VANQUIS BANK LIMITED
(Company Number 2558509)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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VANQUIS BANK LIMITED
(Company Number 2558509)

CONTENTS

VANQUIS BANK LIMITED
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DIRECTORS' REPORT

Vanquis Bank Limited ('the Company') is a wholly-owned subsidiary of Provident Financial Holdings Limited, which is wholly-owned by Vanquis Banking Group plc (formerly Provident Financial plc), the ultimate parent. Vanquis Banking Group plc, together with its subsidiaries, forms the Vanquis Banking Group ('the Group'). Vanquis Banking Group plc is a public limited company, listed on the London Stock Exchange.

The following provisions, which the Directors are required to report in the Directors' Report, have been included in the Strategic Report:

- How the Directors have engaged with colleagues, how they have had regard to colleague interests and the effect of that regard, including on the principal decisions taken by the Company in the financial year (page 13); and
- How the Directors have had regard to the need to foster the Company's business relationship with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company in the financial year (pages 11 to 16).

Principal activities

The principal activity of the Company is to provide credit cards and personal unsecured loans to underserved consumers, funded by a combination of retail deposits, share capital, retained reserves and drawdowns via the Bank of England's Term Funding Scheme with additional incentives for Small and Medium Enterprises (TFSME).

Profit

The income statement for the year is set out on page 36. The profit after tax for the year of £93.8m (2021: £146.0m) has been added to retained earnings. The results have been discussed on page 8.

Dividends

In 2022, dividends of £95.1m were paid (2021: £85.0m). No final dividend for the year ended 31 December 2022 is proposed (2021: £nil).

Directors

A common Board structure for Vanquis Banking Group plc and the Company was implemented as part of the Group's new target operating model. The Directors of the Company during the year ended 31 December 2022, all of whom were directors for the whole year then ended and to the date of this report, except where stated, were:

M J Le May	Chief Executive Officer (appointed 13 January 2022, previously Non-executive Director)
N Kapur	Finance Director (appointed 13 January 2022, previously Non-executive Director)
P Snowball	Chairman and Independent Non-executive Director (appointed 13 January 2022)
A Blance	Independent Non-executive Director and Senior Independent Director (appointed 13 January 2022)
G Lindsay	Independent Non-executive Director (appointed 13 January 2022)
A Knight	Independent Non-executive Director (appointed 13 January 2022)
M James	Independent Non-executive Director (appointed 13 January 2022)
P Hewitt	Independent Non-executive Director (appointed 13 January 2022)
R East	Chairman and Independent Non-executive Director (resigned 13 January 2022)
N C Chandler	Managing Director (resigned 13 January 2022)
G Thompson	Finance Director (resigned 13 January 2022)
J Baum	Independent Non-executive Director (appointed 13 January 2021, resigned 13 January 2022)
J Connor	Independent Non-executive Director and Senior Independent Director (resigned 13 January 2022)
A Morris	Independent Non-executive Director (resigned 13 January 2022)
M Barnett	Company Secretary (appointed 22 August 2022)
M Greene	Independent Non-executive Director (appointed 9 March 2023)

Principal risks and uncertainties and financial risk management

As announced in January 2022, the Group has restructured the Board of the Company to substantially align its membership with that of Vanquis Banking Group plc's Board. During the year the Board considered this as the next phase of the Group's specialist bank strategy and determined that the necessary work and stakeholder engagement should be undertaken to create a simpler, more efficient Group governance structure. In January 2022 the Board approved the proposed Board changes, which have helped streamline and enhance both the Vanquis Banking Group plc and Company's handling of corporate governance.

The Company operates a 'three lines of defence' model to articulate key accountabilities and responsibilities for managing risk and to support effective embedding of risk management across the business. The 'first line' consists of line management across the Company, who are responsible for identifying, assessing, monitoring and reporting risk within their respective areas whilst ensuring that appropriate internal controls, processes and systems are in place to deliver against business strategy and objectives. The Risk function of the Company act as the 'second line', in which the Risk Management Framework is established. This function provides independent oversight of governance, risk management and controls to ensure risks are identified, measured, managed and reported appropriately. The 'third line' consists of the Internal Audit function, which provides independent and objective assurance on the design adequacy and operational effectiveness of internal controls and overall effectiveness of the Company and Group's risk governance and risk management practices.

Credit risk

Credit risk is the risk that the Company will suffer loss in the event of a default by a customer, the ultimate parent undertaking, a bank counterparty or the UK Government. A default occurs when the customer, ultimate parent undertaking, bank or the UK Government fails to honour repayments as they fall due.

The Risk Committee is responsible for setting credit policy. The Chief Risk Officer (CRO) is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy. The CRO discharges and informs this decision making through the Credit Committee. The Credit Committee meets at least 10 times a year.

The Group and Company continue to monitor the impact of the cost of living crisis on portfolio performance, and internal measures have been put in place to help mitigate potential risks. These include, but are not limited to, alignment of creditworthiness assessments to the latest official inflationary outlook, production of targeted management information, and enhanced forbearance programmes. Ongoing executive focus is maintained through a Cost of Living Forum, jointly chaired by the CRO and the Chief Operations Officer (COO), together with standard Risk Committee reporting.

Further information on the management of specific credit risks facing the Company can be found on page 49.

Liquidity risk

Liquidity risk is the risk that the Company will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due.

The Company's Liquidity Policy is approved by the Board with day-to-day management delegated to the Treasury function which discharges and informs the decision-making through the Group and Company Asset-Liability Committee (ALCO). This Forum meets monthly and reports to the Board. The Chief Executive Officer is a member of the ALCO and the Treasurer is the vice chair.

Throughout the year, the Company has demonstrated that it continues to have access to the retail deposit market through fixed rate deposits. The Company is seeking to widen the range of retail deposit products that it offers, increasing the pool of retail deposits it has access to as well as helping to alleviate upward movements in funding cost.

Further information on the management of specific liquidity risks facing the Company can be found on page 50.

Principal risks and uncertainties and financial risk management (continued)

Market risk

Market risk is the risk of financial loss due to adverse market movements leading to a reduction in the Company's earnings or overall value. The Company's primary market risk exposure is to changes in interest rates.

The Company uses interest rate sensitivity gap analysis to identify any significant unmatched positions. The interest rate risk position is reported on a monthly basis to the ALCO and includes risk appetite metrics set for both earnings at risk (EaR) and market value sensitivity (MVS). The Company monitors exposure to basis risk, with Bank of England base rate and SONIA the only external reference rates used. The Company does not have any exposure to LIBOR.

Capital risk

The Company's objective in respect of capital risk management is to maintain an efficient and secure capital structure and maintain an adequate buffer over the regulatory capital requirements set by the PRA.

The Company is subject to prudential regulation and supervision by the PRA. As part of this supervision, it is required to maintain a certain level of regulatory capital in order to mitigate against unexpected losses. Regulatory capital is monitored by the Board, its risk committee and the ALCO. The Company regularly forecasts regulatory capital requirements as part of its budgeting and strategic planning process and the Company and the Group are required to report quarterly to the PRA on their level of regulatory capital. The Company's 2022 Internal Capital Adequacy Assessment Process (ICAAP) demonstrated that the business is more than adequately capitalised.

On 1 November 2022, the Company and Group received notice from the PRA that it has approved the Group's application for a Core UK Group large exposure waiver which will enable Moneybarn No.1 Limited, the Group's vehicle finance subsidiary, to access retail deposit funding via the Company with immediate effect. This enables the transition to a traditional bank funding model in which the Group's funding will consist of (i) retail deposits; (ii) securitisation of the cards and vehicle finance books; and (iii) liquidity and funding facilities at the Bank of England. Further discussion of the waiver can be found on page 16. Further information on the management of specific financial risks is provided on pages 49 to 52.

Consolidation exemption

The Company is not required to produce consolidated financial statements, as set out in note 30.

Employee involvement

The Company systematically provides employees with information on matters of concern to them, consulting with them or their representatives regularly, so that their views may be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged as a common awareness amongst all employees of the financial and economic factors affecting the Company and Group plays a major role in maintaining its competitive position. The Company encourages the involvement of employees by means of newsletters, performance updates, regular management team briefings, staff meetings and town hall meetings. The Company also carries out regular employee engagement surveys, Save As You Earn (SAYE) and Buy As You Earn (BAYE) share schemes are operated by the Group to reinforce staff involvement in the Group and to encourage an interest in its progress. These schemes are open to all permanent employees of the Company with more than six months' service.

Equal opportunities

Everyone at the Company is committed to removing all discrimination and encouraging diversity amongst the workforce. The Company's simple and clear aim is to ensure that its workforce will be truly representative of all sections of society where each and every employee feels respected and valued, and to create a company that is committed to promoting equal opportunities in employment.

Equal opportunities (continued)

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, pregnancy, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The Company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the Company to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Social and community matters

The Company's approach to community investment is aligned with the Group's purpose of helping to put people on a path to better everyday life. Community investment activities are delivered through a Group-wide Social Impact Programme. The strategy of this programme is to invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, can reduce social and/or financial inclusion. This programme delivers community investment activities under the following three workstreams:

- **Customer and vulnerability** – working with charities and specialist partners to provide support which addresses issues such as customer vulnerability, product accessibility and financial difficulties;
- **Education** – supporting children, young people and adults to boost their education, skills and aspirations in order to participate in society and secure a brighter financial future; and
- **Community** – supporting Community Foundations and other partners to address the wide range of social inclusion and social mobility issues that are relevant to our customers and the communities where the Group operates. Colleagues are encouraged to engage with the volunteering programme which encourages participation in company-led volunteering, as well as offering one day per year to volunteer for a voluntary organisation of their choice. Matched funding of up to £500 per annum towards colleagues' own fundraising activities is also available.

Health and safety

Health and safety standards and benchmarks have been established and compliance is monitored by the Board. An annual health & safety report is reviewed and approved by the Board each year. During 2022 management reported to the Board on the key measures that had been implemented to ensure the health and safety of employees.

Climate change

Disclosures are made in the Group's Annual Report and Financial Statements 2022 in respect of the Group's:

- Scope 1 and 2 greenhouse gas emissions in tonnes of carbon dioxide equivalent;
- Scope 3 carbon emissions in supply chain;
- Compliance with Taskforce on Climate related financial disclosures ("TCFD") recommendations
- A relevant intensity ratio (i.e. kilograms of carbon dioxide equivalent per customer); and
- Information on underlying energy use for 2022.

The disclosures are produced in accordance with the UK Government's Streamlined Energy and Carbon Reporting (SECR) policy that has been implemented through the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018. This disclosure covers the greenhouse gas emissions and energy use for the Group and its operating divisions incorporating the Company.

Anti-bribery and corruption

The Group's Corporate Policies, which include a Corporate Hospitality Policy, reflect the requirements of the Bribery Act 2010 and a corporate hospitality register is maintained using a risk-based approach. Although the risks for the Company arising from the Bribery Act 2010 continue to be assessed as low, all employees are, nevertheless, required to undergo appropriate training and instruction to ensure that there is effective awareness of anti-bribery and corruption policies and procedures. Compliance is regularly monitored by the Risk Committee and is subject to periodic review by the Company's internal audit function.

Supply chain responsibility

In accordance with the requirements of the Modern Slavery Act 2015, the Group's most recent statement on modern slavery and human trafficking, dated March 2023, sets out the actions that the Group is taking to ensure instances of modern slavery or human trafficking are not occurring directly in its businesses as well as indirectly in the supply chains the Group uses to procure goods and services. The statement also communicates the measures the Group has taken to improve internal understanding and awareness around modern slavery and human trafficking.

The statement can be found on the Company's website (www.vanquisbankinggroup.com).

Key performance indicators

Further disclosure of non-financial Key Performance Indicators (KPIs) can be found in the Strategic Report on pages 8 to 9 and the Group's Annual Report and Financial Statements 2022.

Indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Future developments

Details of future developments can be found in the Strategic Report on page 10.

Events after the balance sheet date

No significant events occurred after the balance sheet date.

Auditor information

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board and signed on its behalf by:

M J Le May
Chief Executive Officer
30 March 2023

VANQUIS BANK LIMITED
(Company Number 2558509)

STRATEGIC REPORT

Review of business

The Company is a leading specialist in the large and established credit cards market and is developing its personal loans proposition to the open market, which enjoyed its first year as a standalone division in 2022. The unsecured personal loan products, which were previously only available to existing credit card customers, are designed to serve lower risk customers in the mid-cost segment of the market. The Company has a strong capital base and access to liquid funds through the resilient retail deposits markets. The Company has diversified its funding sources from solely retail deposits to that of accessing the Bank of England's TFSME from August 2021. The Company's principal risks and uncertainties are detailed in the Directors' report on pages 4 to 5.

Cost of Living

Management has placed a significant focus on understanding the potential impact of the 'Cost of Living Crisis' on the Company, including reviewing the range of range of support available to customers and setting up a Cost of Living Forum, which closely monitors for early indicators of cost-of-living pressures in the Company's book performance, to enable any remedial action to be taken as required. Post model overlays for Cost of Living are recognised across all products, however credit performance remains stable and internal analysis shows no obvious signs of stress from the crisis at this stage.

Financial performance

An analysis of the Company's income statement result and KPIs for 2022 and 2021 is set out below.

Certain alternative performance measures (APMs) have been used in this report. See page 87 for an explanation of relevance as well as their definition.

The Company's profit before tax and exceptional items decreased by 27.1% to £130.6m in 2022 (2021: £179.1m). This reflects the significantly higher management recharges paid to the Company's ultimate parent (£8.4m in 2021, versus £28.1m in 2022) following the alignment of the Company and Group Boards, increased impairment charges (discussed below), and growth and continued investment in the IT platform of the nascent personal loans business which saw its first full year of operations in 2022. This was offset by good loan book growth, benign impairment trends and cost reductions year-on-year within the credit cards business. The growth in the loan book during the year has driven the utilisation of cash from operating activities.

New customer bookings increased by 18.9% to 252,000 (2021: 212,000). Full-year credit card bookings of 225,000 (with the remainder being loans) were 26,000 favourable to 2021, reflecting an increased emphasis on customer acquisition initiatives and above-the-line marketing efforts. Accordingly, customer numbers ended the year at 1,575,000, an increase of 34,000, driven by an increased emphasis on customer acquisition initiatives and the first full year of operations within personal loans.

Credit card receivables grew by 11.1% to £1,181.6m (2021: £1,063.4m). This was driven by increased average customer spend combined with higher customer numbers. During 2022, Credit Line Increases (CLIs) amounting to approximately £318m (2021: £170m) were issued to customers as part of management's strategy to rebuild the loan book on a prudent basis. The business has launched several initiatives already designed to improve the utilisation rate including improved Balance Transfer offerings and the launch of Android Wallet during the second half of 2022. Personal loans receivables more than doubled to £76.3m (2021: £28.1m), reflecting the successful launch of the open-market personal loans business as a standalone division.

Interest income has shown a 2.6% increase to £349.3m in 2022 (2021: £340.3m), with the growth in the loan book offset by a refocus to lower-risk market segments. Interest from intercompany loans fell to £3.0m in 2022 (2021: £4.3m), reflecting a refinancing at a lower interest rate (see page 68 for further discussion of this transaction).

Interest expense of £24.5m has decreased during 2022 (2021: £25.9m), reflecting lower retail deposit balances held year-on-year as the amount of deposits held was normalised post-Covid. In addition, the impact of rising Bank of England base rates has yet to be fully felt given the fixed nature of many of the Company's interest costs.

Review of business (continued)

Impairment charges rose to £25.3m in 2022 (2021: £5.9m), driven by the increased loan book across both cards and personal loans. The higher impairment charge offset a higher asset yield (25.3% in 2022 versus 24.5% in 2021) to produce a risk-adjusted margin which fell slightly year-on-year to 25.3% (2021: 26.4%).

Underlying asset quality remained high and delinquency trends remained stable, and the refocus onto lower-risk market segments has reduced the provision coverage ratio (impairment provision divided by gross receivables) from 24.8% at December 2021 to 18.2% at December 2022.

Costs (excluding exceptional items) have increased by 16.9% to £222.3m in 2022 (2021: £190.1m), driven primarily by higher Group recharges incurred in the year as well as increased business volumes and on-going IT investment in personal loans.

Exceptional items

In 2022, an exceptional cost was recognised in respect of a £0.2m accrual for redundancy payments (2021: £1.1m).

Tax

The effective tax rate for the financial year on the profit before tax and exceptional items was 28.1% (2021: 18.0%). The effective tax rate reflects the impact of the bank corporation tax surcharge of 8% which applies to taxable profits in excess of £25m and where taxable profits ignores group relief from non-banking group companies. The effective tax rate also reflects: (i) the adverse impact of revaluing deferred tax assets at 28% to the extent they are expected to reverse after 1 April 2023 and in a year when profits are expected to exceed £100m; this follows the changes to bank corporation tax surcharge enacted in 2022 which, with effect from 1 April 2023, reduce the bank corporation tax surcharge rate from 8% to 3% and increase the annual bank corporation tax surcharge allowance, being the threshold below which banking profits are not subject to the surcharge, from £25m to £100m; and (ii) the beneficial impact of current year losses surrendered by discontinued operations elsewhere in the Group which the Company has paid for at a discount net of adjustments in respect of similar losses for the prior year.

The tax credit in respect of exceptional items in 2022 amounts to £0.1m (2021: tax credit of £0.3m) and represents tax relief at the combined mainstream corporation tax rate and the bank corporation tax surcharge rate of 27% on the exceptional costs.

Return on Equity (ROE)

The ROE has decreased from 41.3% in 2021 to 24.4% in 2022, reflecting the lower PBT in 2022.

Balance sheet

The Company has a robust balance sheet and a strong funding and liquidity position. At the end of 2022, the Company had regulatory capital of £384m (2021: £428m), equating to a total CET1 ratio of 33.0% (2021: 36.0%) and a surplus above the overall capital requirement[1] of approximately £118m (2021: £167m).

The Company's liquid assets buffer amounted to £420.5m at the end of 2022, up slightly from £414.8m at the end of 2021. Retail deposits amounted to £1,100.6m (2021: £1,018.6m) at the end of 2022.

[1] Excluding any confidential PRA buffers, if applicable.

Review of business (continued)

Outlook

The Company remained profitable in 2022 and has strong capital and liquidity positions. The credit card business remains focused on enhancing its customer and digital propositions, including a new Vanquis mobile app, and improving its range of services for customers. For 2023, the personal loans business will focus on continuing the migration of its loans offering onto the new IT platform, exploring new partnership agreements, and assessing opportunities to evolve its pricing and product proposition.

