NewDay BondCo Plc

Investor quarterly reporting package

30 June 2023

Disclaimer

This quarterly report (this "Document") is being provided in accordance with (i) 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, (ii) Section 4.03(a)(2) of the indenture, dated as of December 8, 2022 among NewDay BondCo plc, U.S. Bank Trustees Limited, as trustee, HSBC Corporate Trustee Company (UK) Limited, as security agent, the guarantors and certain other parties thereto, and (iii) 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 ended and half-year ended 30 June 2023 (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 superior to or substitutes for analysis of the Company's financial position or results of operations as reported under IFRS. These non-IFRS financial measures have not been audited. The inclusion of such non-IFRS financial measures in this 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, advisers or representatives or any other person as to the accuracy or completeness of such information's portrayal of the financial condition or results of operations of the Company and should not be relied upon.

References to adjusted EBITDA throughout this Document have been calculated in accordance with UK IFRS at the relevant time and may differ significantly from "Consolidated EBITDA" as defined in the legal documentation relating to the Senior Secured Notes issued by NewDay BondCo plc between January 2017 and December 2022 (the Senior Secured Debt) and the Super Senior Revolving Credit Facility entered into by the Company on 25 January 2017 (the Revolving Credit Facility). In addition, all ratios, baskets and calculations required under the terms of the (i) Senior Secured Debt issued in January 2017 and June 2021 are based on UK IFRS as in force as at 1 January 2021 (subject to certain adjustments permitted or required under the terms of the Senior Secured Debt which, amongst other things, disregard the impact of IFRS 9 'Financial Instruments' and IFRS 16 'Leases') and (ii) Senior Secured Debt issued in December 2022 or the Revolving Credit Facility are based on UK IFRS as in force as at 8 December 2022 (subject to certain adjustments permitted or required under the terms of the Senior Secured Debt or the Revolving Credit Facility). As a result, such ratios, baskets and calculations may differ significantly from any ratios or figures which are contained in this Document. In particular, except where otherwise expressly stated to be the case, references to "Senior Secured Debt to adjusted EBITDA" and "adjusted EBITDA to pro forma cash interest expense" contained in this Document have been calculated (subject to certain adjustments) in accordance with UK IFRS as in force as at 30 June 2023 (or, in respect of periods ending prior to 30 June 2023, UK IFRS at the relevant time). As a result, such figures may 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 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 2022 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.

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

Highlights

- Underlying profit before tax of £97m (HY 2022: £97m), £203m over the last 12 months.
- Acquired 217k new accounts (H1 2022: 427k) in line with our strategy of slowing new account growth.
- Three new client wins for the Platform Services business.
- Strong gross receivables growth, up 20% to £4.2bn (30 June 2022: £3.5bn) primarily due to £0.8bn of gross receivables from the John Lewis & Partners portfolio.
- Customer spend more than doubled to £7.4bn (HY 2022: £3.6bn), driven primarily by the John Lewis & Partners portfolio.
- 7% growth in net revenue to £424m (HY 2022: £397m).
- Credit quality remains well controlled with the impairment rate improving to 9.1% (HY 2022: 11.0%) reflecting the impact of the John Lewis & Partners portfolio.
- Group charge-off rate increased to 9.8% (HY 2022: 8.8%) but remains below pre-pandemic levels (2019: 11.0%).
- Underlying cost-income ratio increased to 32.0% (HY 2022: 28.9%) reflecting higher costs associated with the John Lewis & Partners portfolio, one-off costs and an operating cost provision.
- Average Net Promoter Score of +67 (HY 2022: +73) and an average Net Easy Score of +73 (HY 2022: +72).
- 92% (30 June 2022: 93%) of active accounts registered for e-servicing.
- Free cash flow available for growth and debt service of £38m (HY 2022: £78m).
- Settled £30m of Senior Secured Debt. £31m remains outstanding with a maturity within the next 12 months.
- Funding facility headroom of £1.5bn (30 June 2022: £2.1bn) to fund gross receivables growth.
- Net corporate Senior Secured Debt to adjusted EBITDA ratio of 0.0x[1] (31 December 2022: (0.1)x).
- Adjusted EBITDA to pro forma cash interest expense coverage of 6.3x[1] (2022: 5.9x).

[1] 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 2023 (or, in respect of periods ending prior to 30 June 2023, UK IFRS at the relevant time). As a result, such figures/ratios may 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”).

Key performance indicators and other unaudited financial data

	Half-year ended June 2023	Half-year ended June 2022	Year ended June 2023	Year ended December 2022
Gross receivables (£m)	4,208.6	3,502.1	4,208.6	4,251.7
Direct to Consumer (£m)	2,395.5	2,332.5	2,395.5	2,418.3
Merchant Offering (£m)	1,813.1	1,169.6	1,813.1	1,833.4
Underlying risk-adjusted income (£m)	233.0	212.3	464.9	444.2
Underlying profit before tax (£m)	97.2	97.4	203.2	203.4
Adjusted EBITDA[1] (£m)	103.3	102.8	215.5	215.0
Free cash flow available for growth and debt service (£m)	37.6	78.0	95.1	135.5
Net revenue margin (%)	20.1	23.5	21.4	23.0
Impairment rate (%)	9.1	11.0	9.7	10.6
Direct to Consumer (%)	11.6	13.3	12.3	13.2
Merchant Offering (%)	5.7	6.5	5.9	6.2
Charge-off rate (%)	9.8	8.8	9.6	9.1
Direct to Consumer (%)	13.0	10.0	12.3	10.8
Merchant Offering (%)	5.4	6.5	5.7	6.1
Underlying risk-adjusted margin (%)	11.1	12.6	11.6	12.3
Underlying cost-income ratio (%)	32.0	28.9	30.7	29.1
Servicing costs margin (%)	3.1	2.8	3.1	3.0
Advance rate (%)	91.4	89.3	91.4	92.9
Direct to Consumer (%)	89.7	87.5	89.7	89.4
Merchant Offering (%)	93.7	92.7	93.7	97.4
Advance rate at hedged exchange rates (%)	90.9	88.1	90.9	92.0
Direct to Consumer (%)	88.8	85.9	88.8	87.8
Total accounts (m)	4.3	4.7	4.3	4.9
New accounts (k)	217	427	1,127	1,337
Ratio of net corporate Senior Secured Debt to adjusted EBITDA[1]	n/a	n/a	0.0x	(0.1)x
Ratio of adjusted EBITDA to pro forma cash interest expense[1]	n/a	n/a	6.3x	5.9x

[1] See footnote 1 on page 2.

Overview

The financial information on pages 2 to 12 reflects the performance of the Group for the half-year ended 30 June 2023.

The Group reported underlying profit before tax of £97m (HY 2022: £97m). Gross receivables increased by 20% to £4.2bn (30 June 2022: £3.5bn) and customer spend more than doubled to £7.4bn (HY 2022: £3.6bn).

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

	Half-year ended June 2023 £m	Half-year ended June 2022 £m	Year ended June 2023 £m	Year ended December 2022 £m
Profit before tax	**47.0**	**53.6**	**103.3**	**109.9**
Senior Secured Debt interest and related costs	19.7	13.2	36.8	30.3
Payment protection insurance (PPI)	-	(1.2)	-	(1.2)
Platform development costs	5.2	3.8	10.7	9.3
Other	-	0.5	0.3	0.8
Amortisation of intangible assets arising on the Acquisition	25.3	27.5	52.1	54.3
Underlying profit before tax	**97.2**	**97.4**	**203.2**	**203.4**
Underlying depreciation and amortisation	6.1	5.4	12.3	11.6
Adjusted EBITDA[1]	**103.3**	**102.8**	**215.5**	**215.0**

For the half-year ended 30 June 2023, the Group reported a statutory profit before tax of £47m (HY 2022: £54m). 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 include the interest charge and other costs associated with the issuance and servicing of the Senior Secured Notes by NewDay BondCo plc (the Senior Secured Debt) and the Super Senior Revolving Credit Facility (the Revolving Credit Facility). As at 30 June 2023, the Senior Secured Debt and Revolving Credit Facility outstanding principal totalled £269m (30 June 2022: £325m).
- PPI reflects revisions to expected PPI remediation expenses including costs incurred from third parties that process customer complaints on behalf of the Group.
- Platform development costs are expenses incurred to enhance the capabilities of the Group's in-house operating platform. These costs relate to a one-off project and are excluded from underlying performance because they do not represent the Group's underlying operational costs.
- Other relates to non-recurring expenses incurred on specific projects that are not representative of underlying performance.
- Amortisation of intangible assets arising on the Acquisition relates to the amortisation of the purchase price that was attributed to intangible assets arising on completion of the 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 1 on page 2.

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

	Half-year ended June 2023 £m	Half-year ended June 2022 £m	Year ended June 2023 £m	Year ended December 2022 £m
Adjusted EBITDA[1]	**103.3**	**102.8**	**215.5**	**215.0**
Change in ECL allowance	(52.1)	18.9	(52.5)	18.5
Adjusted EBITDA excluding change in ECL allowance[1]	**51.2**	**121.7**	**163.0**	**233.5**
Change in working capital	9.9	(19.4)	(13.5)	(42.8)
PPI provision payments	(4.6)	(0.8)	(5.3)	(1.5)
Capital expenditure	(12.9)	(8.2)	(26.6)	(21.9)
Platform development and other costs	(5.2)	(4.3)	(11.0)	(10.1)
Tax paid	(0.8)	(11.0)	(11.5)	(21.7)
Free cash flow available for growth and debt service	**37.6**	**78.0**	**95.1**	**135.5**

Business developments

The Group continued its strategy to balance growth with profitability and cash generation. The Group welcomed 217k (HY 2022: 427k) new customer accounts by leveraging its sophisticated underwriting models to confidently write new business against a backdrop of continuing uncertainty in the UK economic outlook. Gross receivables increased by 20% to a closing balance of £4.2bn (30 June 2022: £3.5bn) and spend more than doubled to £7.4bn (HY 2022: £3.6bn).

