339.4)**

Notes to the consolidated interim financial information (continued)

14. Contingent liabilities and commitments

As a financial services company, the Group is subject to extensive and comprehensive regulation and 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 this interim financial information, there can be no guarantee that all issues have been identified.

15. Related parties

Consolidated subsidiaries and structured entities

The subsidiaries and structured entities of the Company that are consolidated within the interim financial information are detailed in note 27 of the 2021 Annual Report and Financial Statements.

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

Related party transactions

On 11 January 2018, the Company issued a term loan facility agreement to Nemean Topco Limited of £7.5m. The facility can be drawn upon at any time and interest accrues at 9% per annum. As at 30 June 2022, there was an outstanding balance of £0.5m on the facility (30 June 2021: £0.5m, 31 December 2021: £0.5m).

In the half-year ended 30 June 2022, the Group made a return of £12.9m (HY 2021: £6.0m, 2021: £11.0m) to Nemean Midco Limited. As at 30 June 2022, £0.7m was still to be paid and included within other liabilities (30 June 2021: £0.7m, 31 December 2021: £0.7m). The return was made in accordance with the £529.2m loan agreement between NewDay Group (Jersey) Limited and Nemean Midco Limited.

The Group reported a £0.3m receivables balance for costs recharged to Nemean Midco Limited (30 June 2021: £nil, 31 December 2021: £nil). Costs recharged to Nemean Midco Limited over the period totalled £0.3m (HY 2021: £nil, 2021: £0.1m).

The Group has a trading agreement with Pay4Later Limited, a sister company of the Group. As at 30 June 2022, the Group reported a £0.1m receivables balance with this entity for staff services recharged to Pay4Later Limited (30 June 2021: £0.2m, 31 December 2021: £0.1m). Staff services recharged to Pay4Later Limited over the period totalled £0.2m (HY 2021: £0.2m, 2021: £0.3m). Additionally, the Group incurred other operating expenses with Pay4Later Limited totalling £0.1m (HY 2021: £nil, 2021: £0.1m).

Key management personnel

The nature of transactions with key management personnel are detailed in note 27 of the 2021 Annual Report and Financial Statements. In addition to emoluments in the normal course of business, a member of key management personnel sold £3.3m of Senior Secured Notes issued by NewDay BondCo Plc in the half-year ended 30 June 2022 (HY 2021: £nil, 2021: £nil).

16. Post balance sheet events

In July 2022, the Group completed two financing transactions detailed below:

- a £334.0m issuance of asset-backed securities (of which £60.5m was retained within the Group) from the Direct to Consumer securitisation programme. This debt was used to repay drawn VFN balances; and
- signed an interest rate swap to swap variable for fixed interest rates on £150.0m of notional debt to further reduce its exposure to increases in the Bank of England base rate that cannot be passed on to customers. This brings the total hedged notional debt arising from interest rate swaps to £550.0m.