On 1 November 2022, the Company and Group received notice from the PRA that it has approved the Group's application for a Core UK Group large exposure waiver which will enable Moneybarn No.1 Limited, the Group's vehicle finance subsidiary, to access retail deposit funding via the Company with immediate effect. This enables the transition to a traditional bank funding model in which the Group's funding will consist of (i) retail deposits; (ii) securitisation of the cards and vehicle finance books; and (iii) liquidity and funding facilities at the Bank of England. More can be read about this event on page 16.

Future developments

Purpose and strategic statements

The Company has a clear purpose that is aligned with the purpose of the Group and all of its divisions. The Company and Group purpose is *'to help put people on a path to a better everyday life'*.

Market opportunity

Today, the Company has a leading position in the credit cards market for customers who are not well served by mainstream banks. The Company also has a new and fast-growing unsecured personal loan product range. These product categories enable the Company to meet distinct customer borrowing needs. Shortly after the period end, the Company introduced a pilot phase for a new secured product strategy of second charge mortgages (see page 17 for more discussion of this). This is consistent with the Company and Group's purpose and mission of supporting financial inclusion, and consistent with the strategy of diversifying its range of products and reducing credit risk over time as a result.

Strategy

The Company's strategy – now aligned with that of the Group - has been set to enable the business to deliver on its purpose and achieve its ambition and vision and comprises three core strategic drivers; *People & Culture, Growth & Sustainability, Customer & Community*. Further discussion of these drivers can be found on pages 22 to 23 of the Group's annual report and Financial Statements.

Statement regarding section 172 Companies Act 2006

The directors have acted in a way that they considered, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the matters set out in section 172(a)-(f) of the Companies Act 2006.

Our purpose, as part of the Vanquis Banking Group ("the Group"), is predicated on our customers and is underpinned by our strategy, vision and mission. These aim to deliver an appropriate balance between the needs of our customers, our investors, our regulators and our colleagues to ensure that we are successful and sustainable for all of our stakeholders. Our stakeholders are those individuals or groups with an interest in, or who are affected by, our business activities. Our stakeholders and the ways in which we engage with them are detailed on the following pages.

The Board and the Committees of the Company work in conjunction with the Board and Committees of Vanquis Banking Group plc. Additional discussion of Company and Group Board alignment can be read on page 18. Further information on engagement with the Group's stakeholders is available in the Vanquis Banking Group plc Annual Report and Financial Statements on page 82.

Customers
s.172 (c) Our customers are the reason we exist. We continue to evolve our products to meet the needs of those who are not served by mainstream lenders.
How we engage and monitor - The regular utilisation of engagement methods including customer satisfaction surveys and complaints monitoring. Customer panels to obtain insight into issues such as the cost of living, digital banking and new forbearance options. - Our Customer, Culture and Ethics ("CCE") Committee regularly reviews the quality and outcome of customer calls and monitors customer KPIs. - The Board has received regular updates on the impact of the cost of living crisis, and other macroeconomic factors, on our customers. - The Board oversees the launch of new products, including the recently announced pilot for second charge mortgages which was reviewed and approved by the Board in November 2022. - The Board and Risk Committee monitor compliance with the regulatory framework as it pertains to customer interests. - The Board and Risk Committee have oversight of the plans to embed the FCA's rules on Consumer Duty. - Regular review of the customer proposition to ensure alignment with customer need. - Customer need is a key driver for strategic initiatives.
Outcome - Partnership with IncomeMax to launch a new Messenger online platform to offer customers digital access to one-to-one expert advice to help manage their income. - The establishment of a Board Sub-Committee to approve the implementation plan to demonstrate compliance with the FCA's Consumer Duty. - Forbearance options enhanced to support customers through the cost of living crisis. - Launch of customer-focused initiatives, in response to customer demand, such as 'Google Pay'. - Our Net Promoter Score score for December 2022 was 69 (December 2021: 55). - The Group's Annual Strategy Conference in June 2022 made key decisions on the direction of the business strategy for the year with specific consideration given to customer base and customer benefit.
Further information on our relationship with customers is set out on page 82 of the Group's Annual Report and Financial Statements.

Statement regarding section 172 Companies Act 2006 (continued)

Investors
s. 172 (a) (e) (f) The Company is a wholly owned subsidiary of Vanquis Banking Group plc, and therefore has no direct external shareholders. The Company and its activities, however, are of paramount importance to the Group and the delivery of its purpose, and the Company recognises that investors are the source of capital which facilitate the success of the Group as a whole. The Company is committed to the Group's aim to ensure return on investment and long-term growth.
How we engage and monitor - The common Board structure ensures that the Company's directors receive regular updates on investor perceptions and feedback, which are taken into account during any decision-making process. - The Company's senior management proactively engage with the Group's investors at investor days, analyst meetings, industry conferences and roadshow programmes. - The Group Investor Relations team engage with investors and respond to queries. - The Group CEO and CFO also act as the Company's CEO and CFO; the Executive Scorecard is therefore aligned.
Outcome - Investor perceptions and the creation of long-term value informed all Board decisions. Board paper templates specifically require consideration of these factors. - The 2022 financial results for the Group were in line with market expectations. - The Company's operations have aligned with regulatory expectations throughout the year. - The combined Board structure has facilitated the alignment of the Company's operations with the Group strategy, vision and mission.
Further information on our relationship with investors is set out on pages 84 and 87 of the Group's Annual Report and Financial Statements.

Statement regarding section 172 Companies Act 2006 (continued)

Colleagues
s.172 (b) Our colleagues are integral to delivering our customer-centric purpose.
How we engage and monitor - Regular colleague forums take place and members of the Company Board attend periodically. - There is a designated non-executive 'Colleague Champion' of the Group Board, who is also a director of the Company, and who provides feedback to the Board on colleague matters. - "Speed dating" sessions with colleagues and board members took place at the Bradford office. - Two Board directors, including the Colleague Champion met with colleagues to hold a session on how Executive pay aligned with the wider workforce. - Colleagues regularly receive email updates on important Company news. - The Executive Committee attended a colleague "drop-in" session at the Bradford office. - Half and Full year colleague surveys take place, the results of which are reported to the CCE Committee and the Board. - Affinity groups are utilised to gain colleague input on specific issues, including Diversity and Inclusion. - The Nomination Committee oversees succession planning at senior management level. - An independent Whistleblowing line is available for colleagues to raise concerns. - Launched a new communication framework, "the Message House", to enable better communication across functions. - Launched department engagement hubs.
Outcome - The Group adopted a "hybrid" working model in response to colleague feedback and opened up the on-site gym in Bradford, free of charge. - Action plans were developed on the basis of colleague survey results. - Colleague engagement champions put in place to work with the ExCo, Senior Leaders and HR Business Partners to build on action plans and review progress. - Matters arising from the colleague forums are tracked by the People function. - During 2022, the frequency of colleague updates increased and Town Halls were held to ensure colleagues felt connected to the Group's operations.
Further information on our relationship with colleagues is set out on page 82 of the Group's Annual Report and Financial Statements.

Statement regarding section 172 Companies Act 2006 (continued)

Environment
s.172 (d) The Company supports and participates in actions related to the Group's aim to meet the recommendations of the Taskforce on Climate-Related Financial Disclosures ("TCFD"). The Company aims to operate a sustainable business and is committed to tackling climate change.
How we engage and monitor - The Board oversees management's sustainability and net-zero strategies. - The Board received regular updates on climate risk through the CRO report. - The Board has oversight, via management reports, on the reporting of greenhouse gas emissions. - The Company utilises and contributes to the Group's Environmental Management System ("EMS").
Outcome - Reviewed the Group's approach to meeting the requirements of the TCFD with a view to ensuring that material climate-related risks are embedded within the company's risk management framework, including its Internal Capital Adequacy Assessment process ("ICAAP"). - Ensured that the Company's due diligence process assesses suppliers for exposure to material climate-related risks. - Provided input into an exercise to determine which of the 15 categories of Scope 3 GHG emissions (i.e. the indirect emissions that occur in a company's value chain) are material to the Company's business activities and key stakeholders.
Further information on the Group's approach to the environment and progress made during the year is set out on pages 40 to 49 of the Group's Annual Report and Financial Statements.

Statement regarding section 172 Companies Act 2006 (continued)

Regulators
s.172(e) The maintenance of a positive relationship with our regulators and aiming for the highest standard of conduct is of vital importance to the Company and impacts all stakeholders.
How we engage and monitor - The Company's Chairman, CEO and CFO engage in regular meetings with our regulators. - The CRO reports on regulatory interaction and areas of regulatory focus to the Board via the CRO report. - There is a dedicated team within the Risk function exclusively focused on regulatory matters. - The Remuneration Committee is responsible for ensuring Company remuneration complies with regulatory requirements and aligns with performance in the context of conduct and risk.
Outcome - Approval of the UK Core Group waiver in November 2022, which allows the Company to utilise its retail deposits to fund different parts of the Vanquis Banking Group. - Board training on SMF duties and Financial/Cyber Crime as a response to increased regulatory focus on those areas.
Further information on the relationship with our regulators is set out on page 83 of the Group's Annual Report and Financial Statements.

Suppliers
s.172 (c) Our trusted suppliers enable us to deliver high quality, efficient services for all of our stakeholders and we are committed to fostering positive business relationships.
How we engage and monitor - The Board approved the 2022 Modern Slavery Policy. - The Board approved the Group's corporate policy on Human Rights & Modern Slavery. - The CCE Committee reviewed the feedback obtained from a questionnaire sent to 360 supply account managers. - Consistent engagement through the Group-wide Supplier Relationship Management Framework. - There is a robust supplier due diligence process aligned with PRS guidance.
Outcome - Published the 2022 Modern Slavery Statement. - A recent survey of our supplier confirmed largely positive feedback and the Company intends to action the identified areas for improvement. - Increased director-level engagement with our most critical suppliers.
Further information on the relationship with our suppliers is set out on page 84 of the Group's Annual Report and Financial Statements.

Statement regarding section 172 Companies Act 2006 (continued)

Communities
s.172 (d) We are committed to making a positive difference to our stakeholders' communities through the removal of barriers to financial inclusion, improving financial education and raising financial awareness.
How we engage and monitor - The Board and CCE Committee received regular updates on our community initiatives. - The Board received bi-annual updates on progress made against our ESG strategy, a key component of which is community engagement. - The Company participates in the Group's Social Impact Programme, which includes the Community Grants Panel. - The Company engages directly with its community partner, National Numeracy, and remains committed to improving numeracy skills across our communities.
Outcome - The Company encourages colleague volunteering and facilitates several programmes to enable this. - The Company continued to engage in Community Foundation partnerships. - Matched employee charity fundraising. - Our relationship with IncomeMax refers customers who meet the criteria for financial education and support
Further information on our relationship with our communities is set out on page 84 of the Group's Annual Report and Financial Statements.

In making the following principal decisions, the Board took into account its duties under s.172 of the Companies Act 2006:

<u>PRA waiver</u>

The Board approved intra-group funding arrangements to support the Company's application to the PRA for a large exposure waiver (the CUG application). The CUG application, which was approved by the PRA in November 2022, will allow the Group to leverage its existing access to retail deposit funding, through the Company, to fund all lending products going forwards, including vehicle finance. To read more about the CUG application and our funding strategy please see page 14 of the Group Annual Report and Accounts.

The CUG application was an important part of the Group's stated strategy of becoming a fully-fledged banking group. The intra-group funding arrangements and CUG application provides the funding structure needed to help put people on a path to a better everyday life, delivered through our specialist banking group strategy.

Management engaged with the regulator throughout the process of the CUG application by responding to requests for information and acting upon feedback from the regulator. For example, the establishment of a capital support agreement between Moneybarn and the Company in response to the regulator's feedback.

The Board received regular updates via the CEO report on the status of the CUG application before it was approved. As part of the Board's oversight, it approved a series of intra-group funding arrangements in May, subject to the PRA's approval, and established a sub-committee of the Board to finalise the terms of the arrangements once the CUG application had been approved. In making this decision, the Board received assurance from internal and external legal counsel, as well as relevant stakeholders within the Group (such as Finance, Tax, Treasury and Risk) on the implications of the decision.

Statement regarding section 172 Companies Act 2006 (continued)

<u>Second charge mortgages</u>

The Board considered the launch of the second-charge mortgage product in the context of the Company and Group's strategy to diversify its receivables into lower risk, secured assets, and reducing credit risk over time. During 2022, the Board considered the proposed product launch, which proposed the acquisition of existing second-charge mortgage loans on a forward flow basis. The Board considered the balance sheet impact, return on equity requirements and execution risk, noting that the Regulator had indicated their support for the proposal. The Board also considered the possibility, if the pilot of phase of the product was successful, of the Company originating its own flow of new loans directly to new and existing customers. The Board considered the market opportunity, customer research undertaken and the potential for second charge mortgages to improve customer outcomes and promote financial inclusion, consistent with the Company and Group's purpose and mission. The Board approved the new product launch and noted that the proposal for originating the Company's own flow of new loans would be further developed for future consideration, contingent on the success of the pilot.

The Board considered the long-term consequences of the new product launch in the context of the Company and Group's wider strategy, vision and mission. The Board agreed that second charge mortgages had the potential to improve customer outcomes and potentially provide sustainable returns to the Group's shareholders. The Board considered the risks of the product launch, which pertained largely to near-term economic uncertainty and noted the need for the Company to ensure that there was sufficient talent and expertise amongst colleagues to successfully execute the launch. The Board also considered the governance and internal controls that would be put in place to ensure the product was managed in line with the Company's risk appetite and regulatory requirements.

The Board considered the implications for all stakeholder groups and had due regard to its s.172 duties throughout the decision-making process. The Board focused on the customer impact of the proposal, which was understood to be positive with second charge mortgages having the potential to improve customer outcomes and to promote financial inclusion, consistent with the Company's purpose and mission, whilst enabling the Group to provide attractive and sustainable returns to its shareholders. The market and investor perception of the launch was considered, and the Board agreed that diversification of product offering aligned with the wider re-positioning of the Company as the leading bank for the underserved. The Company engaged with Regulators ahead of product launch to ensure regulatory support for the proposal.

The Board considered key challenges to the proposal, namely the economic conditions and the need for in-house colleague expertise. The Board recognised that the Company originating its own flow of new loans, if undertaken, would have its own inherent challenges and risks. The cost of the launch was considered in the context of the long-term benefits.

Statement of corporate governance arrangements

During the year, the Company's Board membership was changed so that it substantially aligned with the membership of the Board of its ultimate parent company Vanquis Banking Group plc ("the Group"), a public company with a premium listing on the London Stock Exchange. These Board changes were made in support of the Group's strategy to reinforce its position as a leading specialist bank with a focus on the financially underserved, and to create a simpler, more efficient Group governance structure whilst streamlining and enhancing both the Group and Company's corporate governance arrangements. The Boards and Board committees of the Group and the Company now sit jointly on most occasions, but may also meet separately as required. Accordingly, the Company's Board and Board committees work in conjunction with the Vanquis Banking Group's Board and Board committees in undertaking their responsibilities, including as described throughout this statement, as appropriate.

In conjunction with these Board changes, a review of the Group and Company's corporate governance framework was undertaken. Whilst the Company has previously reported in its Annual Report and Financial Statements how its corporate governance arrangements applied the requirements of the UK Corporate Governance Code (the "Code"), following review the Board determined that as the Code was devised for use in public companies and as the Company is a private wholly owned subsidiary of a premium listed company, it would be more appropriate and proportionate for the Company to report annually against the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles").

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), for the year ended 31 December 2022, the Company has in its corporate governance arrangements applied the Wates Principles, which are available at www.frc.org.uk.

The following section explains the Company's approach to corporate governance and its application of the Wates Principles. The Board recognises that effective corporate governance is fundamental to the successful operation of the Company and the delivery of its strategy and of long-term sustainable value to its shareholders and other stakeholders, particularly as a regulated bank. The Board remains committed to clear and transparent reporting on the Company's corporate governance arrangements. A corporate governance framework is in place across the Group, including the Company, ensuring a consistent and proportionate corporate governance approach is in place, meeting the different needs of the companies within the Group. The framework includes the matters reserved to the Board, and the matters the Board has chosen to delegate to its committees and management. The Group's corporate governance framework is reviewed periodically to ensure it remains fit for purpose. You can read more about the Group's corporate governance framework in the Vanquis Banking Group plc Annual Report and Financial Statements here: www.vanquisbankinggroup.com.

Principle One (Purpose and Leadership)

The Board is collectively responsible for the Company's purpose, culture and values which are aligned to and agreed with the wider Group. You can read about our strategy on page 10. The Board believes that the Company's purpose, to support the Company's customers on their paths to financial stability and a better everyday life, positions the business well for sustainable and long-term success.

The Group and Company's values seek to promote a culture in which colleagues are empowered and motivated to make a real difference to customers, the Company and the wider community in which it operates. Those same values and behaviours seek to also make for a stimulating and supportive working environment for colleagues. The Board oversees the alignment of the Company's purpose, values and strategy in several ways. To provide insight into the operational culture of the business, customer metrics are regularly reviewed by the Board and the Company has established a Customer, Culture and Ethics ("CCE") Committee – comprised of independent Non-Executive Directors - to monitor culture and behaviours, and to enable the Board to identify and address any misalignments with the desired culture. The CCE Committee also garners customer insights (for example through call listening, Customer Dashboard KPIs and customer survey results), with the customer being at the heart of the Company's purpose and culture.

Statement of corporate governance arrangements (continued)

Principle One (Purpose and Leadership) (continued)

To support healthy colleague engagement and the embedding of culture, the Board, led by the CCE Committee, reviews and considers the results of Colleague and Pulse surveys and the actions plans that are designed to address issues raised. The Company keeps colleagues updated of strategic and cultural issues through regular internal communications. The Company has a Designated Non-Executive Colleague Champion who engages with colleagues, including the Colleague Forum, and reports on this engagement to the CCE Committee and Board so that colleague views can inform Board decision making. The Board also receives reports on whistleblowing and health and safety matters. Inclusion and diversity is a key part of the Company's culture and is overseen by the Nomination Committee and Board.

To support the oversight of our customer-focused culture, the Risk Committee also measures conduct risk, including an assessment of conduct risk against risk appetite. Our Executive Director and colleague performance management frameworks ensure that performance is assessed against our culture and values and, together with our Risk Adjustment Framework, which overseen by the Remuneration Committee, seeks to align reward with performance and culture.

To further strengthen oversight of business integrity, the Audit Committee receives regular reports from the Internal Audit function on the outcome of internal audits, including issues to be addressed and progress in addressing such issues, and also oversees financial reporting controls.