In 2023, the Group delivered three new client wins:

- a significant embedded finance partnership with Lloyds Banking Group due to launch in 2024 covering both underwriting and technology;
- providing data transformation, credit data modelling and reporting suite capabilities to a large international bank through a strategic reseller partnership; and
- global retailer, Boohoo, to utilise the Group's end-to-end technology proposition to underpin a brand new digital financial product due to launch in 2024.

The Group reported a 6.3%[2] (30 June 2022: 5.7%) share of UK credit card receivables as at 30 June 2023 and in the period the Group reported a 5.8%[2] (HY 2022: 3.1%) share of UK credit card spend. Retail spend growth rates have reduced across the industry[3] however the Group has outperformed them due to the onboarding of John Lewis & Partners. The Group's interest-bearing balances as a proportion of total gross receivables has reduced which is an industry-wide[3] occurrence and, for the Group, is further impacted by the shift in mix to prime customers following the launch of the John Lewis & Partners portfolio. The impact of cost-of-living pressures remains closely monitored and there has been no significant change in customer spend levels driven by such pressures. However, the deliberate slowdown in growth in Direct to Consumer has reduced the net spend rate whereas it is broadly stable in Merchant Offering. In the last twelve months, approximately one in six credit cards issued in the UK were issued by NewDay[4].

The Group's Manifesto is embedded throughout the business and expresses its 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 +67 (HY 2022: +73) and an average year-to-date Net Easy Score of +73 (HY 2022: +72).

In the half-year ended 30 June 2023, the Group processed 157m (HY 2022: 89m) spend transactions and had 101m (HY 2022: 89m) app logins. As at 30 June 2023, 588k (30 June 2022: 442k) customers were registered for *Aqua Coach*, the Group's financial education tool.

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 full or partial exit event or recapitalisation, in each case subject to market conditions. 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.

[1] See footnote 1 on page 2.

[2] Bank of England data. Gross receivables and spend share metrics calculated as total NewDay volumes (including *Newpay*) as a proportion of Bank of England data credit card volumes.

[3] Industry data sourced from UK Finance Card Spending Update (July 2023).

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

Environmental, social and governance (ESG) matters

NewDay exists to help people move forward with credit. The Group is a purpose-led business and believes in credit as a force for good. Acting responsibly and sustainably means NewDay can look after its customers, minimise its impact on the environment, and help support the communities it serves.

The Group is committed to balancing the interests of different stakeholders in order to maximise its long-term success. ESG metrics are regularly monitored by the Board. The Group's strategy and outcomes regarding ESG matters are detailed in its Sustainability Report which can be found on its website at newday.co.uk.

Acquiring new customers that create long-lasting relationships

The Group is investing today to grow its balance sheet and deliver long-term profitability. The continuous investment in acquiring new customers aims to deliver sustainable year-on-year increases in gross receivables and returns when such customers transition into long-term relationships. The following table shows the performance of the Group segmented by new and existing customers[1].

	Underlying profit before tax[2]			
	Half-year ended June 2023 £m	**Half-year ended June 2022 £m**	**Year ended June 2023 £m**	**Year ended December 2022 £m**
New customers	(61.4)	(51.7)	(119.7)	(110.0)
Existing customers	160.2	150.2	325.2	315.2
Total	**98.8**	**98.5**	**205.5**	**205.2**

Digital capabilities

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

The Group continues to enhance its platform and technology to deliver market innovation and a leading digital customer experience.

[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.
[2] Excludes the result of the Platform Services segment due to the different dynamics of this business and its customer base compared to Direct to Consumer and Merchant Offering.

Management discussion and analysis

Description of income statement components

A brief description of the component parts of the Group's income statement are detailed below.

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. Netting off against this income are fee and commission expenses principally consisting of scheme fees arising from using third party processing networks (such as the Mastercard network), cashback the Group pays to its customers on qualifying spend and customer goodwill gestures. Also included in fee and commission income are fees earned from the Platform Services business for providing digital platform solutions to third parties.

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 2023 £m	Half-year ended June 2022 £m	Year ended June 2023 £m	Year ended December 2022 £m
Interest income	498.0	411.9	970.2	884.1
Cost of funds	(115.5)	(44.9)	(194.9)	(124.3)
Net interest income	**382.5**	**367.0**	**775.3**	**759.8**
Fee and commission income	41.5	30.1	78.4	67.0
Net revenue	**424.0**	**397.1**	**853.7**	**826.8**
Impairment losses on loans and advances to customers	(191.0)	(184.8)	(388.8)	(382.6)
Underlying risk-adjusted income	**233.0**	**212.3**	**464.9**	**444.2**
Servicing costs	(64.5)	(47.3)	(125.6)	(108.4)
Change costs	(23.1)	(24.1)	(42.3)	(43.3)
Marketing and partner payments	(21.8)	(21.4)	(45.9)	(45.5)
Collection fees	13.4	14.6	29.0	30.2
Contribution	**137.0**	**134.1**	**280.1**	**277.2**
Salaries, benefits and overheads	(39.8)	(36.7)	(76.9)	(73.8)
Underlying profit before tax	**97.2**	**97.4**	**203.2**	**203.4**
Add back: depreciation and amortisation	6.1	5.4	12.3	11.6
Adjusted EBITDA[1]	**103.3**	**102.8**	**215.5**	**215.0**
Senior Secured Debt interest and related costs	(19.7)	(13.2)	(36.8)	(30.3)
PPI	-	1.2	-	1.2
Platform development costs	(5.2)	(3.8)	(10.7)	(9.3)
Other	-	(0.5)	(0.3)	(0.8)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition	(31.4)	(32.9)	(64.4)	(65.9)
Profit before tax	**47.0**	**53.6**	**103.3**	**109.9**

Interest income

Group interest income increased by 21% to £498m (HY 2022: £412m) and was driven by gross receivables growth and a higher Bank of England base rate which the Group, in most instances, has the contractual right to pass on to customers.

Cost of funds

Funding costs increased to £116m (HY 2022: £45m). This was driven primarily by higher base rates and increased borrowings to fund gross receivables growth.

Fee and commission income

Fee and commission income increased by 38% to £42m (HY 2022: £30m) and resulted from increased spend activity period-on-period.

[1] See footnote 1 on page 2.

Impairment losses on loans and advances to customers

The Group's impairment charge increased by 3% to £191m (HY 2022: £185m). The credit quality of new originations, measured by the proportion of gross receivables with two missed payments (or more) after six months, increased over the last year to 5.5% (HY 2022: 5.2%) in Direct to Consumer. This remains well below pre-pandemic levels of 9.0% in 2019 as a result of a tightened risk appetite deployed in recent years. In Merchant Offering, the rate improved to 1.6% (HY 2022: 4.0%) reflecting the higher credit quality of the John Lewis & Partners portfolio. The Group has also supported its customers in dealing with cost-of-living pressures by extending more payment holidays (and similar temporary support) during the period which has proven to be an effective way for customers to manage short-term financial difficulties. The average Delphi score[1] was broadly flat at 1,013 (HY 2022: 1,022) for Direct to Consumer and 1,192 (HY 2022: 1,186) for Merchant Offering.

As at 30 June 2023, the Group's ECL allowance was £534m (31 December 2022: £586m) and represented 12.7% (31 December 2022: 13.8%) coverage of gross receivables. The reduction in coverage was primarily driven by improved forward flow prices on charged-off debt, which arose from a renewal of contracts with third-party debt purchasers. The Group's impairment rate for the period reduced to 9.1% (HY 2022: 11.0%). Excluding the impact of the John Lewis & Partners portfolio, the ECL allowance represented 15.6% (31 December 2022: 16.6%) of gross receivables and the impairment rate was 10.8%.

Operating costs

Servicing costs increased by 36% to £65m (HY 2022: £47m) primarily driven by John Lewis & Partners programme costs, one-off non-recurring items including expenditure on cloud platforms and a £5m operating cost provision.

Change costs reduced by 4% to £23m (HY 2022: £24m) resulting from fewer initiatives and tighter cost control.

Marketing and partner payment costs were broadly flat at £22m (HY 2022: £21m) with an increase in partner payments arising from the John Lewis & Partners portfolio being partly offset by a reduction in new customer marketing activity in the Direct to Consumer segment.

Collection fees reduced by 8% to £13m (HY 2022: £15m) as a result of fewer fees arising from late payments.

Salaries, benefits and overheads

Salaries, benefits and overheads increased by 8% to £40m (HY 2022: £37m) primarily reflecting a higher headcount and salary increases.

Underlying cost-income ratio

Underlying income increased by 7% to £424m (HY 2022: £397m) however the underlying cost-income ratio increased to 32.0% (HY 2022: 28.9%) as a result of costs associated with the John Lewis & Partners programme, one-off costs and a £5m provision for operating costs. Excluding the provision, the underlying cost-income ratio was 30.9%.

Adjusted EBITDA

Adjusted EBITDA remained flat at £103m[2] (HY 2022: £103m) and reflected the underlying trading performance. Adjusted EBITDA for the three months ended 30 June 2023 was £53m[2] (Q2 2022: £53m).

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

[2] See footnote 1 on page 2.

Cash flows

As at 30 June 2023, the Group's cash balance totalled £341m (30 June 2022: £315m). This included £71m (30 June 2022: £62m) of restricted cash and £56m (30 June 2022: £139m) of cash held outside of the securitisation structures and not held for specific funding activities. The following table reconciles the movement in the Group's cash balance during the period.

	Half-year ended June 2023 £m	**Half-year ended June 2022 £m**	**Year ended June 2023 £m**	**Year ended December 2022 £m**
Net cash generated from/(used in) operating activities	93.2	(142.6)	(605.9)	(841.7)
Net cash used in investing activities	(12.9)	(8.2)	(26.6)	(21.9)
Net cash (used in)/generated from financing activities	(121.3)	161.5	658.6	941.4
Net (decrease)/increase in cash and cash equivalents	**(41.0)**	**10.7**	**26.1**	**77.8**
Cash and cash equivalents at the start of the period	382.2	304.4	315.1	304.4
Cash and cash equivalents at the end of the period	**341.2**	**315.1**	**341.2**	**382.2**

Net cash generated from/(used in) operating activities

Net cash generated from operating activities was £93m (HY 2022: £143m used in) and was primarily driven by the paydown of gross receivables and cash generated from the Group's profits.

Net cash used in investing activities

Net cash used in investing activities of £13m (HY 2022: £8m) represents investment in intangible assets and property and equipment.

Net cash (used in)/generated from financing activities

Net cash used in financing activities of £121m (HY 2022: £162m generated from) consists of repayments, net of drawdowns, of VFNs used to fund gross receivables as well as a £30m repayment of Senior Secured Debt. Additionally, this balance included a £5m 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).

As at 30 June 2023, the Group reported funding facility headroom of £1.5bn and:

- 26% of the Group's borrowings was due for repayment in less than one year, 30% in one to two years and 44% in over two years; and
- the average maturity of the Group's funding facilities was 2 years.

In the period, the Group repaid £30m of Senior Secured Debt in cash. £31m of such debt remains outstanding with a maturity within the next 12 months and it is the Group's intentions to repay this on or before maturity.

In July 2023, the Group issued £350m of asset-backed term debt from its Merchant Offering securitisation programme (of which £19m was retained by the Group). The Group intends to use the funds to repay VFNs and settle part of the asset-backed debt currently due to mature in November 2023.

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, together with certain other capital-light activities.

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 2023 £m	Half-year ended June 2022 £m	Year ended June 2023 £m	Year ended December 2022 £m
Net interest income	291.9	267.6	586.6	562.3
Fee and commission income	20.4	21.7	43.0	44.3
Net revenue	**312.3**	**289.3**	**629.6**	**606.6**
Impairment losses on loans and advances to customers	(140.0)	(146.9)	(295.1)	(302.0)
Underlying risk-adjusted income	**172.3**	**142.4**	**334.5**	**304.6**
Servicing costs	(36.6)	(27.5)	(65.6)	(56.5)
Change costs	(10.0)	(13.3)	(20.1)	(23.4)
Marketing costs	(5.4)	(12.1)	(17.5)	(24.2)
Collection fees	9.3	10.1	20.5	21.3
Contribution	**129.6**	**99.6**	**251.8**	**221.8**

The Direct to Consumer segment opened 120k (HY 2022: 311k) new customer accounts in the period and customer accounts totalled 1,777k (30 June 2022: 1,925k) as at 30 June 2023. The reduction in new accounts resulted from a deliberate strategic decision to balance growth with profit and cash generation. The portfolio reported 3% growth in gross receivables to £2,396m (30 June 2022: £2,333m). Spend levels reduced to £1,910m (HY 2022: £1,986m).

Net interest income increased by 9% to £292m (HY 2022: £268m) which was driven primarily by gross receivables growth which were on average 9% higher during the period.

Fee and commission income reduced by 6% to £20m (HY 2022: £22m) principally reflecting the lower spend activity.

Impairment reduced by 5% to £140m (HY 2022: £147m). The proportion of gross receivables entering delinquency increased to 4.1% (HY 2022: 3.3%). Whilst this is higher than pre-pandemic levels, of 3.5% in 2019, it is primarily due to payment holidays offered to accounts entering delinquency remaining in this measure throughout the period of the payment holiday. Such payment holidays have been effective in supporting customers manage short-term difficulties and preventing further delinquency, which has resulted in a charge-off rate of 13.0% (HY 2022: 10.0%) compared to pre-pandemic levels of 15.1% in 2019. As at 30 June 2023, the ECL allowance was £422m and represented 17.6% coverage of gross receivables (31 December 2022: £475m, or 19.6%). The reduction in coverage was primarily driven by improved forward flow prices on charged-off debt, which arose from a renewal of contracts with third-party debt purchasers. The segment's impairment rate for the period reduced to 11.6% (HY 2022: 13.3%), which remains significantly below pre-pandemic levels of 15.6% in 2019.

Servicing costs increased by 33% to £37m (HY 2022: £28m) principally due to one-off, non-recurring expenditure on cloud platforms and an operating cost provision.

Change costs reduced by 25% to £10m (HY 2022: £13m) due to fewer initiatives for this segment.

Marketing costs reduced by 55% to £5m (HY 2022: £12m) due to a deliberate action to focus on profit and cash generation, which resulted in fewer new accounts and related expenditure.

Collection fees reduced by 8% to £9m (HY 2022: £10m) as a result of fewer fees arising from late payments.

As a result of the factors above, the segment reported a 30% increase in contribution to £130m (HY 2022: £100m) for the period.

Merchant Offering segmental performance

	Half-year ended June 2023 £m	Half-year ended June 2022 £m	Year ended June 2023 £m	Year ended December 2022 £m
Net interest income	90.6	99.4	188.7	197.5
Fee and commission income	19.7	7.7	33.3	21.3
Net revenue	**110.3**	**107.1**	**222.0**	**218.8**
Impairment losses on loans and advances to customers	(51.0)	(37.9)	(93.7)	(80.6)
Underlying risk-adjusted income	**59.3**	**69.2**	**128.3**	**138.2**
Servicing costs	(27.2)	(19.8)	(58.9)	(51.5)
Change costs	(11.4)	(8.9)	(19.1)	(16.6)
Marketing and partner payments	(16.3)	(9.2)	(28.2)	(21.1)
Collection fees	4.1	4.5	8.5	8.9
Contribution	**8.5**	**35.8**	**30.6**	**57.9**

The Merchant Offering segment opened 97k (HY 2022: 116k) new customer accounts in the period and customer accounts totalled 2,535k (30 June 2022: 2,785k) as at 30 June 2023. The portfolio reported an increase in gross receivables of 55% to £1,813m (30 June 2022: £1,170m). Spend levels more than tripled period-on-period to £5,474m (HY 2022: £1,602m). The growth in balances and spend was attributable to the Group's John Lewis & Partners programme which launched in Q3 2022.

Net interest income reduced by 9% to £91m (HY 2022: £99m) primarily because of (i) the dynamics of the John Lewis & Partners portfolio which is continuing to mature with the aim of establishing higher levels of interest-bearing balances, and (ii) balances reducing on closed partnerships, including Amazon.

Fee and commission income more than doubled to £20m (HY 2022: £8m) as a result of the higher spend activity.

Impairment increased by 35% to £51m (HY 2022: £38m). Due to the higher credit quality of the John Lewis & Partners portfolio, the proportion of gross receivables entering delinquency reduced to 1.5% (HY 2022: 1.9%) and the charge-off rate reduced to 5.4% (HY 2022: 6.5%). As at 30 June 2023, the ECL allowance was £112m (31 December 2022: £112m) which represented 6.2% (31 December 2022: 6.1%) coverage of gross receivables. The segment's impairment rate for the period reduced to 5.7% (HY 2022: 6.5%) primarily due to the impact of the John Lewis & Partners portfolio. Excluding the John Lewis & Partners portfolio, the ECL allowance represented 10.7% (31 December 2022: 10.0%) of gross receivables and the impairment rate was 8.9%.

Servicing costs increased by 37% to £27m (HY 2022: £20m) primarily due John Lewis & Partners programme costs and one-off, non-recurring expenditure on cloud platforms.

Change costs increased by 28% to £11m (HY 2022: £9m) as the business continued to invest in its digital capabilities.

Marketing and partner payment costs increased by 77% to £16m (HY 2022: £9m) reflecting increased partner payments arising from the John Lewis & Partners programme.

Collection fees were broadly flat period-on-period at £4m (HY 2022: £5m).

As a result of the factors above, Merchant Offering contribution reduced to £9m (HY 2022: £36m) for the period.

Platform Services segmental performance

The Platform Services segment continued to invest in change projects required to develop the business and consequently reported negative contribution of £1m (HY 2022: £1m).

Appendix

Consolidated interim financial information

NewDay Group (Jersey) Limited

Consolidated interim financial information

30 June 2023

Consolidated interim financial information

Consolidated income statement and consolidated statement of comprehensive income

	Note	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Continuing operations				
Interest and similar income	3	502.8	412.1	887.2
Interest and similar expense	3	(135.6)	(58.3)	(155.1)
Net interest income		**367.2**	**353.8**	**732.1**
Fee and commission income	3	54.2	44.1	95.8
Impairment losses on loans and advances to customers	3, 5	(191.3)	(184.4)	(382.3)
Risk-adjusted income	3	**230.1**	**213.5**	**445.6**
Personnel expense		(74.8)	(63.8)	(135.2)
Other operating expenses		(108.3)	(96.1)	(200.5)
Total operating expenses	3	**(183.1)**	**(159.9)**	**(335.7)**
Profit before tax	3	**47.0**	**53.6**	**109.9**
Tax expense		(9.0)	(8.7)	(15.6)
Profit after tax		**38.0**	**44.9**	**94.3**
Other comprehensive income				
Items that may subsequently be reclassified to the income statement				
Effective portion of changes in fair value of cash flow hedges		(8.9)	57.1	84.1
Net income statement transfer from hedging reserve		16.1	(51.4)	(58.0)
Other comprehensive income		**7.2**	**5.7**	**26.1**
Total comprehensive income		**45.2**	**50.6**	**120.4**

Notes 1 to 15 form an integral part of this consolidated interim financial information.