Principle Two (Board Composition)

The Company's board comprises a Non-Executive Chair, independent Non-Executive Directors and Executive Directors. The Nomination Committee and Board consider the Board's composition regularly to ensure it has the appropriate balance of skills, experience, independence and diversity. The Nomination Committee and Board have undertaken its annual assessment of the Board composition and director independence and confirmed they believe the Board to be appropriately composed and the Non-Executive directors to be independent.

The Company has a Nomination Committee comprised primarily of independent Non-Executive Directors to oversee a documented formal, transparent and rigorous Board appointment process and to make recommendations to the Board on appointments for approval. New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded board and the diversity benefits each candidate can bring overall. External search firms are used when seeking to appoint new Board directors, and diversity in the broadest sense forms a key part of such search and appointment processes as well as ensuring the appropriate skills and experience are on the Board. As required by our regulatory framework, candidates are assessed as to whether they are 'fit and proper' and appointments are made subject to regulatory approval. Regulatory references are also taken regarding new Board appointments.

The Board's Skills Matrix supports the identification of skill gaps which inform Board appointments. A Board training plan is also created each year to address key areas for the Board as a collective to receive training on. The Nomination Committee reviews both Executive and Non-Executive succession plans to ensure that appropriate planning is in place. In its review of succession planning, the Nomination Committee reviews progress made in relation to diversity objectives, including the efforts that have been made to ensure that the Company drives broad candidate searches to tap into diverse talent pools. The Group has a Diversity & Inclusion policy (which covers Board diversity) in place in order to drive equality, diversity and inclusion. The Nomination Committee monitors what progress has been made in relation to the Company's inclusion and diversity objectives.

The Audit, Remuneration, Risk and CCE Committees, each with their own Terms of Reference, are comprised entirely of independent Non-Executive Directors with appropriate skills and experience.

Statement of corporate governance arrangements (continued)

Principle Two (Board Composition) (continued)

The Company and Group Boards are subject to an annual effectiveness review, which was conducted by an external provider in 2022, which comprises an assessment of Board and committee composition, the results of which are considered by the Board. The findings from this year's independent Board performance review were positive, with the Board recognised as highly engaged, experienced and technically proficient. As with all fair and balanced reviews processes, the external evaluation identified opportunities to improve the performance of the Board and an agreed action plan is in place.

The Nomination Committee and Board reviewed and approved the changes to the Board membership during 2022.

Principle Three (Director Responsibilities)

The Board has responsibility for ensuring robust controls and corporate governance frameworks are in place, including arrangements for the effective delegation of the day-to-day running of the Company. A Conflict of Interest policy and accompanying processes are in place, which were reviewed and approved by the Board during the year, having been updated to reflect the potential for conflicts of interests to arise as a result of the largely common Board membership of the Company and Group. The Chairman is responsible for leadership of the Board and promoting a culture of openness and constructive debate and was considered to be independent upon his appointment. The role of Chairman, and the clear separation of duties between the role of Chair and the CEO, is set out in the Company's formal Board Governance Manual, which is reviewed annually. The role of the Senior Independent Director is also documented.

As described above, the Company has well established and effective Audit, Remuneration and Risk Committees comprised of Non-Executive directors to support it in the discharge of its responsibilities. The Board Matters Reserved and Committee Terms of Reference are in place and reviewed annually against best practice. The Committees' adherence to their respective Terms of Reference is reviewed annually to ensure they are meeting their responsibilities. Standard Board paper reporting templates are used across the Board and its committees to enable the provision of high-quality information to inform decision-making. Papers are circulated to the respective Board or Committee members five working days prior to the relevant Board or Committee meeting. The Company's standard Board paper reporting templates and approach require paper authors to consider and report on the aspects of s.172 Companies Act 2006. The Non-Executive Directors, through their Board and respective Committee memberships, review and challenge the robustness and appropriateness of management proposals. Appropriate information is made available to the Board in order that they can challenge management on operational and financial performance as well as culture, with culture-related key performance indicators also monitored by the Non-Executive Directors.

All Directors have access to the support and advice of the Company Secretary and can seek independent professional advice at the expense of the Group where it is considered necessary to discharge their duties. Non-Executive Directors hold private sessions without Executive Directors present to discuss any matters deemed salient in enabling them to properly discharge their Non-Executive Director duties.

A combined Group Board Governance Manual is formally documented and operated in conjunction with a corresponding combined Group Delegated Authority Manual. This provides clarity regarding authorities and responsibilities throughout the Group. All such Manuals are periodically reviewed and refreshed. Risk management frameworks are also in place, including Group Risk Policies, and are overseen by the Risk Committee and Board. You can read more about risk management below and on pages 49 to 52. In the event that the Internal Audit function identifies matters requiring further investigation or controls weaknesses to be addressed, such matters and actions are escalated promptly to the Audit Committee and Board as appropriate. The Board also annually reviews and confirms the effectiveness of the Internal Audit function and External Audit.

Statement of corporate governance arrangements (continued)

Principle Four (Opportunity and Risk)

The Board, which is responsible for the long-term sustainable success of the Company, oversees the development and deployment of the Company's strategy, which operates within the wider Group's strategy and includes strategic opportunities. The Board also ensures that necessary resources are in place to enable the Company to meet its objectives and accurately measure performance. The Board annually approves the five-year Budget and Plan, which sets out the resources required by the Company as part of the wider Group, including capital and funding resources, to meet its objectives, seize strategic opportunities and manage risk. As noted above, the Board agrees the Company's purpose and oversee its culture, which are important foundations of long-term success, guiding and informing the identification of opportunities and supporting risk management. The Board also approves and regularly reviews the Company's Internal Liquidity and Capital Adequacy Assessment processes ("ILAAP" and "ICAAP" respectively) and monitors Company performance against those processes, thereby ensuring the Company retains sufficient capital and liquidity to achieve its strategic objectives and mitigate key risks. During 2022 the Board continued to be vigilant in monitoring performance against both adequacy assessments; the Board also oversaw the ICAAP process, with a built-out process overseen by the Risk Committee. The Board also approves and annually reviews the Company's recovery and resolution plans.

Effective risk management is key for the success of the Company. The Company is dual-regulated by both the FCA and PRA and as such has in place a dedicated Risk Committee, the role of which is to ensure there is an effective risk management framework in operation which enables the effective oversight of the Company's risk position. The Company's Risk Committee and Board set the risk framework and risk appetite for the Company, which is closely aligned with that of the Group. The Risk Committee regularly measures and monitors Company performance against risk appetite. The effectiveness of the Group's risk framework is reviewed by the Board annually. In addition, the Board and Risk Committee agree the Group's principal and emerging risks. The Risk Committee regularly reviews the management of current and forward-looking risk exposures, including notifying the Board of any changes in the status and control of material risks.

The Group Chief Risk Officer is the Chief Risk Officer of the Company and is a member of the Executive Committee. He attends the Risk Committee meeting and regularly attends Board meetings to ensure the appropriate discussion and escalation of risks within the Group. A remuneration-related Risk Adjustment Framework is in place and regular update reports in relation to the framework are provided to the Remuneration Committee. A Model Governance framework and assessment for the Company is reported to both the Company's Audit and Risk Committees by the Group Risk function.

The Company has in place a dedicated Audit Committee with appropriate sector competence which assists the Board in fulfilling its oversight responsibilities by monitoring the integrity of the Company's financial statements and other financial information prior to its publication, and reviewing significant judgements contained within them. In addition, the Committee also reviews the system of internal financial and operational controls and the accounting and financial reporting processes on a continuing basis, along with the roles and effectiveness of both the Company's Internal Audit function and external auditor. The Group Internal Audit Department reports regularly to the Company's Audit Committee on its progress against the annual internal audit plan as previously approved by the Audit Committee. It provides the Committee with updates on any findings and the status of remedial actions. The Audit Committee also reviews and approves the External Audit plan and monitors the progress and outcomes of that plan, ensuring remedial actions identified are implemented as appropriate.

On behalf of the Board, the Company's Audit Committee undertakes an annual assessment of the effectiveness of Internal and External Audit and, similarly, the Company's Risk Committee carries out an annual assessment of the robustness of the Chief Risk Officer's report on the adequacy of the Company's risk resource. In conjunction with the Group, the Company undertakes an annual robust assessment of principal and emerging risks, and further details of these are reported within the Group consolidated accounts. The Audit Committee considers the reappointment of the external auditor, including the rotation of the audit partner, annually. This includes an assessment of the independence of the external auditor and an assessment of its performance in the previous year. To further ensure external audit independence and objectivity, the Company has in place a policy on the appointment of staff from the external auditor which states that engagement partners, quality review partners, other key audit partners, and senior members of the audit engagement team may not be employed in senior finance roles within the Company.

Statement of corporate governance arrangements (continued)

Principle Five (Remuneration)

The Company's Remuneration Committee, in conjunction with the Remuneration Committee of the Group, assumes responsibility for the Company's approach to remuneration. This includes oversight of the remuneration of colleagues where a specific remuneration approach is required by regulation, such as Senior Managers and other material risk takers. Both Company and Group Remuneration Committees are comprised entirely of Non-Executive Directors.

Remuneration policies and practices are designed to support the Company's strategy and culture and deliver long-term sustainable success. Executive Director variable pay is set based upon an assessment against the Group's and individuals' performance in relation to a balanced, business scorecard of financial and non-financial objectives and measures. This business scorecard sets out the priorities to deliver tactical and strategic priorities and also includes objectives relating to customer outcomes, regulatory risk and risk control measures, investor outcomes, culture and colleagues. The Group Risk Adjustment Framework seeks to ensure effective alignment exists between risk management and variable remuneration outcomes. From 2023, under the Group Performance Management approach, all colleagues across the Group will be required to have a risk objective against which their performance will be assessed.

The Group's long-term share incentive schemes are used by the Remuneration Committee to align variable pay outcomes and investor interests. Prior to the vesting of awards under the Group's main discretionary share incentive scheme, the Restricted Share Plan, the Remuneration Committee is required to assess performance against a performance underpin evaluation. This assessment provides an opportunity to adjust any share price-related gains against performance in relation to, amongst other matters, the investor experience, risk management, culture and ESG matters. The Remuneration Committee's discretionary authority to determine the value of long-term awards at vesting enables the full spectrum of performance and conduct risk factors to be reviewed and in doing so encourages executives to demonstrate long-term behaviours.

PricewaterhouseCoopers is appointed by both the Company and Group's Remuneration Committees as independent remuneration adviser.

Principle Six (Stakeholder Relationships and Engagement)

The Company and Group's purpose affirms the business' societal role, helping people on the path to financial stability and supporting those customers not well served by traditional banks. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions. As referred to previously in this statement, the Company's Board paper reporting templates require both the Board paper preparer and the Board to have regard to and report on the relevant directors' wider s.172 responsibilities. The approach of the Board in respect of its key stakeholders and the other aspects of its s.172 duties are set out in our separate statement on pages 11 to 17.

Going concern

In preparing the Financial Statements, the Directors are required to determine that the Company has adequate resources to continue to operate for the foreseeable future. The review has been made on the basis that the Company continues to operate as a going concern for the twelve months from the date the financial statements are approved, but when considering the analysis, the Directors' consideration extended beyond this time period. The Directors considered the appropriateness of the going concern basis, the period of assessment, any reporting requirements, and solvency and liquidity risks and included a variety of factors – forecasts and budgets, timing of cash flows and funding, the Company's primary market and any contingent liabilities. When considering the appropriateness of going concern the Directors have also considered the broader view of continuing to operate – in the context of the Company this means being able to meet its regulatory requirements (both capital and liquidity) at all times and not just a positive net asset measure.

The assessment of going concern for the Company for the purposes of the Annual Report and Financial Statements considered the following factors:

- the Company and Group's corporate plan, which sets out financial, capital, liquidity and funding projections, together with an overview of relevant risks;
- the principal and emerging risks which could impact the performance of the Company, with a focus on capital and liquidity;
- a severe but plausible stress testing scenario, which is designed to assess the potential impact of certain underlying risks on the Company's capital and funding resources, together with the availability and effectiveness of mitigating actions; and
- reverse stress testing analysis, which is designed to assess the point at which the Company is no longer a viable concern.

Having considered the Company's forecasts, the regulatory capital and liquidity of the Company and the regulatory outlook, the Directors have a reasonable expectation that the Company will continue for the foreseeable future and will be able to meet its liabilities as they fall due. Accordingly, the Financial Statements of the Company have been prepared on the going concern basis.

A further review of the business, results and future prospects of the Company and Group is set out in the Group Annual Report and Financial Statements which are available at www.vanquisbankinggroup.com.

Approved by the Board and signed on its behalf by:

M J Le May
Chief Executive Officer
30 March 2023

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that the Directors:

- Properly select and apply suitable accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf by:

M J Le May
Chief Executive Officer
30 March 2023

VANQUIS BANK LIMITED
(Company Number 2558509)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Vanquis Bank Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in shareholder's equity;
- the statement of cash flows;
- the statement of accounting policies; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 4 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • The estimation of the expected credit losses in Credit Cards Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the company financial statements was £5.7m which represents 4.37% of profit before tax.
Scoping	Audit work to respond to the risks of material misstatements was performed directly by the audit engagement team, with the support of appropriate specialists.
Significant changes in our approach	In relation to our key audit matter, the estimation of expected credit losses in Credit Cards, specifically the in-model and post model adjustments ("IMAs/PMAs"), we understand that the company has continued to unwind the Covid-19 IMA's in Credit Cards as expected. They have continued to retain cost-of-living overlay in Credit Cards due to the continued economic uncertainties including the higher inflationary environment. As a result, we have pinpointed our key audit matter to the valuation of the cost-of-living adjustment rather than focusing on all IMAs/PMAs for this year's audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's going concern assessment, which includes stress testing and point of non-viability ("PONV") analysis as well as consideration of the transformation projects ongoing across the company, in order to understand, evaluate and assess the key judgements made by management;
- obtaining an understanding of relevant controls around management's going concern assessment and the forecasting process;
- inspecting correspondence with regulators to understand the capital and liquidity requirements imposed on the company by the Prudential Regulation Authority ("PRA"), and evaluated any changes to those requirements;
- with involvement of our prudential regulation specialists:
    - reading the most recent Internal Capital Adequacy Assessment and Internal Liquidity Adequacy Assessment, assessing management's capital and liquidity projections, assessing the results of management's capital and liquidity stress testing and evaluating key assumptions and methods used in the capital and liquidity stress testing models; and
    - assessed and evaluated the forecasts, including reconciling opening capital and liquidity ratios to the year-end Common Reporting Framework regulatory submissions and assessing whether the year-end balance sheet within the model was consistent with the audited position.
- assessing the appropriateness of the disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. The estimation of the Expected Credit Losses ("ECL") in Credit Cards

Key audit matter description

Within the Company, management has recognised a total ECL provision for Credit Cards of £270.4m as at 31 December 2022 (2021: £353.8m) on gross receivables of £1,452.0m (2021: £1,417.2m).

The IFRS 9 expected credit losses on amounts receivable from customers are calculated by modelling expected credit performance of the receivables' portfolios. The underlying modelling techniques are complex and require management to make significant judgements regarding the quantum and timing of expected future cash flows to calculate expected credit losses. Provisions for expected credit losses are an area of management judgement where there is a risk of fraud due to the potential ability of management to introduce inappropriate bias to judgements made in the estimation process.

IFRS 9 requires that an impairment assessment should be the best estimate of expected credit losses and that reasonable forward-looking information should be incorporated into the calculation as at the balance sheet date. The ongoing impacts of the cost-of-living crisis, alongside uncertainties in the macroeconomic environment and inflationary pressures, mean there exists a wide range of scenarios with different loss outcomes. The key economic variables relevant for the Company's portfolio were determined to be the hazard rate, which is the likelihood of shifting from employment to unemployment in a given time period, and debt-to-income ratios. The hazard rate is not a widely used variable for which forecasts are published; however, there is a strong correlation between hazard rates and unemployment such that hazard rates can be predicted based on unemployment forecasts. There is significant judgement in determining the probability weighting of the scenarios adopted by management and the associated assumptions.

The expected credit loss provision estimate is driven by account-specific estimation of probability of default (PD), exposure at default (EAD) and loss given default (LGD) which represent the key areas of judgement. We have focused our key audit matter to macro-economic inputs and Cost-of-Living ("CoL") post model adjustments. Management has recognised a £10.0m (2021: £7.8m) PMA in respect of the anticipated impact of the CoL on customers. The PMA is based on management judgement in light of the current economic environment and is supported by modelling analytics. For Credit Cards, we have also focused our key audit matter to the significant changes in credit risk ("SICR") thresholds and 12-month probability of default ("12m PD") recalibration.

The key judgement in relation to SICR is around the determination of the point at which a relative change in PD constitutes a SICR. Whilst historical data can be used to inform these thresholds it also requires significant management judgement to determine the criteria that best evidences this SICR. Management has recalibrated the 12m PD model and SICR thresholds which has resulted in a £50m reduction in the Credit Cards expected credit loss.