Consolidated income statement and consolidated statement of comprehensive income

	Quarter ended 30 June 2023 £m	Quarter ended 30 June 2022 £m
Continuing operations		
Interest and similar income	253.4	212.6
Interest and similar expense	(71.0)	(32.5)
Net interest income	**182.4**	**180.1**
Fee and commission income	27.3	23.7
Impairment losses on loans and advances to customers	(90.2)	(94.3)
Risk-adjusted income	**119.5**	**109.5**
Personnel expense	(37.2)	(32.8)
Other operating expenses	(56.9)	(47.3)
Total operating expenses	**(94.1)**	**(80.1)**
Profit before tax	**25.4**	**29.4**
Tax expense	(5.1)	(2.9)
Profit after tax	**20.3**	**26.5**
Other comprehensive income		
Items that may subsequently be reclassified to the income statement		
Effective portion of changes in fair value of cash flow hedges	4.0	43.9
Net income statement transfer from hedging reserve	6.4	(40.6)
Other comprehensive income	**10.4**	**3.3**
Total comprehensive income	**30.7**	**29.8**

Notes 1 to 15 form an integral part of this consolidated interim financial information.

Consolidated balance sheet

	Note	As at 30 June 2023 £m	As at 30 June 2022 £m	As at 31 December 2022 £m
Assets				
Loans and advances to banks	4	341.2	315.1	382.2
Loans and advances to customers	5	3,803.5	3,047.3	3,807.9
Other assets		94.2	56.9	146.5
Derivative financial assets	6	54.7	43.0	63.4
Current tax assets		2.2	4.9	10.8
Deferred tax assets		0.6	0.3	0.5
Property and equipment		10.4	14.4	12.5
Intangible assets	7	95.4	130.9	111.8
Goodwill		279.9	279.9	279.9
Total assets		**4,682.1**	**3,892.7**	**4,815.5**
Liabilities				
Debt issued and other borrowed funds	8	4,111.5	3,449.3	4,237.2
Other liabilities		106.0	83.4	158.0
Current tax liabilities		-	0.2	0.1
Deferred tax liabilities		1.0	-	1.1
Provisions	9	9.2	9.9	5.0
Total liabilities		**4,227.7**	**3,542.8**	**4,401.4**
Net assets		**454.4**	**349.9**	**414.1**
Equity attributable to owners of the Company				
Share capital and share premium		-	-	-
Equity instruments		593.9	593.9	593.9
Hedging reserve		30.8	3.2	23.6
Retained losses		(170.3)	(247.2)	(203.4)
Total equity		**454.4**	**349.9**	**414.1**

Notes 1 to 15 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	Hedging reserve £m	Retained losses £m	Total equity £m
As at 31 December 2022	-	593.9	23.6	(203.4)	414.1
Return paid on loan from immediate parent company[1]	-	-	-	(4.9)	(4.9)
Total comprehensive income for the period:					
Profit after tax	-	-	-	38.0	38.0
Other comprehensive income	-	-	7.2	-	7.2
As at 30 June 2023	**-**	**593.9**	**30.8**	**(170.3)**	**454.4**

	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**
Return paid on loan from immediate parent company[1]	-	-	-	-	(5.6)	(5.6)
Total comprehensive income for the period:						
Profit after tax	-	-	-	-	49.4	49.4
Other comprehensive income	-	-	-	20.4	-	20.4
As at 31 December 2022	**-**	**593.9**	**-**	**23.6**	**(203.4)**	**414.1**

[1] The Group made a return of £4.9m (HY 2022: £12.9m, 2022: £18.5m) 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 15 form an integral part of this consolidated interim financial information.

Consolidated statement of cash flows

	Note	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Operating activities				
Profit after tax		38.0	44.9	94.3
Reconciliation of profit after tax to net cash generated from/(used in) operating activities:				
Tax expense		9.0	8.7	15.6
Interest and similar expense		135.6	58.3	155.1
Depreciation of property and equipment		2.3	2.3	4.8
Amortisation and impairment of intangible assets	7	29.1	30.6	61.1
Impairment losses on loans and advances to customers		191.3	184.4	382.3
Changes in operating assets and liabilities:				
Increase in loans and advances to customers		(186.9)	(387.2)	(1,345.7)
Decrease/(increase) in other assets		52.3	(9.3)	(98.9)
(Decrease)/increase in other liabilities		(45.8)	(5.3)	65.6
Increase/(decrease) in provisions		4.2	(1.2)	(6.1)
Interest and similar expense paid		(135.1)	(57.8)	(148.1)
Tax paid		(0.8)	(11.0)	(21.7)
Net cash generated from/(used in) operating activities		**93.2**	**(142.6)**	**(841.7)**
Cash flows from investing activities				
Purchases of property and equipment		(0.2)	(1.0)	(1.9)
Investment in intangible assets	7	(12.7)	(7.2)	(20.0)
Net cash used in investing activities		**(12.9)**	**(8.2)**	**(21.9)**
Cash flows from financing activities				
Proceeds from debt issued and other borrowed funds	8	313.5	526.9	3,383.2
Repayment of debt issued and other borrowed funds	8	(428.5)	(351.2)	(2,420.5)
Payment of principal element of lease liabilities		(1.4)	(1.3)	(2.8)
Return paid on loan from immediate parent company		(4.9)	(12.9)	(18.5)
Net cash (used in)/generated from financing activities		**(121.3)**	**161.5**	**941.4**
Net (decrease)/increase in cash and cash equivalents		(41.0)	10.7	77.8
Cash and cash equivalents at the start of the period		382.2	304.4	304.4
Cash and cash equivalents at the end of the period	4	**341.2**	**315.1**	**382.2**

Notes 1 to 15 form an integral part of this consolidated interim financial information.

Consolidated statement of cash flows

	Note	Quarter ended 30 June 2023 £m	Quarter ended 30 June 2022 £m
Operating activities			
Profit after tax		20.3	26.5
Reconciliation of profit after tax to net cash used in operating activities:			
Tax expense		5.1	2.9
Interest and similar expense		71.0	32.5
Depreciation of property and equipment		1.1	1.2
Amortisation and impairment of intangible assets		14.4	15.3
Impairment losses on loans and advances to customers		90.2	94.3
Changes in operating assets and liabilities:			
Increase in loans and advances to customers		(143.7)	(247.4)
Increase in other assets		(16.7)	(7.6)
Increase/(decrease) in other liabilities		11.1	(4.6)
Increase in provisions		4.4	0.1
Interest and similar expense paid		(74.8)	(27.6)
Tax paid		(5.0)	(5.2)
Net cash used in operating activities		**(22.6)**	**(119.6)**
Cash flows from investing activities			
Purchases of property and equipment		(0.2)	0.1
Investment in intangible assets		(6.1)	(4.1)
Net cash used in investing activities		**(6.3)**	**(4.0)**
Cash flows from financing activities			
Proceeds from debt issued and other borrowed funds		193.9	403.4
Repayment of debt issued and other borrowed funds		(150.0)	(272.7)
Payment of principal element of lease liabilities		(0.7)	(0.6)
Return paid on loan from immediate parent company		(2.6)	(9.4)
Net cash generated from financing activities		**40.6**	**120.7**
Net increase/(decrease) in cash and cash equivalents		11.7	(2.9)
Cash and cash equivalents at the start of the period		329.5	318.0
Cash and cash equivalents at the end of the period	5	**341.2**	**315.1**

Notes 1 to 15 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 2022 were approved by the Board of Directors of NewDay Group (Jersey) Limited on 22 March 2023. 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 2023 was approved by the Board of Directors on 9 August 2023.

Going concern

As at 9 August 2023, the Group has £682.0m (including £174.5m through a cross-currency interest rate swap) of asset-backed term debt principal within the Direct to Consumer securitisation programme and £331.5m within the Merchant Offering programme maturing in the next 12 months. Additionally, the Merchant Offering programme has £8.7m drawn from variable funding notes (VFNs) maturing in the next 12 months. In order to deliver the growth plans, it is the Directors' intention to refinance the funding due to mature with new asset-backed term debt 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 9 August 2023, the Group has undrawn VFNs of £928.3m within the Direct to Consumer and £621.5m (excluding VFNs specific to the John Lewis & Partners portfolio) within the Merchant Offering securitisation programmes with a maturity in excess of 12 months which can be used to fund future growth and refinance any other maturing debt (subject to sufficient headroom).

As at 9 August 2023, the Group also has £30.9m of Senior Secured Notes maturing in February 2024 and it is the Directors' intention to repay or refinance the debt on or before maturity (including by way of a new issuance, exchange offer, open market purchase or other form of liability management transaction, subject to market conditions). The Group has sufficient forecast liquidity arising through its normal course of operations to settle this debt before its maturity should it choose to do so.

In addition to regular forecasting of performance, the Group has undertaken various stress scenarios to assess the impact on profitability, cash flows, the balance sheet and compliance with funding covenants (such as a minimum excess spread, maximum delinquency rate and maximum charge-off rate) in stressed environments. The Group also assesses the impact of operational, legal or regulatory claims, actions or proceedings. 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, inflation and base rates, 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 stress testing on the Group's current funding position, the Directors are satisfied that the Group has 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 continues 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 2023. The subsidiaries and SEs consolidated into the interim financial information are disclosed in note 27 of the 2022 statutory Financial Statements except for NewDay Partnership Master Issuer plc which is a new SE incorporated on 19 May 2023 within the Merchant Offering securitisation programme. The Financial Statements of the Group's subsidiaries (including SEs that the Group consolidates) are prepared for the same reporting period as the Company, except for NewDay Partnership Master Issuer plc, 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 2022 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 information 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 information are consistent with those adopted in the statutory Financial Statements for the year ended 31 December 2022 except for those used in the i) expected credit loss (ECL) allowance on loans and advances to customers; and ii) impairment of goodwill. The changes to the ECL allowance and goodwill are detailed further below.

A full assessment of the judgements, estimates and assumptions for the year ended 31 December 2022 are detailed on page 92 to 95 of the 2022 Annual Report and Financial Statements.

(1) 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 2023					
Upside	4.1	3.3	3.8	497.6	10
Base	4.4	3.8	4.2	514.0	55
Downside 1	6.4	3.8	5.6	565.4	30
Downside 2	8.5	3.8	7.0	642.7	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 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
31 December 2022					
Upside	4.0	3.6	3.8	527.2	5
Base	4.4	3.7	4.2	564.9	55
Downside 1	6.4	3.7	5.6	612.4	35
Downside 2	8.5	3.7	7.0	698.2	5

A summary of the assumptions in each scenario as at 30 June 2023 is detailed below.

- The upside scenario assumes the UK economy avoids going into a recession as price and wage expectations ease faster than expected, reducing the need for the Bank of England to undertake substantial interest rate increases. The unemployment rate is expected to remain broadly flat over the outlook period and settle at a long term rate of 3.3%.
- The base scenario is the UK economy will avoid entering a recession but there will be no growth. The outlook assumes consumer price inflation peaked in the first half of 2023 and, despite increased wage demands and the continuing war in Ukraine, the Bank of England actions are successful in reaching the Government's target of halving inflation. Increased borrowing costs add to pressure on households that are already facing considerably higher prices which reduces household spending and business activity, depressing economic activity. The unemployment rate rises gradually to its peak of 4.4% in 2025 before falling back to 4.2% by the end of the forecast period.
- The downside 1 scenario assumes a steeper increase in the unemployment rate than in the base scenario, reflecting a deeper downturn and a recession in the second half of 2023 which persists into 2024. The slower recovery reflects a combination of strong domestic price growth and lower global economic growth which sees businesses face a negative trifecta of higher costs, lower domestic consumer spending and reduced exports, which causes them to reduce hiring and investment. This, in turn, further negatively affects household incomes through reduced employment and lower wage growth. The unemployment rate gradually rises to its peak of 6.4% in 2025 before recovering to 5.5% at the end of the forecast period.
- The downside 2 scenario embodies a series of cost shocks, and high and persistent consumer price inflation, across advanced economies. A fall in real household real income, lower confidence and tighter financial conditions result in a severe UK recession. Inflation rises sharply and predominantly reflects increases in energy and food prices as well as wider global supply chain pressures affecting import and domestic prices. The unemployment rate peaks at 8.5% during 2025 and gradually reduces to 6.8% by the end of the forecast period. The rise in unemployment and prolonged recovery reflects an increase in structural underlying unemployment.

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

As at 30 June 2023, the impact of probability-weighting these scenarios uplifted the ECL allowance on loans and advances to customers by £20.2m (30 June 2022: £22.4m, 31 December 2022: £21.4m) compared to the base scenario ECL allowance.

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 2023 £m	As at 30 June 2022 £m	As at 31 December 2022 £m
Forward-looking information	(4.7)	47.3	24.3
Model performance	(14.4)	12.2	(35.3)
Total PMAs	**(19.1)**	**59.5**	**(11.0)**

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.

- The forward-looking information PMAs primarily represent an uplift to ECL arising from cost-of-living squeezes increasing household bills. 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 £6.3m (30 June 2022: £58.0m, 31 December 2022: £28.5m), the potential impact on ECL arising from cost-of-living pressures. The PMA assumes a range of cost-of-living squeezes across four potential economic scenarios which have the same probability weighting as used in unemployment forecasting. The reduction in the PMA during the period reflects, amongst other things, utilisation of the allowance and the removal of certain accounts from the PMA that have consistently demonstrated positive credit behaviours throughout the cost-of-living squeeze and therefore no longer require additional ECL in excess of the modelled output. In addition to this PMA, the Group reported a £11.0m PMA which reduces overall ECL (30 June 2022: £10.7m reduction in ECL, 31 December 2022: £4.2m reduction in ECL) for the use of proxies to model the impact on ECL of multiple economic scenarios. The Group uses its Direct to Consumer model as a proxy for considering the impact of changes in forward-looking 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. As at 30 June 2023, through its ongoing validation of model metrics, the Group recalibrated the probability of default (PD) it uses in its ECL model. This resulted in a PMA of £19.1m reducing overall ECL (30 June 2022: £nil, 31 December 2022: £35.3m reduction in ECL) and reflects the improvement in the underlying performance of the receivables portfolio and updates to the calibration period since the last calibration exercise. Model performance PMAs also include several other PMAs that collectively total a £4.7m uplift in ECL as at 30 June 2023 (30 June 2022: £12.2m uplift in ECL, 31 December 2022: £nil).

See note 11.2 for further details of the Group's ECL allowance.

(2) Impairment of goodwill

The Group performs an annual impairment review of goodwill and, additionally, ad-hoc assessments when there is deemed to be an impairment indicator. One of the key assumptions used in the impairment review is the forecast cash flows which are based on the Group's latest Board-approved forecast. In the period, the Group produced a new Board-approved forecast and the phasing of cash flows from the Merchant Offering business over the five-year outlook period changed to an extent sufficient to be deemed an indicator of impairment. Accordingly, an ad-hoc impairment assessment was performed on Merchant Offering goodwill in the period. The impairment assessment, based on the revised cash flows, did not result in impairment and supported the £39.4m (30 June 2022: £39.4m, 31 December 2022: £39.4m) carrying value of goodwill. The cash flows would have to reduce by 16% (30 June 2022: n/a - impairment assessment not required, 31 December 2022: 46%) before there would be an impairment charge.

Notes to the consolidated interim financial information (continued)

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 2023 but do not have a significant impact on the Group.

- Amendments to IAS 1 ‘Presentation of Financial Statements’ and IFRS Practice Statement 2. The amendments provide more 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.

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 disclosures for non-current liabilities subject to covenants.

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, together with certain other capital-light activities.

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 2023, in line with reporting to the chief operating decision maker.

Six months ended 30 June 2023	Direct to Consumer £m	Merchant Offering £m	Platform Services £m	Total £m
Interest income	360.7	137.3	-	498.0
Cost of funds	(68.8)	(46.7)	-	(115.5)
Net interest income	**291.9**	**90.6**	**-**	**382.5**
Fee and commission income	20.4	19.7	1.4	41.5
Net revenue	**312.3**	**110.3**	**1.4**	**424.0**
Impairment losses on loans and advances to customers	(140.0)	(51.0)	-	(191.0)
Underlying risk-adjusted income	**172.3**	**59.3**	**1.4**	**233.0**
Servicing costs	(36.6)	(27.2)	(0.7)	(64.5)
Change costs	(10.0)	(11.4)	(1.7)	(23.1)
Marketing and partner payments	(5.4)	(16.3)	(0.1)	(21.8)
Collection fees	9.3	4.1	-	13.4
Contribution	**129.6**	**8.5**	**(1.1)**	**137.0**
Salaries, benefits and overheads				(39.8)
Underlying profit before tax				**97.2**
Add back: depreciation and amortisation				6.1
Adjusted EBITDA[1]				**103.3**
Senior Secured Debt interest and related costs				(19.7)
Platform development costs				(5.2)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(31.4)
Profit before tax				**47.0**
Gross receivables	**2,395.5**	**1,813.1**	**-**	**4,208.6**

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 2023 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	502.8	-	-	(4.8)	498.0
Cost of funds	(135.6)	-	19.7	0.4	(115.5)
Fee and commission income	54.2	(12.4)	-	(0.3)	41.5
Impairment losses on loans and advances to customers	(191.3)	-	-	0.3	(191.0)
Underlying risk-adjusted income	**230.1**	**(12.4)**	**19.7**	**(4.4)**	**233.0**
Total operating expenses	(183.1)	12.4	(19.7)	4.4	(186.0)[2]
Profit before tax	**47.0**	**-**	**-**	**-**	**47.0**

[1] See footnote 1 on page 2.

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

Fee income primarily represents cost recovery fees which are presented as a component of collection fees on a segmental basis rather than 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. Other primarily represents interest income from loans and advances to banks which is presented in overheads on a segmental basis rather than income.

Notes to the consolidated interim financial information (continued)

3. Segment information (continued)

Interest and similar expense of £135.6m (HY 2022: £58.3m, 2022: £155.1m), or cost of funds of £115.5m (HY 2022: £44.9m, 2022: £124.3m) as referred to in the segmental income statement, is significantly higher compared to the six months ended 30 June 2022 due to increased base rates resulting from Bank of England rate increases and higher borrowings to fund gross receivables growth.

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**

[1] See footnote 1 on page 2.