Key audit matter description (continued)	Further detail in respect of these is set out in the statement of accounting policies, in the amounts receivables from customers note of the financial statements and also within the Strategic Report.
How the scope of our audit responded to the key audit matter	*Control procedures* We obtained an understanding of relevant controls relating to the identification, valuation and recording of expected credit losses. *Substantive procedures* We obtained an understanding of the methodology changes in the IFRS 9 models relating to the SICR and 12m PD recalibration. We involved our credit risk modelling specialists to assist in our assessment and challenge of management's methodology and assessed these methodology changes against the requirements of IFRS 9. In performing these procedures, we further considered whether there were any indicators of bias in the methodology applied by management or in the estimation of the amount and timing of expected future cash flows, through a stand back assessment performed on the ECL coverage ratios derived from the models. In addition, we have tested that the methodology changes have been reflected in the models through assessment of the underlying scripts, tested the completeness and accuracy of the data used to form the SICR thresholds and evaluated management's conclusions regarding the appropriateness of the SICR threshold changes in the current macroeconomic environment. In respect of the macroeconomic scenarios applied we involved our economics specialist to assess the appropriateness of the shape of the hazard rate and DTI curves and the respective weightings attached to the curves, whilst also testing the underlying data used in this assessment for completeness and accuracy. We benchmarked the underlying unemployment economic variables against various external sources including His Majesty's Treasury forecasts, Prudential Regulation Authority, Office for National Statistics, and other available data. In respect of the Cost-of-Living PMA, with the involvement of our credit modelling specialists we assessed the appropriateness of the methodology and assumptions applied by management in determining the value of the CoL adjustment. This included performing benchmarking of the ECL against peers to inform our assessment and evaluating the results of the stress scenarios performed by management and the appropriateness of the underlying assumptions. We also evaluated management's credit risk monitoring analysis to determine whether any significant deterioration in customer performance has occurred to date.
Key observations	Based on our substantive testing we found that the provision for expected credit losses is appropriate. We considered the macroeconomic assumptions and weightings and the assumptions underpinning the Cost-of-Living PMAs to be reasonable. We also considered the SICR thresholds and 12m PD recalibration to be appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

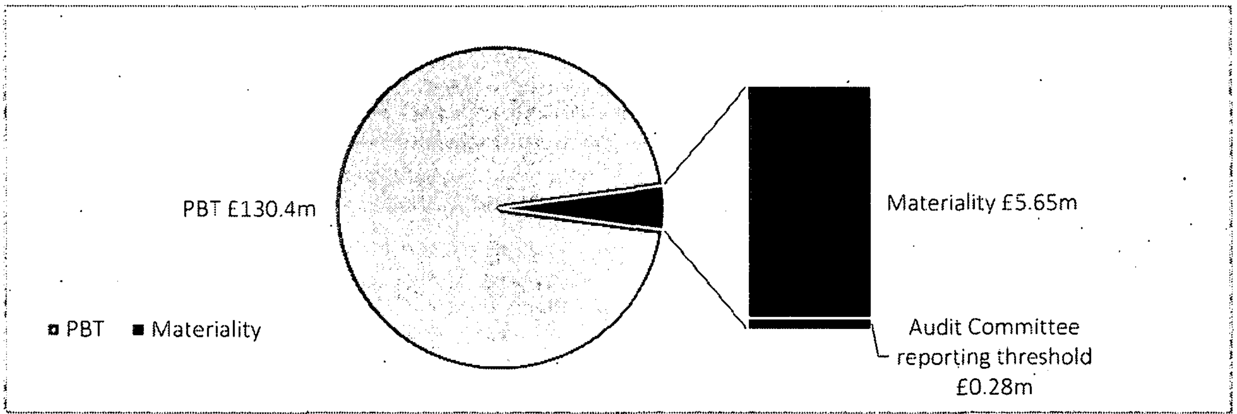
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£5.7m (2021: £6.0m)
Basis for determining materiality	4.37% of profit before tax (2021: 3.37% of profit before tax)
Rationale for the benchmark applied	Our benchmark upon which materiality is determined is consistent with the prior period. The materiality figure has been capped at the lower of 5.00% of profit before tax and the materiality assigned to the Company for the purpose of its parent company audit. This equates to 4.43% of profit before tax.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

a. our understanding of the business;
b. the quality of the control environment and control reliance over the gross loan balance for credit card and deposit systems; and
c. the nature, volume and size of misstatements (corrected and uncorrected) in the previous audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.28m (2021: £0.30m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, with the support of appropriate specialists.

7.2. Our consideration of the control environment

We identified the financial reporting, lending and deposit business cycles to be the most relevant to the audit, including the identification, valuation and recording of expected credit losses. We were able to take a controls reliance approach over the credit card lending and deposit business cycles and with the involvement of our IT specialists we tested and relied upon IT controls across the credit card lending and deposit systems identified. Since the Company outsources the processing of customer deposits and card transaction processing to third parties, we involved our IT specialists to review the service auditor's report and we have shared observations from our procedures with management and the Audit Committee.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its financial statements

The company contributes as a subsidiary of a wider group as the group continues to develop its assessment of the potential impacts of climate change.

As part of our audit, we have obtained an understanding of the process of identifying climate-related risks and the impact on the company's financial statements.

We performed our own qualitative and quantitative risk assessment of the potential impact of climate change material misstatement. Our procedures included reading disclosures included in the Strategic Report with the audit team consideration as to whether they are materially consistent with the financial statements and our knowledge obtained in the audit..

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, share based payments, data analytics, prudential regulatory, IT, macro-economic and credit risk modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the estimation of Expected Credit Losses on credit cards. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, distributable profits legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the regulation set by the Financial Conduct Authority and by the Prudential Regulation Authority relating to the regulatory capital and liquidity requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

11.2. Audit response to risks identified

As a result of performing the above, we identified the estimation of Expected Credit Losses on credit cards as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory bodies such as the Prudential Regulation Authority, the Financial Conduct Authority and HMRC;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 28 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the directors on 29 June 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 11 years, covering the years ending 31 December 2012 to 31 December 2022.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

K. J. Cooper

Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
30 March 2023

VANQUIS BANK LIMITED
(Company Number 2558509)

INCOME STATEMENT

For the year ended 31 December	Note	2022 £m	2021 £m
Interest income	2	**349.3**	340.3
Interest expense	3	**(24.5)**	(25.9)
Net interest income		**324.8**	314.4
Fee and commission income		**47.0**	60.3
Fee and commission expense		**(2.8)**	(2.9)
Net fee and commission income		**44.2**	57.4
Other income		**6.4**	0.4
Total income		**375.4**	372.2
Impairment charges	11	**(25.3)**	(5.9)
Risk-adjusted income		**350.1**	366.3
Operating costs		**(219.7)**	(188.3)
Profit before tax	4	**130.4**	178.0
Profit before tax and exceptional items		**130.6**	179.1
Exceptional items	5	**(0.2)**	(1.1)
Tax charge	6	**(36.6)**	(32.0)
Profit for the year attributable to equity shareholders		**93.8**	146.0

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December		2022 £m	2021 £m
Profit for the year attributable to equity shareholders		**93.8**	146.0
Items that will not be reclassified subsequently to the income statement:			
- fair value movements transferred to income statement	14	-	(5.3)
- tax on items taken directly to the other comprehensive income	18	-	1.4
Other comprehensive (expense) for the year		-	(3.9)
Total comprehensive income for the year		**93.8**	142.1

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF FINANCIAL POSITION

	Note	**31 December 2022 £m**	31 December 2021 £m
ASSETS			
Cash and cash equivalents	10	**413.0**	413.4
Amounts receivable from customers	11	**1,257.9**	1,091.5
Trade and other receivables	13	**40.3**	30.5
Loan to related party	12	**69.3**	69.3
Investments	14	**10.7**	9.1
Property, plant and equipment	15	**4.8**	5.0
Right-of-use assets	17	**18.0**	30.6
Intangible assets	16	**34.5**	24.5
Current tax assets		**3.4**	1.4
Deferred tax assets	18	**15.5**	25.0
Total assets		**1,867.4**	1,700.3
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	22	**175.1**	81.3
Provisions	23	**2.2**	5.3
Lease liabilities	21	**30.8**	37.6
Retail deposits	20	**1,100.6**	1,018.6
Collateralised loan	20	**173.7**	172.2
Total liabilities		**1,482.4**	1,315.0
Equity attributable to owners of the parent			
Share capital	24	**124.2**	124.2
Share based payment reserve	25	**2.3**	1.9
Retained earnings		**258.5**	259.2
Total equity		**385.0**	385.3
Total liabilities and equity		**1,867.4**	1,700.3

The financial statements on pages 36 to 86 were approved by the board of directors on 30 March 2023 and signed on its behalf by:

Malcolm Le May
Chief Executive Officer

Neeraj Kapur
Finance Director

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share - based payment reserve £m	Fair value reserve £m	Retained earnings £m	Total £m
At 31 December 2020		124.2	2.0	3.9	197.0	327.1
At 1 January 2021		124.2	2.0	3.9	197.0	327.1
Profit for the year		-	-	-	146.0	146.0
Other comprehensive income:						
- fair value movements transferred to income statement		-	-	(5.3)	-	(5.3)
- tax on items taken directly to other comprehensive income		-	-	1.4	-	1.4
Other comprehensive expense for the year		-	-	(3.9)	-	(3.9)
Total comprehensive (expense)/income for the year		-	-	(3.9)	146.0	142.1
Share-based payment charge	25	-	1.1	-	-	1.1
Transfer of share-based payment reserve	25	-	(1.2)	-	1.2	-
Dividends	7	-	-	-	(85.0)	(85.0)
At 31 December 2021		124.2	1.9	-	259.2	385.3
At 1 January 2022		124.2	1.9	-	259.2	385.3
Profit for the year		-	-	-	93.8	93.8
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	93.8	93.8
Share-based payment charge	25	-	1.0	-	-	1.0
Transfer of share-based payment reserve	25	-	(0.6)	-	0.6	-
Dividends	7	-	-	-	(95.1)	(95.1)
At 31 December 2022		**124.2**	**2.3**	**-**	**258.5**	**385.0**

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	**2022 £m**	2021 £m
Cash flows from operating activities			
Cash generated from operations	27	**75.2**	212.9
Funding costs paid		**(10.9)**	(25.9)
Tax paid		**(13.4)**	(6.1)
Net cash generated from operating activities		**50.9**	180.9
Cash flows from investing activities			
Purchase of property and equipment	15	**(2.5)**	(0.7)
Purchase of intangible assets	16	**(19.2)**	(16.9)
Net cash (used in) investing activities		**(21.7)**	(17.6)
Cash flows from financing activities			
Capital elements of lease payments		**(6.1)**	(6.1)
Proceeds from borrowings		**485.5**	295.8
Repayment of borrowings		**(413.9)**	(788.2)
Dividends paid to company shareholder	7	**(95.1)**	(85.0)
Net cash (used in) financing activities		**(29.6)**	(583.5)
Net (decrease) in cash and cash equivalents		**(0.4)**	(420.2)
Cash and cash equivalents at beginning of year		**413.4**	833.6
Cash and cash equivalents at end of year		**413.0**	413.4
Cash and cash equivalents at end of year comprise:			
Cash and cash equivalents	10	**413.0**	413.4
Total cash and cash equivalents		**413.0**	413.4

Cash at bank and in hand includes £420.5m (2021: £414.8m) in respect of the liquid assets buffer, including other liquidity resources, held by the Company in accordance with the PRA's liquidity regime.

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF ACCOUNTING POLICIES

General information
The Company is a private company limited by shares and is incorporated and domiciled in England, United Kingdom. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU. The Company is authorised and regulated by the PRA and regulated by the FCA.

Basis of preparation
The financial statements of the Company are prepared in accordance with IFRS as adopted by the UK, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments held at fair value through profit or loss.

In preparing the Financial Statements, the Directors are required to determine that the Company has adequate resources to continue to operate for the foreseeable future. The review has been made on the basis that the Company continues to operate as a going concern for the twelve months from the date the financial statements are approved, but when considering the analysis, the Directors' consideration extended beyond this time period. Accordingly, the Directors have reviewed the Company's latest budgets, which includes capital and liquidity forecasts, on projections from 2022 to 2027. The assessment has included consideration of:

- the Company and Group's corporate plan, which sets out financial, capital, liquidity and funding projections, together with an overview of relevant risks for the three year period to 2025, and also considered less detailed forecasts for 2026 and 2027;
- the principal and emerging risks which could impact the performance of the Company, with a focus on capital and liquidity;
- a severe but plausible stress testing scenario, which is designed to assess the potential impact of certain underlying risks on the Company's capital and funding resources, together with the availability and effectiveness of mitigating actions; and
- reverse stress testing analysis, which is designed to assess the point at which the Company is no longer a viable concern.

Within the severe but plausible downside scenario, 'severe' has been defined consistently with the Company's IFRS 9 'severe' macroeconomic weighting. This assumes that the UK economy enters a period of stagflation in 2023 with inflation rising to approximately 17% and the UK Bank Rate rising to 6%. As a result, the UK unemployment rate rises to approximately 8.5%. The directors have also reviewed the Company's reverse stress testing projections to the point of non-viability, which concluded that the Company's viability only comes into question under an unprecedented macroeconomic scenario.

Having considered the Company's forecasts, the regulatory capital and liquidity of the Company, the principal risks and uncertainties of the Company, and the regulatory outlook, the Directors have a reasonable expectation that the Company will continue for the foreseeable future and will be able to meet its liabilities as they fall due. Accordingly, the Financial Statements of the Company have been prepared on the going concern basis.

Change in presentation of income statement
In line with our continued repositioning as a specialist banking entity, the Company has taken the decision in the current year to change the presentation of its statutory Income Statement to align with the wider banking industry. All periods presented have been retrospectively re-presented. This change does not constitute a change in accounting policy and there is no impact on recognition, measurement or profit and loss in any period presented in the financial statements.

The impact of new standards not yet effective and not adopted by the Company from 1 January 2023
There are no new standards not yet effective and not adopted by the Company from 1 January 2023 which are expected to have a material impact on the Group.

STATEMENT OF ACCOUNTING POLICIES (continued)

Interest income

Interest income is earned from credit cards and personal loans. Interest is calculated on credit card advances to customers using the effective interest rate on the daily balance outstanding.

Interest income on loans is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows. Directly attributable incremental issue costs are also taken into account in calculating the effective interest rate. Interest income continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value until revenue equal to the loan's original service charge has been fully recognised. Interest income is recognised on the gross receivable when accounts are in IFRS 9 Stages 1 and 2 and on the net receivable for accounts in Stage 3.

Directly attributable acquisition costs are capitalised as part of receivables and amortised over the expected life of customer accounts as a deduction to income.

Interest income from the loan to the related party is recognised on an EIR basis.

Fee and commission income

Fee and commission income is earned from credit cards and is recognised at the time the charges are made to customers on the basis that the performance obligation is complete.

Interest expense

Interest expense principally comprises the interest on retail deposits and TFSME borrowings, and are recognised on an EIR basis.

Other income

Other income principally comprises interest received from the Company's liquid asset buffer held in the Bank of England central reserve account.

Exceptional items

Exceptional items are items which the directors consider should be disclosed separately to enable a full understanding of the Company's results. An exceptional item needs to meet at least two of the following criteria: the financial impact is material; it is one-off and not expected to recur; it is outside the normal course of business. Examples include, but are not limited to, costs arising from redundancy, acquisition or restructuring activities. The Audit Committee and Board may also apply judgement to determine whether an item should be classified as an exceptional item and be an allowable adjustment to a statutory measure.

Intangible assets

Intangible assets, which comprise computer software and computer software development costs, represent the costs incurred to acquire or develop the specific software and bring it into use.

Directly attributable costs incurred in the development of software are capitalised as an intangible asset if the software will generate future economic benefits. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software and computer software development costs are amortised on a straight-line basis over their estimated useful economic life which is generally estimated to be between 3 and 10 years. The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Amortisation is charged to the income statement as part of operating costs. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use and its fair value less costs to sell.

Amounts receivable from customers

Customer receivables are initially recorded at the amount advanced to the customer plus directly attributable issue costs. Subsequently, receivables are increased by income and reduced by cash collections and deduction for impairment.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Amounts receivable from customers (continued)
The impairment provisions are recognised for 12 months for Stage 1 accounts, for lifetime for Stage 2 accounts where the credit risk has significantly increased since origination, and for lifetime for Stage 3 accounts where accounts are defaulted. The impairment provisions are calculated using probability of default (PD), exposure at default (EAD) and loss given default (LGD) models.

Stage 1 provisions are held where an account is not defaulted and is not deemed to have suffered a significant increase in credit risk. Accounts are included in stage 2 when there has been a significant increase in credit risk either through a deterioration in lifetime PD compared with origination PD or when they are more than 30 days past due but are not defaulted. Stage 2 exposures are predominantly identified using a quantitative test where the lifetime PD has deteriorated by more than a predetermined threshold relative to origination PDs. The deterioration thresholds are defined as multiples of origination PD and are set by origination risk grades. As origination PD increases, the threshold value reduces. A backstop criteria is also applied to staging of accounts where accounts that are more than 30 days past due but are not defaulted are provided for lifetime losses in Stage 2. An account is considered to be in default and is provided for in Stage 3 when they are more than 90 days past due or are on a payment arrangement.

The Company has developed PD and LGD models which focuses on forecasting customer behaviour to calculate an expected loss impairment provision in accordance with IFRS 9. Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is initially determined with reference to the customer's application score used in underwriting and thereafter using both internal and external data for both credit card and loans customers. The EAD for the Company's card customers represents the current balance on the card plus future expected spend and interest. It does not include any credit line increases which a customer may become eligible for after the balance sheet date. For loans, the EAD follows the amortisation schedules of the loan and adjusted for expected missed payments at point of default. Lifetime losses are recognised when a significant increase in credit risk is evident, either from a missed monthly payment or an increase in PD. Income continues to be recognised on the gross receivable until the customer defaults. A customer is deemed to have defaulted when they become three minimum monthly payments in arrears or they enter a payment arrangement. A customer is charged off in the following cycle after being six minimum monthly payments in arrears.

Macroeconomic provisions are part of the core model and are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their agreements and the losses which are expected to be incurred given default. The provisions consider the relationship between hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), debt to income ratio and default rates.

Property, plant and equipment
Property, plant and equipment is shown at cost less accumulated depreciation and impairment. Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable value over their useful economic lives. The following are the principal bases used:

	%	Method
Leasehold land and buildings	Over the lease period	Straight-line
Equipment (including computer hardware)	10 to 33.3	Straight-line

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date.

All items of property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use and its fair value less costs to sell.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)
Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying value of the asset and are recognised within operating costs in the income statement. Depreciation is charged to the income statement as part of operating costs.

Leases
The Company assesses whether a contract contains a lease at inception of a contract. A right-of-use asset and a corresponding liability is recognised with respect to all lease arrangements where it is a lessee, except for short term leases (leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the lease payments are recognised within administrative and operating expenses on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the incremental borrowing rate is used. This is defined as the rate of interest that the lessee would have to pay to borrow, over a similar term, and with similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. For the Company, this would represent an average retail deposit rate.

The lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments;
- Variable lease payments; and
- Payment of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease, using the EIR method, and reducing to reflect the lease payments made.

The lease liability is re-measured whenever:

- The lease term has changed, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate;
- The lease contract is modified and the modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the year.

The right-of-use asset comprises the initial measurement of the corresponding lease liability and is subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The lease liability and right-of-use asset are presented as separate line items on the balance sheet. The interest on the lease and depreciation are charged to the income statement and presented within interest expense and administrative and operating costs respectively. The Company sub-leases a portion of its office space in London and accounts for it under finance leases.

Investments
Visa Inc shares are measured at fair value in the balance sheet as a reliable estimate of the fair value can be determined. Valuation adjustments arising as a result of routine mark-to-market revaluation are recognised in the income statement against operating costs.

Fair value changes including any impairment losses and foreign exchange gains or losses are recognised within operating costs in the income statement. The fair value of monetary assets denominated in foreign currency are determined through translation at the spot rate at the balance sheet date.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Investments (continued)
Dividends on equity instruments are recognised in the income statement when the Company's right to receive the dividends is established.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand including amounts held within a Bank of England reserve account. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Borrowings
Borrowings are recognised initially at fair value, being issue proceeds less any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds less transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate.