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**

[2] See footnote 2 on page 26.

Notes to the consolidated interim financial information (continued)

3. Segment information (continued)

The table below presents the performance on a segmental basis, for the period 1 April 2023 to 30 June 2023, in line with reporting to the chief operating decision maker:

Quarter ended 30 June 2023	Direct to Consumer £m	Merchant Offering £m	Platform Services £m	Total £m
Interest income	182.5	68.3	-	250.8
Cost of funds	(36.4)	(24.6)	-	(61.0)
Net interest income	**146.1**	**43.7**	**-**	**189.8**
Fee and commission income	10.4	10.2	0.9	21.5
Net revenue	**156.5**	**53.9**	**0.9**	**211.3**
Impairment losses on loans and advances to customers	(63.1)	(27.2)	-	(90.3)
Underlying risk-adjusted income	**93.4**	**26.7**	**0.9**	**121.0**
Servicing costs	(21.0)	(12.4)	(0.2)	(33.6)
Change costs	(4.7)	(6.3)	(0.9)	(11.9)
Marketing and partner payments	(2.9)	(8.0)	(0.1)	(11.0)
Collection fees	4.3	2.0	-	6.3
Contribution	**69.1**	**2.0**	**(0.3)**	**70.8**
Salaries, benefits and overheads				(20.6)
Underlying profit before tax				**50.2**
Add back: depreciation and amortisation				2.9
Adjusted EBITDA[1]				**53.1**
Senior Secured Debt interest and related costs				(9.7)
PPI				
Platform development costs				(2.5)
Other				
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(15.5)
Profit before tax				**25.4**
Gross receivables	**2,395.5**	**1,813.1**	**-**	**4,208.6**

[1] See footnote 1 on page 2.

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 2023 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	253.4	-	-	(2.6)	250.8
Cost of funds	(71.0)	-	9.7	0.3	(61.0)
Fee and commission income	27.3	(5.7)	-	(0.1)	21.5
Impairment losses on loans and advances to customers	(90.2)	-	-	(0.1)	(90.3)
Underlying risk-adjusted income	**119.5**	**(5.7)**	**9.7**	**(2.5)**	**121.0**
Total operating expenses	(94.1)	5.7	(9.7)	2.5	(95.6)[2]
Profit before tax	**25.4**	**-**	**-**	**-**	**25.4**

[2] See footnote 2 on page 26.

Notes to the consolidated interim financial information (continued)

3. Segment information (continued)

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[1]				**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**

[1] See footnote 1 on page 2.

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)[2]
Profit before tax	**29.4**	**-**	**-**	**-**	**29.4**

[2] See footnote 2 on page 26.

Notes to the consolidated interim financial information (continued)

3. Segment information (continued)

The table below presents the performance on a segmental basis, for the year ended 31 December 2022, in line with reporting to the chief operating decision maker.

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

[1] See footnote 1 on page 2.

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

Year ended 31 December 2022 reconciling items	Statutory £m	Fee income £m	Senior Secured Debt interest and related costs £m	Other £m	Segmental basis £m
Interest income	887.2	-	-	(3.1)	884.1
Cost of funds	(155.1)	-	30.3	0.5	(124.3)
Fee and commission income	95.8	(28.6)	-	(0.2)	67.0
Impairment losses on loans and advances to customers	(382.3)	-	-	(0.3)	(382.6)
Underlying risk-adjusted income	**445.6**	**(28.6)**	**30.3**	**(3.1)**	**444.2**
Total operating expenses	(335.7)	28.6	(30.3)	3.1	(334.3)[2]
Profit before tax	**109.9**	**-**	**-**	**-**	**109.9**

[2] See footnote 2 on page 26.

Notes to the consolidated interim financial information (continued)

3. Segment information (continued)

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

	As at 30 June 2023			As at 30 June 2022		
	Direct to Consumer £m	**Merchant Offering £m**	**Group £m**	**Direct to Consumer £m**	**Merchant Offering £m**	**Group £m**
Gross receivables	**2,395.5**	**1,813.1**	**4,208.6**	**2,332.5**	**1,169.6**	**3,502.1**
Deferred origination costs[1]	53.7	8.4	62.1	57.1	6.9	64.0
EIR method adjustment for interest-free promotional periods	16.6	15.1	31.7	24.4	14.1	38.5
Other[2]	20.4	14.9	35.3	16.9	13.7	30.6
Gross loans and advances to customers	**2,486.2**	**1,851.5**	**4,337.7**	**2,430.9**	**1,204.3**	**3,635.2**

	As at 31 December 2022		
	Direct to Consumer £m	**Merchant Offering £m**	**Group £m**
Gross receivables	**2,418.3**	**1,833.4**	**4,251.7**
Deferred origination costs[1]	57.6	8.4	66.0
EIR method adjustment for interest-free promotional periods	21.2	14.5	35.7
Other[2]	23.7	17.1	40.8
Gross loans and advances to customers	**2,520.8**	**1,873.4**	**4,394.2**

[1] This relates to transaction costs incurred on origination of customer accounts. These costs are amortised through the EIR method over the life of the underlying accounts.

[2] This relates to other adjustments required by IFRS and principally includes: interest income accruals to ensure appropriate cut-off to the period end; fee income deferred and amortised through the EIR method over the life of the underlying 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.

4. Loans and advances to banks

	As at 30 June 2023 £m	**As at 30 June 2022 £m**	**As at 31 December 2022 £m**
Loans and advances to banks excluding restricted cash	270.3	253.2	314.1
Restricted cash	70.9	61.9	68.1
Loans and advances to banks	**341.2**	**315.1**	**382.2**

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 £70.9m (30 June 2022: £61.9m, 31 December 2022: £68.1m) 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 2023, £55.7m (30 June 2022: £139.3m, 31 December 2022: £60.1m) of the loans and advances to banks balance was held by entities outside of the securitisation structure and not held for specific funding activities.

Notes to the consolidated interim financial information (continued)

5. Loans and advances to customers

	As at 30 June 2023 £m	As at 30 June 2022 £m	As at 31 December 2022 £m
Gross loans and advances to customers	4,337.7	3,635.2	4,394.2
ECL allowance	(534.2)	(587.9)	(586.3)
Loans and advances to customers	**3,803.5**	**3,047.3**	**3,807.9**

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 11.2.

6. Derivative financial instruments

The Group uses derivative financial instruments, namely interest rate swaps and cross-currency interest rate swaps, to manage the interest rate and foreign exchange rate risks arising from the Group's debt. The principal terms of the instruments match (except for 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.

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 following table details the notional amounts and fair values of derivative financial instruments at the period end.

	As at 30 June 2023			As at 30 June 2022		
	Notional amount £m	Assets £m	Liabilities £m	Notional amount £m	Assets £m	Liabilities £m
Cross-currency interest rate swaps	348.3	25.4	-	531.1	36.8	-
Interest rate swaps	580.0	29.3	-	400.0	6.2	-
Derivative financial instruments	**928.3**	**54.7**	**-**	**931.1**	**43.0**	**-**

	As at 31 December 2022		
	Notional amount £m	Assets £m	Liabilities £m
Cross-currency interest rate swaps	364.4	43.0	-
Interest rate swaps	680.0	20.4	-
Derivative financial instruments	**1,044.4**	**63.4**	**-**

Notes to the consolidated interim financial information (continued)

6. Derivative financial instruments (continued)

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 2021	403.3	-
Issued	76.3	400.0
Foreign exchange movements	51.5	-
As at 30 June 2022	**531.1**	**400.0**
Issued	-	280.0
Settled	(166.4)	-
Foreign exchange movements	(0.3)	-
As at 31 December 2022	**364.4**	**680.0**
Settled	-	(100.0)
Foreign exchange movements	(16.1)	-
As at 30 June 2023	**348.3**	**580.0**

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 2022: £nil, 2022: £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.

7. 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 2023	313.4	27.8	51.9	49.2	442.3
Additions	-	-	-	12.7	12.7
Disposals	-	-	-	(0.3)	(0.3)
Cost as at 30 June 2023	**313.4**	**27.8**	**51.9**	**61.6**	**454.7**
Amortisation as at 1 January 2023	(258.9)	(8.1)	(46.6)	(16.9)	(330.5)
Charge to the income statement	(22.1)	(0.7)	(2.5)	(3.8)	(29.1)
Disposals	-	-	-	0.3	0.3
Amortisation as at 30 June 2023	**(281.0)**	**(8.8)**	**(49.1)**	**(20.4)**	**(359.3)**
Net book value as at 30 June 2023	**32.4**	**19.0**	**2.8**	**41.2**	**95.4**
Net book value as at 31 December 2022	54.5	19.7	5.3	32.3	111.8
Net book value as at 30 June 2022	76.9	20.4	9.0	24.6	130.9

Notes to the consolidated interim financial information (continued)

8. Debt issued and other borrowed funds

	As at 30 June 2023 £m	As at 30 June 2022 £m	As at 31 December 2022 £m
Senior Secured Debt and associated facilities	265.4	335.0	294.4
Asset-backed term debt	2,203.1	2,246.1	2,218.4
Variable funding notes	1,656.0	884.2	1,741.9
Gross debt issued and other borrowed funds	**4,124.5**	**3,465.3**	**4,254.7**
Capitalised debt funding fees	(13.0)	(16.0)	(17.5)
Debt issued and other borrowed funds	**4,111.5**	**3,449.3**	**4,237.2**

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 in 2024 and £150.0m Floating Rate Senior Secured Notes due in 2023 before being repaid. In 2021, the Group completed a financing transaction which repaid in full the £150.0m Floating Rate Senior Secured Notes. These notes were repaid using £100.0m of cash and £50.0m raised from an issuance of additional Fixed Rate Senior Secured Notes, leaving £325.0m of notes outstanding. In 2022, the Group completed an Exchange Offer whereby it exchanged £237.7m of the remaining notes for new notes with a December 2026 maturity and settled £26.4m of notes in cash, leaving £298.6m of notes outstanding. In accordance with IFRS, the new notes were treated as being issued at an £8.3m discount to their nominal value, which is being accounted for as an adjustment to the EIR of the financial instrument. In April 2023, the Group repaid £30.0m of notes leaving £30.9m outstanding in relation to the notes maturing in February 2024. As at 30 June 2023, the nominal value of the outstanding notes was £268.6m (30 June 2022: £325.0m, 31 December 2022: £298.6m).

In addition, certain subsidiaries of the Group entered into a £30.0m Super Senior Revolving Credit Facility which was undrawn as at 30 June 2023 (30 June 2022: undrawn, 31 December 2022: 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 2023, £2,155.2m (30 June 2022: £2,045.0m, 31 December 2022: £2,168.8m) was to fund the Direct to Consumer portfolio and £1,703.9m (30 June 2022: £1,085.3m, 31 December 2022: £1,791.5m) was to fund the Merchant Offering portfolio.

A reconciliation of debt issued and other borrowed funds during the six months ended 30 June 2023 is as follows:

		Cash flows		Non-cash movements	
	As at 1 January 2023 £m	Proceeds from debt issued £m	Repayment of debt issued £m	Other £m	As at 30 June 2023 £m
Senior Secured Debt and associated facilities	294.4	-	(30.0)	1.0	265.4
Asset-backed term debt	2,218.4	-	-	(15.3)	2,203.1
Variable funding notes	1,741.9	313.5	(398.5)	(0.9)	1,656.0
Gross debt issued and other borrowed funds	**4,254.7**	**313.5**	**(428.5)**	**(15.2)**	**4,124.5**

Other non-cash movements include movements in accrued interest and foreign exchange gains and/or losses on US Dollar denominated debt.

Notes to the consolidated interim financial information (continued)

8. 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
Gross debt issued and other borrowed funds	**3,236.4**	**526.9**	**(351.2)**	**53.2**	**3,465.3**

A reconciliation of debt issued and other borrowed funds during the year ended 31 December 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 31 December 2022 £m
Senior Secured Debt and associated facilities	335.0	229.4	(264.1)	(5.9)	294.4
Asset-backed term debt	2,192.3	840.5	(869.8)	55.4	2,218.4
Variable funding notes	709.1	2,313.3	(1,286.6)	6.1	1,741.9
Gross debt issued and other borrowed funds	**3,236.4**	**3,383.2**	**(2,420.5)**	**55.6**	**4,254.7**

The scheduled maturities of debt issued and other borrowed funds are shown in the following table.

	As at 30 June 2023 £m	As at 30 June 2022 £m	As at 31 December 2022 £m
Debt issued and other borrowed funds repayable in:			
Less than one year	1,069.8	600.4	338.7
Between one and two years	1,246.0	1,635.5	1,861.6
Between two and five years	1,808.7	1,229.4	2,054.4
	4,124.5	**3,465.3**	**4,254.7**

The Group usually refinances maturing debt through new deals and/or existing VFN facilities. If new funding cannot be obtained 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 (where not already exercised).

See note 15 for further details of the financing transactions completed after the balance sheet date.

9. Provisions

The movement in provisions during the period was as follows:

	Provisions £m
As 1 January 2022	11.1
Released during the period	(0.2)
Utilised during the period	(1.0)
As at 30 June 2022	**9.9**
Released during the period	(0.1)
Utilised during the period	(4.8)
As at 31 December 2022	**5.0**
Arising during the period	5.9
Utilised during the period	(1.7)
As at 30 June 2023	**9.2**

Provisions consist of several separate items including those detailed below.

PPI provision
As at 30 June 2023, the Group reported a £0.4m (30 June 2022: £5.7m, 31 December 2022: £1.0m) provision for PPI related costs. The 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 operational, 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. As at 30 June 2023, £8.8m (30 June 2022: £4.2m, 31 December 2022: £4.0m) of provisions related to such items. In 2023, the Group experienced an increase in customer complaints. As at 30 June 2023, the Group estimated the likely amount of additional complaints it is expecting to receive over the next twelve months and recorded a provision of £4.8m (30 June 2022: £nil, 31 December 2022: £nil), which represented the best estimate of future redress arising from past events at that date. The expected additional complaints is judgemental. Should the actual number of complaints increase/decrease by 50% the redress required would be £1.9m higher/lower.

Notes to the consolidated interim financial information (continued)

10. 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 2022: level 2, 31 December 2022: 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 6 for further details.

Financial instruments carried at amortised cost

The 2022 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 (HY 2022: none, 31 December 2022: none).

As at 30 June 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	-	341.2	-	341.2	341.2
Loans and advances to customers	-	-	3,803.5	3,803.5	3,947.8
Other assets	-	68.6	-	68.6	68.6
Total financial assets	**-**	**409.8**	**3,803.5**	**4,213.3**	**4,357.6**
Financial liabilities					
Debt issued and other borrowed funds	-	(4,111.5)	-	(4,111.5)	(4,115.5)
Other liabilities	-	(106.0)	-	(106.0)	(106.0)
Total financial liabilities	**-**	**(4,217.5)**	**-**	**(4,217.5)**	**(4,221.5)**

Notes to the consolidated interim financial information (continued)

10. Fair value of financial instruments (continued)

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)**

As at 31 December 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total carrying value £m	Fair value £m
Financial assets					
Loans and advances to banks	-	382.2	-	382.2	382.2
Loans and advances to customers	-	-	3,807.9	3,807.9	3,969.1
Other assets	-	120.0	-	120.0	120.0
Total financial assets	**-**	**502.2**	**3,807.9**	**4,310.1**	**4,471.3**
Financial liabilities					
Debt issued and other borrowed funds	-	(4,237.2)	-	(4,237.2)	(4,200.5)
Other liabilities	-	(157.1)	-	(157.1)	(157.1)
Total financial liabilities	**-**	**(4,394.3)**	**-**	**(4,394.3)**	**(4,357.6)**

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 unsecured credit products 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 values approximate to their carrying values. The variable funding notes and Revolving Credit Facility are private bilateral agreements that can be drawn upon and repaid by the borrower. These issuances have been classified as level 2.

Notes to the consolidated interim financial information (continued)

10. 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.

11. Risk management

11.1 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 2022 Annual Report and Financial Statements. 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, is detailed on pages 48 to 56 of the 2022 Annual Report and Financial Statements and is 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.

11.2 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 2022 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 because balances are not individually significant. Further details of the Group's ECL impairment assessment methodology are detailed on page 115 and 116 of the 2022 Annual Report and Financial Statements.

Notes to the consolidated interim financial information (continued)

11. Risk management (continued)

11.2 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 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 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**POCI[1] £m**	**Total £m**
Risk grade 1	1,920.3	17.0	-	0.5	1,937.8
Risk grade 2	1,322.4	145.6	-	0.9	1,468.9
Risk grade 3	193.8	192.2	-	0.2	386.2
Delinquent	-	146.8	-	0.1	146.9
Defaulted	-	-	397.3	0.6	397.9
Gross loans and advances to customers	**3,436.5**	**501.6**	**397.3**	**2.3**	**4,337.7**
ECL allowance	(144.3)	(157.8)	(231.5)	(0.6)	(534.2)
Loans and advances to customers	**3,292.2**	**343.8**	**165.8**	**1.7**	**3,803.5**

[1] Purchased or originated credit-impaired.

Notes to the consolidated interim financial information (continued)

11. Risk management (continued)

11.2 Credit risk (continued)

As at 30 June 2022	Group Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £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**

As at 31 December 2022	Group Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Risk grade 1	1,931.7	17.3	-	0.5	1,949.5
Risk grade 2	1,338.1	134.4	-	1.0	1,473.5
Risk grade 3	200.2	218.9	-	0.3	419.4
Delinquent	-	164.6	-	0.1	164.7
Defaulted	-	-	386.4	0.7	387.1
Gross loans and advances to customers	**3,470.0**	**535.2**	**386.4**	**2.6**	**4,394.2**
ECL allowance	(161.2)	(194.1)	(230.3)	(0.7)	(586.3)
Loans and advances to customers	**3,308.8**	**341.1**	**156.1**	**1.9**	**3,807.9**

Loans and advances to banks and other financial assets are all classified as stage 1 as at 30 June 2023 (30 June 2022: stage 1, 31 December 2022: stage 1). The probabilities of default associated with these balances have been assessed to be so low as to require no ECL allowance.