Dividends
Dividend distributions to the Company's shareholder are recognised in the financial statements when paid.

Retirement benefits
Cash contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Share-based payments
Equity-settled schemes:

The ultimate parent company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Deferred Bonus Plan (DBP), the Restricted Share Pan (RSP) and the Company Share Option Plan (CSOP).

The cost of providing options and awards to employees is charged to the income statement of the Company over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity.

The cost of options and awards is based on their fair value. A binomial model is used for calculating the fair value of SAYE options which have no performance conditions attached and the RSP for which vesting is based on the discretion of the Remuneration Committee. No charge has been recognised for the CSOP as it is linked to the RSP awards granted at the same time. Any gains made by an employee in relation to the CSOP reduces the number of shares exercisable under the RSP award. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

For LTIS schemes, performance conditions are based on EPS, Total Shareholder Return (TSR) versus a peer group, risk metrics and profit before tax. The fair value of awards is determined using a combination of the binomial and Monte Carlo option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting. Where the Monte Carlo option pricing model is used to determine fair value of the TSR component, no adjustment is made to reflect expected or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

Cancellations by employees of contributions to the Group's SAYE plans are treated as non-vesting conditions and the Company recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. Modifications are assessed at the date of modification and any incremental charges are recognised in the income statement.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest, lapse or are cancelled. In respect of the SAYE options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Taxation
The tax charge represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Intercompany loan to related party
The intercompany loan to related party is recognised on an amortised cost basis. The amortised cost is the amount at which the loan is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance.

Critical accounting judgements and key sources of estimation uncertainty
In applying the accounting policies set out above, the Company makes significant estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as follows:

<u>Amounts receivable from customers – £1,257.9m (2021: £1,091.5m)</u>

Critical accounting judgements

The Company reviews amounts receivable from customers for impairment at each balance sheet date. For the purposes of assessing the impairment, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The determination of expected credit losses involves complex modelling techniques and requires management to apply significant judgements to calculate expected credit losses. The most critical judgements are outlined below.

Critical accounting judgements and key sources of estimation uncertainty (continued)
The determination of the significant increase in credit risk (SICR) thresholds to be used in the models for credit card and personal loans require management judgement to optimise the performance and therefore effectiveness of the staging methodology. Assessments are made to determine whether there is objective evidence of a SICR which indicates whether there has been an adverse effect on Probability of Default (PD). A SICR for customers is when there has been a significant increase in behavioural score or when one contractual monthly payment has been missed.

During the year, the Company refreshed SICR threshold parameters in the credit cards provisioning model to better reflect the evolving receivables mix following a refocus onto lower-risk market segments. This led to a release of c.£50m.

For the purpose of IFRS 9, default is assumed in credit cards and personal loans when three contractual repayments have been missed.

The Company's impairment models are subject to periodic monitoring, independent validation and back testing performed on model components (where appropriate), including probability of default, exposure at default and loss given default to ensure management judgements remain appropriate.

Limitations in the Company's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management makes appropriate adjustments to the Company's allowance for impairment losses to ensure that the overall provision adequately reflects all material credit risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays. Those changes applied to model inputs and parameters are deemed to be in-model overlays; more qualitative changes that have a higher degree of management judgement are deemed to be post-model overlays. All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated.

During the Covid-19 period, an economic environment which differed significantly from the historical economic conditions upon which the impairment models had been built, there was a greater need for management judgement to be applied in determining appropriate post-model adjustments. The Company has subsequently released all Covid-19 related post model overlays.

A breakdown of the in-model and post-model overlays is included within note 11.

Macroeconomic impairment provision adjustments are recognised in the core model to reflect an increased PD, based on future macroeconomic scenarios. These provisions reflect the potential for future changes in hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), and debt to income ratio. The provision reflects the potential for future changes under a range of forecasts, as analysis has clearly evidenced correlation between hazard rates, debt to income ratios and credit losses incurred. Management judgement was required to determine the appropriate macroeconomic indicators to be used in the model by assessing their correlation with credit losses incurred by the business. Unemployment is judged to be a key macroeconomic indicator as analysis has clearly evidenced correlation between changes in unemployment and credit losses incurred by the business. This will continue to be analysed to assess if there are any additional macroeconomic indicators which also correlate to credit losses.

Management has placed a significant focus on the Cost of Living crisis and post model overlays are recognised across all products. However, credit performance remains stable and internal analysis shows no obvious signs of stress from the cost of living crisis at this stage. The Company's customers are more agile in managing their finances during times of affordability constraints. A significant proportion of the Company's customers are also expected to benefit from wage increases during 2023 which will help alleviate financial stress. Management judgement has been used to determine appropriate amounts to be held as Cost of Living post model overlays taking into account the total level of provisioning held across the portfolio including the macro-economic provision. Scenario modelling techniques have been used to support the amount of post model overlays recognised for a potential Cost of Living impact.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The level of impairment recognised is calculated using models which utilise historical payment performance to generate the estimated amount and timing of future cash flows from each cohort of customers in each arrears stage. The models are regularly monitored to ensure they retain sufficient accuracy. Sensitivity analysis has been performed in note 11 which shows the impact of a 1% movement of gross exposure into stage 2 from stage 1 on the allowance accounts.

The unemployment data used in the macroeconomic provisions has been compiled from a consensus of sources including the Bank of England, HM Treasury, the Office for Budget Responsibility (OBR), Bloomberg and a number of prime banks. These estimates are used to derive base case, upside, downside and severe scenarios.

The table below shows the scenario five-year peak and average unemployment assumptions adopted and the weightings applied to each.

Unemployment rate %	Base	Upside	Downside	Severe
Weighting	50%	10%	35%	5%
Scenario for the year ended 2022				
2023	4.1%	3.4%	4.2%	4.6%
2024	4.7%	3.6%	5.8%	7.4%
2025	4.8%	4.3%	6.3%	8.2%
2026	4.8%	4.5%	5.5%	6.8%
2027	4.8%	4.5%	5.1%	6.0%
5 year peak	4.8%	4.5%	6.5%	8.6%.
Scenario for the year ended 2021				
2022	4.6%	4.2%	5.4%	6.3%
2023	4.3%	3.9%	6.4%	8.5%
2024	4.3%	4.1%	5.9%	7.5%
2025	4.3%	4.1%	5.3%	6.2%
2026	4.3%	4.1%	4.9%	5.4%
5 year peak	4.8%	4.7%	6.5%	8.6%

Weightings applied to the macroeconomic assumptions were reviewed and reconfirmed at the December 2022 Assumptions Committee meeting and remain unchanged from December 2021.

For credit cards and personal loans, increasing the downside weighting by 5%, from 35% to 40%, and a corresponding reduction in the base case would increase the allowance account by £0.1m. Increasing the upside weighting by 5%, from 10% to 15%, and a corresponding reduction in the base case would decrease the allowance account by £0.3m.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgements and key sources of estimation uncertainty (continued)

The impact on the 2022 allowance account for the credit cards and personal loans, if each of the macroeconomic scenarios were applied at 100% weighting, rather than the weightings set out above, is shown below:

	Base £m	Upside £m	Downside £m	Severe £m
Credit cards and personal loans	(0.6)	(6.2)	1.8	5.6

Whilst the forward-looking nature of IFRS 9 requires provisions to be established for all losses arising, the level of uncertainty may mean that the Company's provision levels may change in future periods.

VANQUIS BANK LIMITED
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FINANCIAL AND CAPITAL RISK MANAGEMENT

In line with the Board's formal delegation of authorities and regulatory accountabilities, the Chief Risk Officer (CRO) is ultimately responsible for management and oversight of the Company's Enterprise Risk Management and the Finance Director is ultimately responsible for the financial management and controls of the Company.

The Company also operates within a Group treasury framework and is subject to Group Treasury Policies including counterparty, liquidity, interest rate, market and capital risk.

(a) Credit risk

Credit risk is the risk that the Company will suffer loss in the event of a default by a customer, the ultimate parent undertaking, a bank counterparty or the UK Government. A default occurs when the customer, ultimate parent undertaking, bank or the UK Government fails to honour repayments as they fall due.

(i) Amounts receivable from customers

The Company's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2022 is the carrying value of amounts receivable from customers of £1,257.9m (2021: £1,091.5m).

The Risk Committee is responsible for setting credit policy. The CRO is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy. The CRO discharges and informs this decision making through the Credit Committee. The Credit Committee meets at least 10 times a year.

A customer's risk profile and credit line are evaluated at the point of application and, for revolving limits, at various times during the agreement. Internally generated scorecards based on historical payment patterns and other behavioural characteristics of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant and sourced from external credit bureau. Certain policy rules, including customer profile and proposed loan size, are also assessed in the decisioning process, as well as affordability checks to ensure that, at the time of application, the loan repayments are affordable. For existing customer lending, the scorecards also incorporate data on actual payment performance and product utilisation, together with data sourced from an external credit bureau each month to refresh customers' payment performance position with other lenders. Credit lines can go up as well as down according to risk assessment.

Arrears management is conducted by way of a combination of letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing. These include appropriate forbearance arrangements, or where the contract has become unsustainable for the customer, then an appropriate exit strategy is implemented.

(ii) Loan to related party

The Company's maximum exposure to the loan to the related party (Moneybarn No.1 Limited in the current year, and Vanquis Banking Group plc in 2021) as at 31 December 2022 is the carrying value of the loan of £69.3m (2021: £69.3m). An assessment of the appropriate amount of the loan and its recoverability was made prior to the granting of the loan in June 2022, based on the intragroup credit risk assessment performed by the Group and Company Asset-Liability Committee (ALCO). The assessment concluded that the financial health of the related party, and its ability to generate cash flows, was sufficient to service the loan. The Company will continue to undertake detailed risk assessments at least annually, and more frequently if the counterparty's performance requires it.

(iii) Counterparty risk

The counterparty risk policy is approved by the Board as part of the Company's Treasury and Liquidity Policy with management delegated to the Treasury function. The main exposure is the liquid resources (together with an operational buffer) which the Company holds to comply with its regulatory liquidity obligations which are currently held in a Bank of England central reserve account. The Company does on occasion invest in UK Government Gilts but had £nil at the end of the reporting period (2021: £nil). The Company's maximum exposure to credit risk on bank and government counterparties as at 31 December 2022 was £420.5m (2021: £414.8m).

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk
Liquidity risk is the risk that the Company will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due.

The Company's funding is provided primarily by retail deposits, supplemented by borrowings under the TFSME, supported by internal cash generation. The deposits are a mix of 6-month deposits and one, two, three, four and five year deposits with early withdrawal only allowed in the event of death, mandated legal reasons or hardship, thus ensuring a stable and predictable funding profile.

The Company's Liquidity Policy is approved by the Board with day-to-day management delegated to the Treasury function which discharges and informs the decision-making through the Group and Bank ALCO. This Forum meets monthly and reports to the Board. The Chief Executive Officer is a member of the ALCO and the Treasurer is the vice chair.

The Company's liquidity policy is designed to ensure that it can meet its obligations in the event of stress events. The Company undertakes stress testing to determine the level of liquid resources it should hold to comply with its regulatory obligations. The assumptions in the stress testing are updated at least annually in the Company's ILAAP to ensure continued compliance of the policy to regulatory obligations. The Risk Committee is engaged to provide review and challenge of the ILAAP. The Risk Committee will then recommend the ILAAP to the Board for approval. Key elements of this policy are to maintain overall liquid resources to meet obligations should stress events occur to funding inflows (for example the suspension of deposit taking activities) and outflows (for example increased level of customer transactions). The ILAAP also incorporates the Company's Contingency Funding Plan which documents mitigating actions and procedures to be followed in the event of liquidity stress events.

Since October 2015 the Company has complied and reported to the PRA the Liquidity Coverage Ratio (LCR) which requires institutions to match prescribed net liquidity outflows during a 30-day period with a buffer of 'high quality' liquid assets. The Company has managed down its liquid resources to a normalised level.

The Company's liquid assets buffer amounted to £420.5m at the end of 2022 (2021: 414.8m).

A maturity analysis of the undiscounted contractual cash flows of the Company's financial liabilities is shown below. This shows the future cash payable under current drawings and reflects both the interest payable and the repayment of the borrowing on maturity.

					2022
	<1 year	**1-2 years**	**2-5 years**	**>5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowings:					
- retail deposits	**602.3**	**322.5**	**214.7**	**-**	**1,139.5**
Trade and other payables	**175.1**	**-**	**-**	**-**	**175.1**
Lease liabilities	**6.2**	**6.3**	**12.3**	**8.4**	**33.2**
Collateralised loan	**1.3**	**1.3**	**175.3**	**-**	**177.9**
Total	**784.9**	**330.1**	**402.3**	**8.4**	**1,525.7**

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

					2021
	<1 year	1-2 years	2-5 years	>5 years	Total
	£m	£m	£m	£m	£m
Borrowings:					
- retail deposits	409.1	361.4	272.7	-	1,043.2
Trade and other payables	81.3	-	-	-	81.3
Lease liabilities	6.4	6.5	16.9	11.8	41.6
Collateralised loan	0.8	0.8	175.5	-	177.1
Total	497.6	368.7	465.1	11.8	1,343.2

(c) Market risk

Market risk is the risk of financial loss due to adverse market movements leading to a reduction in the Company's earnings or overall value. The Company's primary market risk exposure is to changes in interest rates (see Interest Rate Risk below). The Company is also exposed to a small amount of Foreign Exchange risk through its investments in non-GBP VISA Inc. shares.

The Group's Corporate Policies do not permit any subsidiary to take trading positions and no speculative activities are undertaken.

(d) Interest Rate Risk in the Banking Book

Interest rate risk is the current or prospective risk to capital or earnings arising from adverse movements in interest rates. The Company's exposure to this risk is a consequence of its lending, deposit-taking, and other borrowing activities, as some of its financial assets and liabilities bear interest at rates that a linked to an underlying index, such as SONIA or Bank Base Rate. In contrast, others Banking products are fixed, either for a term or their whole lives, referred to as Interest Rate Risk in the Banking Book (IRRBB).

The principal market-set interest rate used by the Company's lenders is the Sterling Overnight Index Average (SONIA). The SONIA index tracks the Sterling overnight indexed swaps for unsecured transactions in the market. SONIA is the risk free borrowing rate which is used to set rates for certain borrowings and swaps.

The Group and Company's risk management framework for IRRBB continues to evolve in line with updates in regulatory guidance on methods expected to be used by banks to measure, manage, monitor, and control such risks. The Group and Company will continue to develop the interest rate risk framework to ensure on-going compliance with the PRA rulebook.

The Group and Company manages its IRRBB risk through board-approved risk appetite limits and policies. The Group seeks to minimise the net exposure to changes in interest rates and takes a prudent approach to its risk management.

Day-to-day management of interest rate risk is the responsibility of the Group's Treasury function, with control and oversight provided by the Group and Company ALCO.

(e) Capital risk management

The Company's objective in respect of capital risk management is to maintain an efficient and secure capital structure and maintain an adequate buffer over the regulatory capital requirements set by the PRA.

The Company is subject to prudential regulation and supervision by the PRA. As part of this supervision, it is required to maintain a certain level of regulatory capital (known as its Overall Capital Requirement or OCR) in order to mitigate against unexpected losses. Regulatory capital is monitored by the Board, its risk committee and the ALCO. The Company regularly forecasts regulatory capital requirements as part of its budgeting and strategic planning process and the Company and the Group are required to report quarterly to the PRA on their level of regulatory capital.

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(e) Capital risk management (continued)
As required by the PRA, under the Basel III regulatory framework, the Company also undertakes an ICAAP at least annually. This documents the control framework and the risks faced by the Company including those on its risk register. Capital allocations are made against these risks where appropriate and stress tests run to satisfy management that the level of the Company's capital is adequate even under stressed conditions. The ICAAP is approved by the Risk Committee and the Board.

As part of the supervision by the PRA, the Group, consistent with other regulated financial institutions, is required to make annual Pillar 3 disclosures which set out information on the Group's regulatory capital, risk exposures and risk management processes. Where necessary the disclosures separate out the exposures and processes for the Company.

The Group's full Pillar 3 disclosures can be found on the Group's website, www.vanquisbankinggroup.com.

In accordance with PRA 2013/36, the Company's positive return on assets is 5.0% (2021: 8.6%) calculated using profit after tax divided by total assets.

(f) Currency risk management
The Company has currency exposures in US Dollars as a result of its investment in VISA Inc. As at 31 December 2022, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.1m (2021: £0.2m) movement in the investment held at fair value through profit or loss and a £0.1m (2021: 0.2m) impact on equity.

(g) Exposures to structured entities
As at the end of 2022, the Company has securitised £520.2m of receivables (2021: £513.5m). £174m of funding has been obtained by using retained notes as collateral in the Bank of England's TFSME (2021: £174m).

The Company holds an exposure to the performance of these vehicles in the form of retained notes and has a contractual right to the variable returns of the vehicles. This risk is limited to the performance of the underlying assets, which have not been derecognised in the financial statements. The Company has no exposure to other contractual risks associated with the vehicles; no additional credit enhancements have been provided beyond the exposure created by the retained notes.

VANQUIS BANK LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

1 Segment reporting

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The Company's chief operating decision maker is deemed to be the Company and Group executive committee (ExCo), whose primary responsibility is to support the Chief Executive Officer in managing the Company's day-to-day operations and analyse trading performance. The Company's segments comprise credit cards and personal loans, which are those segments reported in the Company's management accounts as the primary means for analysing trading performance. The ExCo assesses profit performance using profit before tax measured on a basis consistent with the disclose in the Company's financial statements.

	Interest income		Fee and commission income		Profit before taxation	
	2022 **£m**	2021 £m	**2022** **£m**	2021 £m	**2022** **£m**	2021 £m
Credit cards	**336.2**	333.1	**47.0**	60.3	**146.1**	186.7
Personal loans	**13.1**	7.2	**-**	-	**(15.7)**	(8.7)
Total	**349.3**	340.3	**47.0**	60.3	**130.4**	178.0

The credit cards division includes £3.0m of intercompany interest income (2021: £4.3m) and £32.4m of net amounts recharged to the Company on a statutory basis (2021: £12.8m net amounts recharged out by the Company).