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

As at 30 June 2023	Direct to Consumer Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Risk grade 1	410.4	6.8	-	0.3	417.5
Risk grade 2	1,165.8	114.5	-	0.9	1,281.2
Risk grade 3	189.7	179.0	-	0.2	368.9
Delinquent	-	115.5	-	0.1	115.6
Defaulted	-	-	302.6	0.4	303.0
Gross loans and advances to customers	**1,765.9**	**415.8**	**302.6**	**1.9**	**2,486.2**
ECL allowance	(112.9)	(136.5)	(172.1)	(0.5)	(422.0)
Loans and advances to customers	**1,653.0**	**279.3**	**130.5**	**1.4**	**2,064.2**

Notes to the consolidated interim financial information (continued)

11. Risk management (continued)

11.2 Credit risk (continued)

As at 30 June 2022	Direct to Consumer				
	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**

As at 31 December 2022	Direct to Consumer				
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	411.0	6.2	-	0.4	417.6
Risk grade 2	1,178.9	97.6	-	1.0	1,277.5
Risk grade 3	195.4	201.1	-	0.3	396.8
Delinquent	-	127.6	-	0.1	127.7
Defaulted	-	-	300.8	0.4	301.2
Gross loans and advances to customers	**1,785.3**	**432.5**	**300.8**	**2.2**	**2,520.8**
ECL allowance	(128.6)	(166.3)	(179.0)	(0.6)	(474.5)
Loans and advances to customers	**1,656.7**	**266.2**	**121.8**	**1.6**	**2,046.3**

As at 30 June 2023	Merchant Offering				
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**POCI £m**	**Total £m**
Risk grade 1	1,509.9	10.2	-	0.2	1,520.3
Risk grade 2	156.6	31.1	-	-	187.7
Risk grade 3	4.1	13.2	-	-	17.3
Delinquent	-	31.3	-	-	31.3
Defaulted	-	-	94.7	0.2	94.9
Gross loans and advances to customers	**1,670.6**	**85.8**	**94.7**	**0.4**	**1,851.5**
ECL allowance	(31.4)	(21.3)	(59.4)	(0.1)	(112.2)
Loans and advances to customers	**1,639.2**	**64.5**	**35.3**	**0.3**	**1,739.3**

Notes to the consolidated interim financial information (continued)

11. Risk management (continued)

11.2 Credit risk (continued)

As at 30 June 2022	Merchant Offering 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**

As at 31 December 2022	Merchant Offering Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Risk grade 1	1,520.7	11.1	-	0.1	1,531.9
Risk grade 2	159.2	36.8	-	-	196.0
Risk grade 3	4.8	17.8	-	-	22.6
Delinquent	-	37.0	-	-	37.0
Defaulted	-	-	85.6	0.3	85.9
Gross loans and advances to customers	**1,684.7**	**102.7**	**85.6**	**0.4**	**1,873.4**
ECL allowance	(32.6)	(27.8)	(51.3)	(0.1)	(111.8)
Loans and advances to customers	**1,652.1**	**74.9**	**34.3**	**0.3**	**1,761.6**

In the second half of 2022, the Merchant Offering segment launched a new partnership with John Lewis & Partners. As at 30 June 2023, the partnership reported gross loans and advances to customers of £817.9m (30 June 2022: £nil, 31 December 2022: £754.6m) and an ECL allowance of £4.5m (30 June 2022: £nil, 31 December 2022: £3.7m). This portfolio is generally of a higher credit quality than the pre-existing Merchant Offering portfolio and consequently resulted in the significant increase in stage 1, risk grade 1 gross loans and advances to customers. Following this launch, the Group anticipates an improved credit profile for the Merchant Offering segment going forward.

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 2022	(161.2)	(194.1)	(230.3)	(0.7)	(586.3)
Transfers between stages	(8.3)	43.9	(35.6)	-	-
Remeasurement of ECL[1]	25.6	(9.3)	31.8	0.1	48.2
Release of ECL on loans and advances to customers settled in the period	6.0	3.5	3.4	-	12.9
ECL on new loans and advances to customers originated in the period	(6.4)	(1.8)	(0.8)	-	(9.0)
ECL allowance as at 30 June 2023	**(144.3)**	**(157.8)**	**(231.5)**	**(0.6)**	**(534.2)**

[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)

11. Risk management (continued)

11.2 Credit risk (continued)

	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)**
Transfers between stages	7.3	(10.5)	3.2	-	-
Remeasurement of ECL[1]	(1.6)	64.8	(34.7)	0.1	28.6
Release of ECL on loans and advances to customers settled in the period	8.1	1.4	2.6	0.1	12.2
ECL on new loans and advances to customers originated in the period	(2.6)	(18.2)	(18.4)	-	(39.2)
ECL allowance as at 31 December 2022	**(161.2)**	**(194.1)**	**(230.3)**	**(0.7)**	**(586.3)**

[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. 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 2023			As at 30 June 2022		
	< 12 months £m	**> 12 months £m**	**Total £m**	**< 12 months £m**	**> 12 months £m**	**Total £m**
Assets						
Loans and advances to banks	270.3	70.9	341.2	253.2	61.9	315.1
Loans and advances to customers	3,358.8	444.7	3,803.5	2,647.7	399.6	3,047.3
Other assets	86.3	7.9	94.2	52.9	4.0	56.9
Derivative financial assets	14.3	40.4	54.7	2.8	40.2	43.0
Current tax assets	2.2	-	2.2	4.9	-	4.9
Deferred tax assets	-	0.6	0.6	-	0.3	0.3
Property and equipment	-	10.4	10.4	-	14.4	14.4
Intangible assets	-	95.4	95.4	-	130.9	130.9
Goodwill	-	279.9	279.9	-	279.9	279.9
Total assets	**3,731.9**	**950.2**	**4,682.1**	**2,961.5**	**931.2**	**3,892.7**
Liabilities						
Debt issued and other borrowed funds	(1,068.8)	(3,042.7)	(4,111.5)	(599.7)	(2,849.6)	(3,449.3)
Other liabilities	(101.1)	(4.9)	(106.0)	(75.7)	(7.7)	(83.4)
Current tax liabilities	-	-	-	(0.2)	-	(0.2)
Deferred tax liabilities	-	(1.0)	(1.0)	-	-	-
Provisions	(7.4)	(1.8)	(9.2)	(8.1)	(1.8)	(9.9)
Total liabilities	**(1,177.3)**	**(3,050.4)**	**(4,227.7)**	**(683.7)**	**(2,859.1)**	**(3,542.8)**

	As at 31 December 2022		
	< 12 months £m	**> 12 months £m**	**Total £m**
Assets			
Loans and advances to banks	314.1	68.1	382.2
Loans and advances to customers	3,390.7	417.2	3,807.9
Other assets	143.6	2.9	146.5
Derivative financial assets	2.9	60.5	63.4
Current tax assets	10.8	-	10.8
Deferred tax assets	-	0.5	0.5
Property and equipment	-	12.5	12.5
Intangible assets	-	111.8	111.8
Goodwill	-	279.9	279.9
Total assets	**3,862.1**	**953.4**	**4,815.5**
Liabilities			
Debt issued and other borrowed funds	(338.2)	(3,899.0)	(4,237.2)
Other liabilities	(151.7)	(6.3)	(158.0)
Current tax liabilities	(0.1)	-	(0.1)
Deferred tax liabilities	-	(1.1)	(1.1)
Provisions	(3.2)	(1.8)	(5.0)
Total liabilities	**(493.2)**	**(3,908.2)**	**(4,401.4)**

Notes to the consolidated interim financial information (continued)

13. 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.

Legal and regulatory matters

In the ordinary course of business, the Group is subject to complaints and legal proceedings brought by or on behalf of external parties including its customers. These can relate to legal, compliance, conduct or other regulatory matters (amongst others) of which some are beyond the Group's control. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established based on management's best estimate of the amount required at the relevant balance sheet date. In some cases, it will not be possible to form a view, for example because the facts are unclear or because further time is needed to assess properly the merits of the case, and no provisions are held in relation to such matters.

Tax authorities

The Group has considered the appeal at the Supreme Court in the case of Target Group Ltd v HMRC (2021) EWCA Civ 1043 and has assessed its potential annual impact on the Group's performance to be immaterial should the Supreme Court uphold the original decision.

14. 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 2022 Annual Report and Financial Statements except for NewDay Partnership Master Issuer plc which is a new structured entity incorporated on 19 May 2023 within the Merchant Offering securitisation structure.

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 2023, there was an outstanding balance of £0.6m (30 June 2022: £0.5m, 31 December 2022: £0.5m) on the facility.

In the half-year ended 30 June 2023, the Group made a return of £4.9m (HY 2022: £12.9m, 2022: £18.5m) to Nemean Midco Limited. 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 £0.7m (30 June 2022: £0.3m, 31 December 2022: £0.5m) receivables balance for costs recharged to Nemean Midco Limited. Costs recharged to Nemean Midco Limited over the period totalled £0.1m (HY 2022: £0.3m, 2022: £0.5m). Additionally, as at 30 June 2023, the Group reported a £0.7m (30 June 2022: £0.7m, 31 December 2022: £0.7m) liability with Nemean Midco Limited.

The Group has a trading agreement with Pay4Later Limited, a sister company of the Group. As at 30 June 2023, the Group reported a £0.1m (30 June 2022: £0.1m, 31 December 2022: £0.1m) receivables balance with this entity for staff services recharged to Pay4Later Limited. Staff services recharged to Pay4Later Limited over the period totalled £0.3m (HY 2022: £0.2m, 2022: £0.6m). Additionally, the Group incurred other operating expenses with Pay4Later Limited totalling £0.8m (HY 2022: £0.1m, 2022: £0.2m).

Key management personnel

The nature of transactions with key management personnel are detailed in note 27 of the 2022 Annual Report and Financial Statements. In addition to emoluments in the normal course of business, a member of key management personnel acquired £0.7m (HY 2022: £3.3m disposal, 2022: £3.8m disposal) of Senior Secured Notes issued by NewDay BondCo plc in the half-year ended 30 June 2023.

Notes to the consolidated interim financial information (continued)

15. Post balance sheet events

In July 2023, the Group issued £350.0m of asset-backed term debt from its Merchant Offering securitisation programme (of which £18.6m was retained by the Group). The Group intends to use the funds to repay VFNs and settle part of the asset-backed debt currently due to mature in November 2023.