2 Interest income

	2022 **£m**	2021 £m
Interest income	**346.3**	336.0
Interest income from loan to related party	**3.0**	4.3
Total	**349.3**	340.3

3 Interest expense

	2022 **£m**	2021 £m
Interest payable on retail deposits	**19.6**	24.5
Interest payable on lease liabilities	**0.6**	1.0
Interest payable on collateralised loan	**3.1**	0.4
Interest payable to ultimate parent undertaking	**1.2**	-
Total	**24.5**	25.9

4 Profit before taxation

	2022 £m	2021 £m
Profit before taxation is stated after charging/(crediting):		
Amortisation of other intangible assets:		
- Computer software (note 16)	**7.2**	5.0
Depreciation of property, plant and equipment (note 15)	**1.7**	2.2
Loss on disposal of property, plant and equipment (note 15)	**1.0**	-
Depreciation of right-of-use asset (note 17)	**6.4**	5.1
Lease liability finance cost (note 3)	**0.6**	1.0
Loss on disposal of intangible assets (note 16)	**2.0**	1.8
Employment costs (note 9)	**77.2**	78.9
Management recharges	**44.5**	(3.6)
IT annual licensing fee and service charges	**26.0**	22.0
Amortised directly attributable acquisition costs (note 11)	**11.7**	13.5
Impairment of amounts receivable from customers (note 11)	**25.3**	5.9
Exceptional item (note 5)	**0.2**	1.1

	2022 £m	2021 £m
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the financial statements	**0.8**	0.9
Total	**0.8**	0.9

An additional £34,000 was due to the Company's auditor in respect of non audit-related assurance services (2021: £75,000).

The ultimate parent undertaking recharges certain administrative costs to the Company in respect of services provided totalling £28.1m (2021: £8.4m).

5 Exceptional items

In 2022, an exceptional cost was recognised in respect of a £0.2m accrual for redundancy/terminations.

Charge	2022 £m	2021 £m
Exceptional items:		
– redundancy costs	**0.2**	1.1
Total exceptional cost	**0.2**	1.1

6 Tax charge

Tax charge in the income statement	2022 £m	2021 £m
Current tax	**27.1**	31.8
Deferred tax (note 18)	**6.5**	3.9
Impact of change in UK tax rate	**3.0**	(3.7)
Total tax charge	**36.6**	32.0

The tax credit in respect of exceptional items in 2022 amounts to £0.1m (2021: credit of £0.3m) and represents tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £0.2m of redundancy costs.

The rate of tax charge on the profit before taxation for the year is higher than (2021: lower than) the average rate of mainstream corporation tax and bank corporation tax surcharge rate in the UK of 27.0%. This can be reconciled as follows:

	2022 £m	2021 £m
Profit before taxation	**130.4**	178.0
Profit before taxation multiplied by the average rate of mainstream corporation tax and bank surcharge in the UK of 27% (2021: 27%)	**(35.2)**	(48.1)
Effect of:		
- adjustment in respect of prior years	**(0.7)**	(0.2)
- adjustment in respect of prior years related to group losses (note d)	**(2.9)**	3.8
- impact of change of UK tax rate (note a)	**(3.0)**	3.7
- impact of permanent differences	**-**	0.1
- profits not taxed for bank surcharge purposes (note b)	**2.0**	2.0
- deferred tax assets written off (note e)	**(0.1)**	0.2
- discount on payment for group tax losses (note c)	**3.3**	6.5
Total tax (charge)	**(36.6)**	(32.0)

a) Impact of change of UK tax rates

In 2021, changes were enacted to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023.

6 Tax charge (continued)

At 31 December 2021, deferred tax balances were re-measured at the combined mainstream corporation tax rate (25%) and bank corporation tax surcharge rate (8%) of 33% to the extent that the temporary differences on which deferred tax had been calculated were expected to reverse after 1 April 2023.

In 2022, further changes were enacted which, with effect from 1 April 2023, reduce the bank corporation tax surcharge rate from 8% to 3% and increase the bank corporation tax surcharge allowance, being the threshold below which banking profits are not subject to the surcharge, from £25m to £100m. To the extent the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2023, deferred tax balances at 31 December 2022 and movements in deferred tax balances during the year have been re-measured at the combined mainstream corporation tax rate (25%) and bank corporation tax surcharge rate (3%) of 28% (2021: 33%) except to the extent the temporary differences are expected to reverse when profits are expected to be below the bank surcharge threshold, in which case deferred tax balances have been measured at the combined rate of 25% (2021: 33%).

A tax charge of £3.0m (2021: credit of £3.7m) represents the income statement adjustment to deferred tax as a result of these changes and no additional deferred tax charge (2021: nil) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income.

b) Profits not taxed for bank surcharge purposes

The first £25m (2021: £25m) of the Company's taxable profits are not subject to the bank corporation tax surcharge, giving rise to a beneficial impact on the tax charge of £2.0m (2021: £2.0m).

c) Discount on payment for group tax losses

These comprise a credit of £3.3m (2021: £6.5m credit) relating to tax losses of Group companies which are now discontinued which have been surrendered as group relief to the Company and which the Company has paid for at a discounted price.

d) Adjustment in respect of prior years related to group losses

The tax charge of £2.9m (2021: £3.8m credit) in respect of prior years relates to adjustments to prior year tax losses of Group companies which are now discontinued which were surrendered as group relief to the Company and which the Company paid for at a discounted price.

e) Deferred tax assets written off

Deferred tax assets written off comprise a tax charge of £0.1m (2021: tax credit of £0.2m) and relate to deferred tax assets in respect of share scheme awards where future tax deductions are expected to be lower (2021: higher) than previously anticipated.

7 Dividends

		2022 £m	2021 £m
2020 final	- 32.2 pence per share	-	40.0
2021 interim	- 36.2 pence per share	-	45.0
2022 interim	- 55.7 pence per share	**69.2**	-
2022 interim	- 20.9 pence per share	**25.9**	-
Dividends paid		**95.1**	85.0

No final dividend for the year ended 31 December 2022 is proposed (2021: £nil).

8 Directors' remuneration

Following the alignment of the Company and Group boards, the emoluments of the directors are paid by the ultimate parent company, Vanquis Banking Group plc, and recharged to the Company as part of a management charge. The management charge amounted to £28.1m in 2022 (2021: £8.4m). This management charge also includes a recharge of administrative costs borne by the ultimate parent company on behalf of the Company and it is not possible to identify separately the amount relating to each director's emoluments. The emoluments of these directors are disclosed in the Annual Report and Financial Statements of Vanquis Banking Group plc.

9 Employee information

(a) The average monthly number of persons employed by the Company (including directors) was as follows:

	2022 Number	2021 Number
Analysed as:		
Full time	**1,195**	1,201
Part time	**176**	177
Total	**1,371**	1,378

(b) Employment costs – all employees (including directors) were as follows:

	2022 £m	2021 £m
Aggregate gross wages and salaries paid to the Company's employees	**62.7**	65.9
Employers' National Insurance contributions	**8.4**	6.8
Pension charge	**5.1**	5.1
Share-based payment charge	**1.0**	1.1
Total	**77.2**	78.9

The pension charge comprises contributions to the stakeholder pension scheme.

10 Cash and cash equivalents

	2022 £m	2021 £m
Cash and cash equivalents	**413.0**	413.4

Cash and cash equivalents include £420.5m in Bank of England Central reserve account (2021: £414.8m) held in accordance with the PRA's liquidity regime together with an operational buffer. The cash and cash equivalents amount also includes a current bank account balance of £2.7m (2021: £2.0m), and unpresented cheques of £10.2m (2021: £3.4m) reducing the reported balance.

To ensure that sufficient liquid resources are available to fulfil operational plans and meet financial obligations as they fall due in a stress event, the PRA requires that all regulated entities maintain a liquid assets buffer held in the form of high-quality, unencumbered assets. The total liquid resources required to be held is calculated in line with the Overall Liquidity Adequacy Rule (OLAR) and is set out in the ILAAP undertaken by the Company. Liquid resources must be maintained based upon daily stress tests linked to the key drivers of liquidity risk. This results in a dynamic liquid resources requirement.

11 Amounts receivable from customers

The Company's receivables comprise £1,181.6m (2021: £1,063.4m) in respect of credit cards and £76.3m (2021: £28.1m) in respect of loans.

All of the Company's card receivables are due within one year. There is no fixed term for repayment of credit card balances other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the greater of 3% of the amount owed, plus any fees and interest charges in the month, or £10.

The Company's unsecured loan receivables are reported as current for amounts due within 12 months and non-current for amounts due in greater than 12 months. The loans are on a fixed repayment term with fixed payments over the period of the loan.

The gross receivable and allowance account which form the net amounts receivable from customers is as follows:

			2022 £m			2021 £m
	Credit cards	**Personal loans**	**Total**	Credit cards	Personal loans	Total
Gross amounts receivable from customers	**1,452.0**	**85.5**	**1,537.5**	1,417.2	33.7	1,450.9
Allowance account	**(270.4)**	**(9.2)**	**(279.6)**	(353.8)	(5.6)	(359.4)
Reported amounts receivable from customers	**1,181.6**	**76.3**	**1,257.9**	1,063.4	28.1	1,091.5

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Amounts receivable from customers (continued)

Amounts receivable from customers for credit cards can be reconciled as follows:

Credit cards	Stage 1 £m	Stage 2 £m	Stage 3 £m	2022 Total £m
Gross carrying amount				
At 1 January	883.8	340.9	192.5	1,417.2
New financial assets originated and new drawdowns	1,906.8	210.1	16.7	2,133.6
Net transfers and changes in credit risk:				
- From stage 1 to 2	(584.7)	584.7	-	-
- From stage 1 to 3	(20.2)	-	20.2	-
- From stage 2 to 1	532.4	(532.4)	-	-
- From stage 2 to 3	-	(180.1)	180.1	-
- From stage 3 to 1	21.5	-	(21.5)	-
- From stage 3 to 2	-	15.3	(15.3)	-
Write-offs	(9.8)	(12.6)	(156.8)	(179.2)
Recoveries	(1,884.4)	(378.2)	(56.9)	(2,319.5)
Income	271.2	101.0	8.0	380.2
Other movements	-	-	19.7	19.7
At 31 December	1,116.6	148.7	186.7	1,452.0
Allowance account				
At 1 January	99.7	102.1	152.0	353.8
Movements through income statement:				
Drawdowns and net transfers and changes in credit risk				
- From stage 1 to 2	(76.5)	210.6	-	134.1
- From stage 1 to 3	(5.4)	-	17.4	12.0
- From stage 2 to 1	55.8	(185.8)	-	(130.0)
- From stage 2 to 3	-	(100.8)	118.5	17.7
- From stage 3 to 1	1.4	-	(3.9)	(2.5)
- From stage 3 to 2	-	3.0	(3.0)	-
- Other movements	28.0	41.7	(84.2)	(14.5)
Total movements through income statement	3.3	(31.3)	44.8	16.8
Other movements:				
Write-offs	(9.8)	(12.6)	(156.8)	(179.2)
Amounts recovered	-	-	79.0	79.0
Allowance account at 31 December	93.2	58.2	119.0	270.4
Reported amounts receivable from customers at 31 December	1,023.4	90.5	67.7	1,181.6
Reported amounts receivable from customers at 1 January	784.1	238.8	40.5	1,063.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Amounts receivable from customers (continued)

				2021
Credit cards	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount				
At 1 January	1,023.8	186.5	331.7	1,542.0
New financial assets originated and new drawdowns	1,975.9	79.7	32.9	2,088.5
Net transfers and changes in credit risk:				
- From stage 1 to 2	(833.8)	833.8	-	-
- From stage 1 to 3	(50.4)	-	50.4	-
- From stage 2 to 1	544.5	(544.5)	-	-
- From stage 2 to 3	-	(121.5)	121.5	-
- From stage 3 to 1	63.3	-	(63.3)	-
- From stage 3 to 2	-	24.8	(24.8)	-
Write-offs	(11.2)	(11.1)	(155.2)	(177.5)
Recoveries	(2,147.8)	(174.7)	(126.4)	(2,448.9)
Income	315.1	60.0	14.0	389.1
Other movements	4.4	7.9	11.7	24.0
At 31 December	883.8	340.9	192.5	1,417.2
Allowance account				
At 1 January	166.4	88.9	211.6	466.9
Movements through income statement:				
Drawdowns and net transfers and changes in credit risk				
- From stage 1 to 2	(157.4)	331.0	-	173.6
- From stage 1 to 3	(9.8)	-	23.8	14.0
- From stage 2 to 1	122.2	(248.2)	-	(126.0)
- From stage 2 to 3	-	(80.2)	92.9	12.7
- From stage 3 to 1	6.3	-	(9.3)	(3.0)
- From stage 3 to 2	-	6.5	(3.8)	2.7
- Other movements	(18.2)	13.8	(65.9)	(70.3)
Total movements through income statement	(56.9)	22.9	37.7	3.7
Other movements:				
Write-offs	(11.2)	(11.1)	(155.2)	(177.5)
Amounts recovered	1.4	1.4	57.9	60.7
Allowance account at 31 December	99.7	102.1	152.0	353.8
Reported amounts receivable from customers at 31 December	784.1	238.8	40.5	1,063.4
Reported amounts receivable from customers at 1 January	857.4	97.6	120.1	1,075.1

11 Amounts receivable from customers (continued)

Movements in the allowance account include c.£50m in relation to the refreshed SICR threshold parameters to better reflect the evolving receivables mix, following a refocus onto lower risk market segments.

Recoveries have reduced in 2022 due to the impact of debt sale activity. Other movements through the income statement include movements from risk level changes that do not result in staging movements, charged off accounts, exited accounts and debt sales.

As at 31 December 2022 unutilised credit card commitments were £1,370.9m (2021: £1,229.3m).

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £3.4m (2021: £1.6m) based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

A breakdown of the in-model and post-model overlays for credit cards is shown below:

	2022 £m	2021 £m
Core model	**254.1**	299.8
In model overlays	**-**	27.9
Post model overlays	**16.3**	26.1
Total	**270.4**	353.8

Within in-model overlays:

	2022 £m	2021 £m
Covid-19 overlay for cards	**-**	27.9
Total in-model overlays	**-**	27.9

Within post-model overlays:

	2022 £m	2021 £m
Affordability (note (b))	**0.3**	5.0
Persistent debt (note (c))	**2.8**	5.8
Recoveries (note (d))	**2.5**	7.4
Cost of living (note (e))	**10.0**	7.8
Other	**0.7**	0.1
Total post-model overlays	**16.3**	26.1

(a) Covid-19 overlay

The impact of Covid-19 significantly influenced credit card provisioning methodology. The core IFRS 9 models utilise a scorecard approach to calculating a 12-month PD and the relationships between the established drivers of default risk found in the PD scorecards; it was previously assumed the 12-month PD may be distorted during the Covid-19 period. This potential distortion could be caused by external government support initiatives or the natural lag that is apparent when risk profiles change. Accordingly, an in-model utilisation adjustment was made to the probability of default models for credit cards.

However, the underlying risk profile of these customers has not fundamentally changed, and over the course of 2022 it became evident that this utilisation adjustment was no longer required. Consequently this adjustment has been fully unwound during the year.

11 Amounts receivable from customers (continued)

(b) Affordability

An additional IFRS 9 impairment provision has been created to cover the principal balance of those customers impacted by risk events which may need to be written off. These risk events arose from minor temporary data misalignment instances impacting a small number of accounts which have now been remediated.

(c) Persistent debt

A post model overlay was calculated to refine provisioning for those customers who have entered persistent debt for over 36 months. These customers have been split into two categories: those who have responded to communication and agreed to pay down their outstanding balance; and those who are making minimum payments but have not responded to communications. The core model does not consider this refinement and therefore a post model overlay is required.

(d) Recoveries

A post-model overlay was created in 2021 to account for an estimated reduction in recoveries for debt sold to debt collection agencies. Updated information and further refinement in understanding the extent of our exposure has led to management reducing the recoveries overlay from £7.4m to £2.5m.

(e) Cost of living

Consumer prices, as measured by the Consumer Prices Index (CPI), was 10.5% in December 2022, and the government has announced a range of measures to support households during the current economic environment. After accounting for these policies most lower income households are expected to be protected from the increase in inflation. But for many other households, inflation is still a looming risk albeit recent Government forecasts predict a weaker than previously expected recession. The IFRS 9 macro-economic model does not consider inflation or CPI, as there is no significant correlation between inflation and expected credit losses. However it is recognised that the increase in CPI may have some impact on the existing book. Management therefore continue to retain a post model overlay for cost of living of £10.0m (2021: £7.8m).

The underlying credit metrics of the receivables book remain stable and show no signs of significant increase in credit risk. The £10.0m overlay is based on management judgement, reflecting the Company's proactive approach to risk management and is appropriately supported by modelling analytics.

A breakdown of the gross credit card receivable by internal credit risk rating is shown below:

				2022
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Good	975.9	90.6	-	1,066.5
Satisfactory	140.7	58.1	-	198.8
Lower quality	-	-	186.7	186.7
Total	**1,116.6**	**148.7**	**186.7**	**1,452.0**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Amounts receivable from customers (continued)

				2021
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Good	763.7	269.1	-	1,032.8
Satisfactory	120.1	71.8	-	191.9
Lower quality	-	-	192.5	192.5
Total	883.8	340.9	192.5	1,417.2

Low-quality receivables relate to defaulted accounts and are therefore assigned as stage 3. Satisfactory receivables consist of accounts that are above a prescribed PD cut off, dependent on the customer's credit score. High quality receivables consist of accounts that are below a prescribed PD cut off, dependent on the customer's credit score.

11 Amounts receivable from customers (continued)

Amounts receivable from customers for personal loans can be reconciled as follows:

				2022
Personal loans	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount				
At 1 January	**29.9**	**1.8**	**2.0**	**33.7**
New financial assets originated and new drawdowns	**86.0**	**1.7**	**2.3**	**90.0**
Net transfers and changes in credit risk:				
- From stage 1 to 2	**(1.4)**	**1.4**	**-**	**-**
- From stage 1 to 3	**(16.4)**	**-**	**16.4**	**-**
- From stage 2 to 1	**0.4**	**(0.4)**	**-**	**-**
- From stage 2 to 3	**-**	**(1.7)**	**1.7**	**-**
- From stage 3 to 1	**0.1**	**-**	**(0.1)**	**-**
- From stage 3 to 2	**-**	**-**	**-**	**-**
Write-offs	**-**	**-**	**(6.2)**	**(6.2)**
Recoveries	**(32.5)**	**(1.1)**	**(10.2)**	**(43.8)**
Income	**12.0**	**0.4**	**0.7**	**13.1**
Other movements	**-**	**-**	**(1.3)**	**(1.3)**
At 31 December	**78.1**	**2.1**	**5.3**	**85.5**
Allowance account				
At 1 January	**3.5**	**0.8**	**1.3**	**5.6**
Movements through income statement:				
Drawdowns and net transfers and changes in credit risk				
- From stage 1 to 2	**(0.1)**	**0.7**	**-**	**0.6**
- From stage 1 to 3	**(0.9)**	**-**	**3.5**	**2.6**
- From stage 2 to 1	**-**	**(0.1)**	**-**	**(0.1)**
- From stage 2 to 3	**-**	**(0.4)**	**0.4**	**-**
- From stage 3 to 1	**-**	**-**	**-**	**-**
- From stage 3 to 2	**-**	**-**	**-**	**-**
- Other movements	**2.5**	**(0.3)**	**3.2**	**5.4**
Total movements through income statement	**1.5**	**(0.1)**	**7.1**	**8.5**
Other movements:				
Write-offs	**-**	**-**	**(6.2)**	**(6.2)**
Amounts recovered	**-**	**-**	**1.3**	**1.3**
Allowance account at 31 December	**5.0**	**0.7**	**3.5**	**9.2**
Reported amounts receivable from customers at 31 December	**73.1**	**1.4**	**1.8**	**76.3**
Reported amounts receivable from customers at 1 January	**26.4**	**1.0**	**0.7**	**28.1**

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Amounts receivable from customers (continued)

				2021
Personal loans	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount				
At 1 January	20.7	1.8	3.9	26.4
New financial assets originated and new drawdowns	27.2	1.6	1.7	30.5
Net transfers and changes in credit risk:				
- From stage 1 to 2	(1.4)	1.4	-	-
- From stage 1 to 3	(1.4)	-	1.4	-
- From stage 2 to 1	0.5	(0.5)	-	-
- From stage 2 to 3	-	(0.3)	0.3	-
- From stage 3 to 1	0.2	-	(0.2)	-
- From stage 3 to 2	-	0.1	(0.1)	-
Write-offs	-	-	(4.5)	(4.5)
Recoveries	(23.5)	(1.4)	(1.5)	(26.4)
Income	6.4	0.4	0.4	7.2
Other movements	1.2	(1.3)	0.6	0.5
At 31 December	29.9	1.8	2.0	33.7
Allowance account				
At 1 January	3.6	1.3	2.4	7.3
Movements through income statement:				
Drawdowns and net transfers and changes in credit risk				
- From stage 1 to 2	(0.1)	0.1	-	-
- From stage 1 to 3	(0.1)	-	0.5	0.4
- From stage 2 to 1	-	(0.1)	-	(0.1)
- From stage 2 to 3	-	(0.1)	0.1	-
- From stage 3 to 1	-	-	(0.1)	(0.1)
- From stage 3 to 2	-	-	-	-
- Other movements	0.1	(0.4)	2.2	1.9
Total movements through income statement	(0.1)	(0.5)	2.7	2.1
Other movements:				
Write-offs	-	-	(4.5)	(4.5)
Amounts recovered	-	-	0.7	0.7
Allowance account at 31 December	3.5	0.8	1.3	5.6
Reported amounts receivable from customers at 31 December	26.4	1.0	0.7	28.1
Reported amounts receivable from customers at 1 January	17.1	0.5	1.5	19.1

11 Amounts receivable from customers (continued)

Write offs have increased in line with the growth in the loan book.

Other movements through income statement include movements from risk level changes that do not result in staging movements, charged off accounts, exited accounts and debt sales.

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £0.2m (2021: £0.1m) based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

A breakdown of the in-model and post-model overlays for personal loans is shown below:

	2022	2021
	£m	£m
Core model	**8.6**	3.9
In model overlays	**-**	-
Post model overlays	**0.6**	1.7
Total	**9.2**	5.6

Within post-model overlays:

	2022	2021
	£m	£m
Covid-19 overlay (note (a))	**-**	1.7
Cost of living (note (b))	**0.3**	-
Other	**0.3**	-
Total post-model overlays	**0.6**	1.7

(a) Covid-19 overlay

In December 2020, a post-model adjustment for the payment holiday population and any future take-up of payment holidays expected in the personal loans portfolio was held, as these customers will exhibit greater losses than indicated based on the historical experience within the core model. This was updated in December 2021 as payment holidays ceased and an increased PD for up-to-date accounts was applied as a result of more accounts being expected to fall into default after the removal of the government support scheme. Over the course of 2022 it became evident that the overlay was no longer required and it has been gradually unwound during the year.

(b) Cost of living

In light of rising inflation and higher energy costs, an additional provision is required for the expected rise in cost of living which may impact customers' ability to make repayments.

11 Amounts receivable from customers (continued)

A breakdown of the gross personal loan receivable by internal credit risk rating is shown below:

				2022
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Good	62.3	0.6	-	62.9
Satisfactory	15.8	1.5	-	17.3
Lower quality	-	-	5.3	5.3
Total	**78.1**	**2.1**	**5.3**	**85.5**

				2021
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Good	19.2	1.4	-	19.2
Satisfactory	10.7	1.8	-	12.5
Lower quality	-	-	2.0	2.0
Total	29.9	1.8	2.0	33.7

Low-quality receivables relate to defaulted accounts and are therefore assigned as stage 3. Satisfactory receivables consist of accounts that are above a prescribed PD cut off, dependent on the customer's credit score. High-quality receivables consist of accounts that are below a prescribed PD cut off, dependent on the customer's credit score.

The movement in directly attributable acquisition costs included within amounts receivable from customers can be analysed as follows:

			2022 £m			2021 £m
	Credit cards	**Personal loans**	**Total**	Credit cards	Personal loans	Total
Brought forward	**29.4**	**0.2**	**29.6**	32.9	-	32.9
Capitalised	**11.9**	**1.8**	**13.7**	10.0	0.2	10.2
Amortised	**(11.0)**	**(0.7)**	**(11.7)**	(13.5)	-	(13.5)
Carried forward	**30.3**	**1.3**	**31.6**	29.4	0.2	29.6

The average effective interest rate for the year ended 31 December 2022 was 25% for credit cards (2021: 24%) and 28% for personal loans (2021: 31%)

The average period to maturity of the amounts receivable from customers within personal loans is 1.7 years (2021: 1.5 years). Within credit cards, for the majority of customers, there is no fixed term for repayment other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. This is currently the greater of 3% of the amount owed plus any fees and interest charges in the month and £10.

12 Loan to related party

In August 2020, the Company issued a 2 year £70m loan with a fixed interest rate of 6.25% p.a. to Vanquis Banking Group plc, the Company's ultimate parent. The loan was repaid in full on 30 June 2022, then immediately advanced to Group subsidiary Moneybarn No. 1 Limited ('MB No. 1') at an interest rate of 2.43%. MB No. 1 repaid £10m of the balance on 31 December 2022, then utilised the withdrawal limits as per the loan agreement to be advanced a further £10m loan at an interest rate of 4.90%, bringing the total outstanding loan amount to £70m at 31 December 2022. The interest rates applicable on the loan are based on the Company's average cost of retail funds (for the weighted average life) plus a margin. The carrying amount of £69.3m at 31 December 2022 (2021: £69.3m) is net of the ECL impairment provision of £0.7m. The Company recognised income on the loan to Vanquis Banking Group plc of £2.1m in 2022 (2021: £4.3m), and £0.9m on the loan to Moneybarn No.1 Limited. Contractually, accrued interest is repaid to the Company on the last business day of the month and is not compounded. The fair value of the loan is approximately equal to the book value.

13 Trade and other receivables

Current assets	2022 £m	2021 £m
Other debtors	**0.4**	0.4
Prepayments and accrued income	**12.9**	12.1
Intercompany account	**20.8**	18.0
Finance lease receivable (a)	**6.2**	-
Total	**40.3**	30.5

The maximum exposure to credit risk of trade and other receivables is the carrying value of each class of receivable set out above. There is no collateral held in respect of trade and other receivables (2021: £nil). The fair value of trade and other receivables equates to their book value.

Prepayments and accrued income include £0.5m (2021: £0.5m) of inventory in the form of plastic card stock and stationery.

(a) Finance lease receivable analysis

In December 2022, the Company entered into a finance lease arrangement to sub-lease 50% of the existing floor space of its London office. As a result the Company now recognises a lease receivable, representing the amount of the Company's net investment outstanding in respect of the finance lease. 50% of the corresponding right-of-use asset has been derecognised (see note 17).

A maturity analysis of the amounts receivable under the finance lease is shown below:

	2022 £m	2021 £m
Due within one year	**-**	-
Due between one and five years	**2.9**	-
Due in more than five years	**3.9**	-
Total	**6.8**	-
Unearned finance cost	(0.6)	-
Total lease receivable	**6.2**	-

13 Trade and other receivables (continued)

Undiscounted lease payments analysed as:

	2022 £m	2021 £m
Recoverable after 12 months	6.8	-
Recoverable within 12 months	-	-
Total	**6.8**	-

Net investment in the lease analysed as:

	2022 £m	2021 £m
Recoverable after 12 months	6.3	-
Recoverable within 12 months	(0.1)	-
Total	**6.2**	-

The finance lease arrangement does not include variable payments. The average effective interest rate contracted is approximately 1.6% per annum. No impairment has been raised against the lease receivable.

14 Investments

Investments comprise shares in Visa, Inc. held by the Company which had a fair value of £10.7m as at 31 December 2022 (2021: £9.1m).

The Visa Inc. shares represent preferred stock in Visa Inc. held by the Company following completion of Visa Inc.'s acquisition of Visa Europe Limited on 21 June 2016. In consideration for the Company's interest in Visa Europe Limited, the Company received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m due on the third anniversary of the completion date. The deferred consideration was received in June 2019.

The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity, as the preferred stock is not tradeable on an open market and can only be transferred to other Visa members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion.

As at 31 December 2022, the total fair value of £10.7m of Visa shares comprised of £4.6m of preferred stock and £6.1m of common stock. The portion of the previously preferred stock was converted to common stock after the sixth anniversary conversion event. The common stock (35,200 of Class A Common shares) was fully sold after the year-end on 24 February 2023 for $219.13 per share.

15 Property, plant and equipment

	Leasehold land and buildings £m	Equipment £m	Total £m
Cost			
At 1 January 2022	4.7	6.7	11.4
Additions	1.6	0.9	2.5
Disposals	(1.9)	-	(1.9)
At 31 December 2022	**4.4**	**7.6**	**12.0**
Accumulated depreciation			
At 1 January 2022	2.5	3.9	6.4
Charged to the income statement	0.3	1.4	1.7
Disposal	(0.9)	-	(0.9)
At 31 December 2022	**1.9**	**5.3**	**7.2**
Net book value at 31 December 2022	**2.5**	**2.3**	**4.8**
Net book value at 1 January 2022	**2.2**	**2.8**	**5.0**

	Leasehold land and buildings £m	Equipment £m	Total £m
Cost			
At 1 January 2021	4.7	11.6	16.3
Additions	-	0.8	0.8
Disposals	-	(5.7)	(5.7)
At 31 December 2021	4.7	6.7	11.4
Accumulated depreciation			
At 1 January 2021	2.1	7.8	9.9
Charged to the income statement	0.4	1.8	2.2
Disposal	-	(5.7)	(5.7)
At 31 December 2021	2.5	3.9	6.4
Net book value at 31 December 2021	2.2	2.8	5.0
Net book value at 1 January 2021	2.6	3.8	6.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Intangible assets

	Computer software £m	Computer software under development £m	Total £m
Cost			
At 1 January 2022	19.9	12.5	32.4
Additions	-	19.2	19.2
Transfers	20.1	(20.1)	-
Disposals	(3.7)	-	(3.7)
At 31 December 2022	**36.3**	**11.6**	**47.9**
Accumulated amortisation			
At 1 January 2022	7.9	-	7.9
Charged to the income statement	7.2	-	7.2
Disposals	(1.7)	-	(1.7)
At 31 December 2022	**13.4**	**-**	**13.4**
Net book value at 31 December 2022	**22.9**	**11.6**	**34.5**
Net book value at 1 January 2022	12.0	12.5	24.5

	Computer software £m	Computer software under development £m	Total £m
Cost			
At 1 January 2021	22.7	6.1	28.8
Additions	-	16.9	16.9
Transfers	10.5	(10.5)	-
Disposals	(13.3)	-	(13.3)
At 31 December 2021	19.9	12.5	32.4
Accumulated amortisation			
At 1 January 2021	14.4	-	14.4
Charged to the income statement	5.0	-	5.0
Disposals	(11.5)	-	(11.5)
At 31 December 2021	7.9	-	7.9
Net book value at 31 December 2021	13.7	10.8	24.5
Net book value at 1 January 2021	8.3	6.1	14.4

The loss on disposal of computer software in 2022 amounted to £2.0m (2021: £1.8m) and represented proceeds received of £nil (2021: £nil) less the net book value of disposals of £2.0m (2021: £1.8m).

The Computer software are internally generated assets. The additions of £19.2m (2021: £16.9m) include £19.2m (2021: £16.9m) of internally generated assets.

17 Right of use assets

	2022 £m	2021 £m
Cost		
At 1 January	**45.7**	45.7
Additions	**-**	-
Disposals	**(9.0)**	-
At 31 December	**36.7**	45.7
Accumulated depreciation and impairment		
At 1 January	**15.1**	10.0
Charged to the income statement	**6.4**	5.1
Disposals	**(2.8)**	-
At 31 December	**18.7**	15.1
Net book value at 31 December	**18.0**	30.6
Net book value at 1 January	**30.6**	35.7

All right-of-use assets relate to property leases.

Disposals in the year relate to a partial sub-lease of the Company's London office, as discussed in note 13. The sub-leased portion of the office has been de-recognised from right-of-use assets.

18 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences between the accounting value of assets and liabilities and their value for tax purposes or from tax losses carried forward at the reporting date.

Deferred tax arises primarily in respect of: (a) property, plant and equipment which is depreciated on a different basis for tax purposes (accelerated capital allowances); (b) the opening balance sheet adjustments to restate the IAS 39 balance sheet onto an IFRS 9 basis for which tax deductions are available over 10 years; (c) the investment in the preference shares in VISA Inc which are recognised at fair value for accounting purposes but which are taxed only on disposal; and (d) other temporary differences, which include: (i) the opening balance sheet adjustment in respect of the change of accounting treatment of directly attributable acquisition costs which is taxable over 10 years; (ii) the opening balance sheet adjustment in respect of the adoption of IFRS 16 (Leases) which is deductible over the average period of the relevant leases; (iii) deductions for employee share awards which are recognised differently for tax purposes; and (iv) certain cost provisions for which tax deductions are only available when the costs are paid.

In 2021, changes were enacted to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023. At 31 December 2021, deferred tax balances were re-measured at the combined mainstream corporation tax rate (25%) and bank corporation tax surcharge rate (8%) of 33% to the extent that the temporary differences on which deferred tax had been calculated were expected to reverse after 1 April 2023.

18 Deferred tax (continued)

In 2022, further changes were enacted which, with effect from 1 April 2023, reduce the bank corporation tax surcharge rate from 8% to 3% and increase the bank corporation tax surcharge allowance, being the threshold below which banking profits are not subject to the surcharge, from £25m to £100m. To the extent the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2023, deferred tax balances at 31 December 2022 and movements in deferred tax balances during the year have been re-measured at the combined mainstream corporation tax rate (25%) and bank corporation tax surcharge rate (3%) of 28% (2021: 33%) except to the extent the temporary differences are expected to reverse when profits are expected to below the bank surcharge threshold, in which case deferred tax balances have been measured at the combined rate of 25% (2021: 33%).

A tax charge of £3.0m (2021: credit of £3.7m) represents the income statement adjustment to deferred tax as a result of these changes, and no additional deferred tax charge (2021: £nil) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income.

Asset	**2022** **£m**	2021 £m
At 1 January	**25.0**	23.8
Charge to the income statement	**(6.5)**	(3.9)
Credit on other comprehensive income	**-**	1.4
Impact of change in the UK tax rate:		
- (charge)/credit to the income statement	**(3.0)**	3.7
At 31 December	**15.5**	25.0

An analysis of the deferred tax asset for the Company is set out below:

					2022
	Accelerated capital allowances **£m**	**IFRS 9** **£m**	**VISA Inc** **£m**	**Other temporary differences** **£m**	**Total** **£m**
At 1 January	1.3	28.5	(3.0)	(1.8)	25.0
Credit/(charge) to the income statement	(0.1)	(4.0)	(0.5)	(1.9)	(6.5)
Credit on other comprehensive income:					
- on fair value movements in investments	-	-	-	-	-
Impact of change in the UK tax rate:					
- credit/(charge) to the income statement	(0.1)	(3.9)	0.5	0.5	(3.0)
At 31 December	1.1	20.6	(3.0)	(3.2)	15.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Deferred tax (continued)

	Accelerated capital allowances £m	IFRS 9 £m	VISA Inc £m	Other temporary differences £m	Total £m
					2021
At 1 January	0.6	28.3	(2.5)	(2.6)	23.8
Credit/(charge) to the income statement	0.5	(4.0)	(1.7)	1.3	(3.9)
Credit on other comprehensive income:					
- on fair value movements in investments	-	-	1.4	-	1.4
Impact of change in the UK tax rate:					
- credit/(charge) to the income statement	0.2	4.2	(0.2)	(0.5)	3.7
At 31 December	1.3	28.5	(3.0)	(1.8)	25.0

In 2021, the £1.4m deferred tax reclassification between other comprehensive income and the income statement in respect of VISA Inc represents the reclassification of the deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates on the cumulative movement in the valuation of the "B" preference shares in Visa Inc which was previously recognised in other comprehensive income and which was recognised in the income statement from 2021.

No deferred tax asset is provided in respect of capital losses carried forward of £13.1m (2021: £13.1m) as it is not probable that future chargeable gains will be realised against which these losses can be utilised.

19 Financial instruments

(a) Classification and measurement

The following table sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

				2022
	Investments held at fair value £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets				
Cash and cash equivalents	-	413.0	-	413.0
Amounts receivable from customers	-	1,257.9	-	1,257.9
Loan to related party	-	69.3	-	69.3
Trade and other receivables	-	27.4	12.9	40.3
Investments	10.7	-	-	10.7
Property, plant and equipment	-	-	4.8	4.8
Intangible assets	-	-	34.5	34.5
Right-of-use assets	-	-	18.0	18.0
Current tax assets	-	-	3.4	3.4
Deferred tax assets	-	-	15.5	15.5
Total assets	**10.7**	**1,767.6**	**89.1**	**1,867.4**
Liabilities				
Retail deposits	-	(1,100.6)	-	(1,100.6)
Collateralised loan	-	(173.7)	-	(173.7)
Lease liabilities	-	(30.8)	-	(30.8)
Trade and other payables	-	(175.1)	-	(175.1)
Provisions	-	-	(2.2)	(2.2)
Total liabilities	**-**	**(1,480.2)**	**(2.2)**	**(1,482.4)**

19 Financial instruments (continued)

The carrying value for all financial assets represents the maximum exposure to credit risk.

	Investments held at fair value £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
				2021
Assets				
Cash and cash equivalents	-	413.4	-	413.4
Amounts receivable from customers	-	1,091.5	-	1,091.5
Loan to related party	-	69.3	-	69.3
Trade and other receivables	-	18.3	12.2	30.5
Investments	9.1	-	-	9.1
Property, plant and equipment	-	-	5.0	5.0
Intangible assets	-	-	24.5	24.5
Current tax assets	-	-	1.4	1.4
Right-of-use assets	-	-	30.6	30.6
Deferred tax assets	-	-	25.0	25.0
Total assets	**9.1**	**1,592.5**	**98.7**	**1,700.3**
Liabilities				
Retail deposits	-	(1,018.6)	-	(1,018.6)
Collateralised loan	-	(172.2)	-	(172.2)
Lease liabilities	-	(37.6)	-	(37.6)
Trade and other payables	-	(81.3)	-	(81.3)
Provisions	-	-	(5.3)	(5.3)
Total liabilities	-	(1,309.7)	(5.3)	(1,315.0)

(b) Fair values of financial assets and liabilities held at fair value

The Company holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy on the degree to which the fair value is observable. The following financial assets and liabilities are held at fair value:

	Level 1 £m	**Level 2 £m**	**Level 3 £m**
			2022
Assets			
Investments			
Visa Inc. shares	**6.1**	-	**4.6**
Total assets	**6.1**	-	**4.6**

	Level 1 £m	Level 2 £m	Level 3 £m
			2021
Assets			
Investments			
Visa Inc. shares		-	9.1
Total assets		-	9.1

19 Financial instruments (continued)

Level 1 fair value measurements are those derived from quoted market prices in active markets for identical assets and liabilities. The Company holds Visa Class A Common Stock in Level 1, which was converted from the preferred stock after the sixth anniversary conversion event. The common stock (35,200 of Class A Common shares) was fully sold after the year-end on 24 February 2023 for $219.13 per share.

Level 2 fair value measurements are those derived from inputs other than quoted market prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company holds Visa preferred stock in Level 3. The valuation has been determined using a combination of observable and non-observable inputs. As the common stock share price of Visa Inc. is readily available, this input is deemed to be observable. However, certain assumptions have been made in respect of the illiquidity adjustment to the share price and the likelihood of future litigation costs. These inputs are therefore deemed to be a significant unobservable input.

The following table sets out their movement during the year:

	2022 £m	2021 £m
At 1 January	**9.1**	9.2
Gains or losses	**1.6**	(0.1)
Total assets	**10.7**	9.1

The illiquidity adjustment has been estimated at around 6% and the expected future litigation costs have been estimated around 15% of the Visa Inc. share price. These assumptions are consistent with the prior year.

The higher the illiquidity and future litigation costs the lower the fair value. The sensitivity to the unobservable inputs, in isolation, is set out in the table below:

	2022 £m	2021 £m
Illiquidity +/- 1%	**0.1**	0.1
Future litigation costs +/- 1%	**0.1**	0.1

20 Bank and other borrowings

(a) Borrowing facilities

A breakdown of borrowings is shown below:

	2022 £m	2021 £m
Retail deposits:	**1,092.2**	1,010.5
- accrued interest	**8.4**	8.1
Total retail deposits	**1,100.6**	1,018.6
Bank and other borrowings:		
- TFSME	**174.0**	174.0
- accrued interest	**1.3**	0.2
- arrangement fees	**(1.6)**	(2.0)
Total bank and other borrowings	**173.7**	172.2
Total borrowings	**1,274.3**	1,190.8

£520.2m (2021: £513.5m) of the Company's credit card receivables are pledged as collateral for the £174.0m borrowed under the TFSME.

20 Bank and other borrowings (continued)

(b) Retail deposits

As at 31 December 2022, £1,100.6m (2021: £1,018.6m) of fixed-rate, fixed-term retail deposits of 6-month, one, two, three, four and five years had been taken, representing 71.6% (2021: 70.2%) of gross amounts receivable from customers. The deposits were issued at rates of between 0.1% and 5.0% (2021: 0.05% and 2.7%)

(c) Maturity profile of borrowings and facilities

The maturity profile of borrowings is as follows:

	2022 £m	2021 £m
Repayable:		
In less than one year	**594.4**	403.3
Between one and two years	**307.9**	351.7
Between two and five years	**372.0**	435.8
Total	**1,274.3**	1,190.8

As at 31 December 2022, the weighted average period to maturity of committed facilities was 2.1 years (2021: 2.2 years).

(d) Fair values of liabilities

The fair value of the Company's borrowings is compared to their book values as follows:

	2022		2021	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Retail deposits	**1,100.6**	**1,068.7**	1,018.6	1,026.5
Collateralised loan	**173.7**	**173.7**	172.2	172.2
Total	**1,274.3**	**1,242.4**	1,190.8	1,198.7

Fair value has been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date and are categorised within level 3 of the fair value hierarchy.

The fair value of the collateralised loan is approximately equal to the book value.

21 Lease liabilities

A maturity analysis of the lease liabilities is shown below:

	2022 £m	2021 £m
Due within one year	**6.2**	6.4
Due between one and five years	**18.6**	23.4
Due in more than five years	**8.4**	11.8
Total	**33.2**	41.6
Unearned finance cost	**(2.4)**	(4.0)
Total lease liabilities	**30.8**	37.6

21 Lease liabilities (continued)

The total cash outflow for leases in the year amounted to £6.1m (2021: £6.1m). The Company has options to terminate the Compass South lease in September 2026 and the Pembroke Court lease in January 2026. As of year-end, the lease liability for Compass South was £7.8m (2021: £9.7m) and the lease liability for Pembroke Court was £5.9m (2021: £7.6m).

22 Trade and other payables

Current liabilities	2022 £m	2021 £m
Trade payables	4.3	9.6
Other payables including taxation and social security	1.6	1.7
Accruals and deferred income	22.1	32.2
Amounts held on deposit for ultimate parent undertaking	90.0	-
Intercompany trading account	57.1	37.8
Total	**175.1**	81.3

The fair value of trade, other payables, amounts held on deposit and intercompany trading account equates to their book value (2021: fair value equated to book value).

23 Provisions

Provision	2022 £m	2021 £m
At 1 January	5.3	2.6
Created	-	3.2
Utilised	(0.8)	(0.5)
Released	(2.3)	-
At 31 December	**2.2**	5.3
Analysed as: - due within one year	2.2	5.3
- due in more than one year	-	-
Total	**2.2**	5.3

Provisions of £2.2m at 31 December 2022 comprise (i) £2.0m relating to the ROP refund programme (2021: £2.1m); and (ii) £0.2m relating to potential customer compliance matters (2021: £3.2m).

(a) <u>ROP refund programme</u>

The Repayment Option Plan (ROP) of £2.0m (2021: £2.1m) principally reflects the estimated cost of the forward flow of ROP complaints more generally which may be received and in respect of which compensation may need to be paid.

(b) <u>Customer compliance</u>

The customer compliance provision relates to general customer compliance matters.

24 Share capital

		2022	2021
		Issued and fully paid	Issued and fully paid
Ordinary shares of £1 each	**- £m**	**124.2**	124.2
	- number (m)	**124.2**	124.2

There are no shares issued and not fully paid at the end of the year (2021: no shares)

25 Share-based payments

Vanquis Banking Group plc operates the following equity-settled share schemes: the Restricted Share Plan (RSP) and associated Company Share Option Plan (CSOP), the Long Term Incentive Scheme (LTIS), employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)), and the Deferred Bonus Plan (DBP) (formerly known as the Performance Share Plan or PSP), where shares in the ultimate parent company are available to the employees of the Company. In 2015, the Company introduced a cash settled scheme, the Vanquis Equity Plan (VEP), for eligible employees based on a percentage of salary. This scheme was discontinued in 2018.

During 2022, awards/options have been granted under the RSP/CSOP, DBP/PSP and SAYE schemes (2021: RSP/CSOP and SAYE).

(a) Equity-settled schemes

The charge to the income statement during the year was £1.0m (2021: £1.1m) for equity-settled schemes. The fair value per award/option granted and the assumptions used in the calculation of the equity settled share-based payment charges are as follows:

			2022		2021
	RSP/CSOP	**DBP/PSP**	**SAYE**	RSP/CSOP	SAYE
Grant date	**07-Apr-22**	**07-Apr-22**	**05-Oct-22**	18-Aug-21	05-Oct-21
Share price at grant date (£)	**2.89**	**2.89**	**1.75**	3.43	3.32
Exercise price (£)	**-**	**-**	**1.43**	-	2.84
Shares awarded / under option	**414,231**	**92,707**	**1,222,483**	449,923	232,610
Vesting period (years)	**3**	**3**	**3 and 5**	3	3 and 5
Expected volatility	**-**	**-**	**60.7%-61.9%**	68.2%	61.5%-78.5%
Option life (years)	**3**	**3**	**Up to 5**	3	Up to 5
Expected life (years)	**3**	**3**	**Up to 5**	3	Up to 5
Risk-free rate	**-**	**-**	**4.1%-4.2%**	-	0.5%-0.7%
Expected dividends expressed as a dividend yield	**n/a**	**n/a**	**8.6%-10.9%**	n/a	5.1%-6.0%
Fair value per award/option (£)	**2.59**	**2.59**	**0.43-0.51**	3.34	1.06-1.33

25 Share-based payments (continued)

A reconciliation of share option movements during the year is shown below:

	RSP/CSOP		LTIS		SAYE		DBP/PSP	
2022	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	944,186	-	152,837	-	1,167,388	2.25	80,821	-
Granted	414,231	-	-	-	498,164	1.43	92,707	-
Cancelled	-	-	-	-	-	-	-	-
Lapsed	(478,693)	-	(144,420)	-	(443,069)	2.36	-	-
Exercised	-	-	-	-	-	-	-	-
Vested	-	-	-	-	-	-	(16,491)	-
Transferred	201,938	-	-	-	-	-	-	-
Outstanding at 31 December	1,081,662	-	8,417	-	1,222,483	1.85	157,037	-
Exercisable at 31 December	-	-	-	-	9,944	2.26	-	-

	RSP/CSOP		LTIS		SAYE		DBP/PSP	
2021	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	562,668	-	714,145	-	1,362,097	2.42	80,821	-
Granted	449,923	-	-	-	232,610	2.84	-	-
Cancelled	-	-	-	-	-	-	-	-
Lapsed	(67,038)	-	(561,308)	-	(427,319)	3.11	-	-
Exercised	-	-	-	-	-	-	-	-
Transferred	(1,367)	-	-	-	-	-	-	-
Outstanding at 31 December	944,186	-	152,837	-	1,167,388	2.25	80,821	-
Exercisable at 31 December	-	-	-	-	27,063	5.38	-	-

Share awards outstanding under the LTIS scheme at 31 December 2022 had an exercise price of £nil (2021: £nil) and a weighted average remaining contractual life of 0.2 years (2021: 0.3 years).

Share options outstanding under the SAYE schemes at 31 December 2022 had exercise prices ranging from 143p to 501p (2021: 182p to 538p) and a weighted average remaining contractual life of 2.0 years (2021: 2.2 years).

Share awards outstanding under the DBP/PSP schemes at 31 December 2022 had an exercise price of £nil (2021: £nil) and a weighted average remaining contractual life of 1.4 years (2021: 1.0 years).

Share awards outstanding under the RSP schemes at 31 December 2022 had an exercise price of £nil and a weighted average remaining contractual life of 1.5 years (2021: 2.2 years).

Share awards outstanding under the CSOP schemes at 31 December 2022 had an exercise price ranging from 241p to 334p (2021: 241p to 334p) and a weighted average remaining contractual life of 1.5 years (2021: 2.2 years).

25 Share-based payments (continued)

(b) Cash settled schemes

Cash awards were previously granted under the VEP to eligible employees that required the Company to pay amounts linked to a combination of salary, financial performance and share price performance of Vanquis Banking Group plc. The VEP was discontinued in 2018 and no grants were made in 2022. The credit to the income statement in 2022 was £nil (2021: credit £0.5m) and the Company has a liability of £nil as at 31 December 2022 (2021: £nil).

26 Related party transactions

(a) Receipt of services from related parties

During the year, the Company was charged £28.1m (2021: £8.4 m) by its ultimate parent, Vanquis Banking Group plc, in relation to the provision of various head office and central support services. The Company was also charged £27.2m (2021: £0.9m) by a fellow subsidiary, PFG Corporate Services Limited, for the provision of support services.

(b) Provision of services and other charges to related parties

The Company charged its ultimate parent, Vanquis Banking Group plc, £8.2m (2021: £nil) in respect of human resource, risk and legal costs. The Company also charged a fellow subsidiary, Moneybarn Limited, £0.8m (2021: £nil) in respect of operations management support services.

(c) Provision of debt collection related services to related parties

The Company provides collection and debt recovery services to fellow subsidiary, Moneybarn Limited. The Company charged Moneybarn Limited £1.8m in 2022 (2021: £1.6m).

(d) Loan to related party

In August 2020, the Company issued a 2 year £70m loan with a fixed interest rate of 6.25% p.a. to Vanquis Banking Group plc, the Company's ultimate parent. The loan was repaid in full on 30 June 2022, then immediately advanced to Group subsidiary Moneybarn No. 1 Limited ('MB No. 1') at an interest rate of 2.43%. MB No. 1 repaid £10m of the balance on 31 December 2022, then utilised the withdrawal limits as per the loan agreement to be advanced a further £10m loan at an interest rate of 4.90%, bringing the total outstanding loan amount to £70m at 31 December 2022. The interest rates applicable on the loan are based on the Company's average cost of retail funds (for the weighted average life) plus a margin. The carrying amount of £69.3m at 31 December 2022 (2021: £69.3m) is net of the ECL impairment provision of £0.7m. The Company recognised income on the loan to Vanquis Banking Group plc of £2.1m in 2022 (2021: £4.3m), and £0.9m on the loan to Moneybarn No.1 Limited. Contractually, accrued interest is repaid to the Company on the last business day of the month and is not compounded. The fair value of the loan is approximately equal to the book value.

(e) Securitisation

In January 2021 the Company entered into a securitisation structure over £453m of receivables. Special purpose vehicles (SPVs) were established, including Oban Cards 2021-1 plc and Oban Cards Receivables Trustee Limited. Both SPVs are controlled by the Company.

Oban Cards Receivables Trustee Limited acquired a beneficial interest in the transferred receivables in the structure. Oban Cards 2021-1 plc, which holds an interest in Oban Cards Receivables Trustee Limited, issued notes which serve as the collateral for the £174m collateralised loan borrowed from the Bank of England under the TFSME during 2021.

26 Related party transactions (continued)

(f) Related party balances outstanding

Details of the Company's related party balances outstanding at 31 December are set out below:

	2022 **£m**	2021 £m
Vanquis Banking Group plc	(114.2)	34.9
Provident Personal Credit Limited	-	0.5
PFG Corporate Services Limited	(27.2)	(2.6)
Provident Financial Holdings Limited	(5.6)	(2.4)
Moneybarn Limited	0.8	-
Moneybarn No. 1 Limited	70.0	1.1
Oban Cards 2021-1 plc	0.2	0.1
Oban Cards Receivables Trustee Limited	19.7	17.8
Related party balances outstanding	(56.3)	49.4

27 Reconciliation of profit after taxation to cash generated from operations

	2022	2021
	£m	£m
Profit after taxation	**93.8**	146.0
Adjusted for:		
- tax charge	**36.6**	32.0
- interest expense	**23.9**	25.9
- interest on lease liability	**0.6**	1.0
- share-based payment charge	**1.0**	1.1
- impairment charge	**25.3**	5.9
- amortisation of intangible assets	**7.2**	5.0
- depreciation of property, plant and equipment	**1.7**	2.2
- depreciation of right-of-use asset	**6.4**	5.0
- loss on disposal of intangible assets	**2.0**	1.7
- loss on disposal of property, plant and equipment	**1.0**	-
- provisions	**(3.1)**	2.7
- revaluation of investment	**(1.6)**	0.1
Changes in operating assets and liabilities:		
- amounts receivable from customers	**(191.7)**	(3.1)
- repayment of loan to related party	**(70.0)**	-
- reissuance of loan to related party	**70.0**	-
- trade and other receivables	**(4.3)**	(10.7)
- trade and other payables	**76.4**	(1.9)
Cash generated from operations	**75.2**	212.9

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the cash flow statement as cash flows from financing activities.

2022

		Cash changes		**Non-cash changes**		
	1 January 2022	**Financing cash flows**	**Lease payments**	**Interest**	**Amortised fees**	**31 December 2022**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Collateralised loan	**(172.2)**	**1.6**	**-**	**(2.6)**	**(0.5)**	**(173.7)**
Retail deposits	**(1,018.6)**	**(82.1)**	**-**	**0.1**	**-**	**(1,100.6)**
Lease liabilities	**(37.6)**	**-**	**6.1**	**0.7**	**-**	**(30.8)**
Total	**(1,228.4)**	**(80.5)**	**6.1**	**(1.8)**	**(0.5)**	**(1,305.1)**

2021

		Cash changes		Non-cash changes		
	1 January 2021	Financing cash flows	Lease payments	Interest	Amortised fees	31 December 2021
	£m	£m	£m	£m	£m	£m
Collateralised loan	-	(174.0)		(0.2)	2.0	(172.2)
Retail deposits	(1,683.2)	658.2	-	6.4	-	(1,018.6)
Lease liabilities	(42.7)	-	6.1	(1.0)	-	(37.6)
Total	(1,725.9)	484.2	6.1	5.2	2.0	(1,228.4)

28 Country-by-country reporting

The Company provides credit cards and loans to underserved non-standard consumers and operates solely in the United Kingdom.

2022	UK
Average number of employees (number)	1,371
Turnover (£m)	349.3
Pre-tax profit or (loss) (£m)	130.4
Corporation tax paid (£m)	13.4
Public subsidies received (£m)	-

29 Ultimate parent undertaking and controlling party

In December 2020, a new Group holding company, Provident Financial Holdings Limited (PFH), was incorporated. The Company was transferred from PF plc (now 'Vanquis Banking Group plc') to PFH in exchange for shares in PFH at a premium. Following the transfer, the immediate parent undertaking of the Company was PFH.

The ultimate parent undertaking and controlling party is Vanquis Banking Group plc, a company incorporated in the United Kingdom, which is the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of Vanquis Banking Group plc may be obtained from the Company Secretary, Vanquis Banking Group plc, No.1 Godwin Street, Bradford BD1 2SU.

30 Subsidiary undertakings and exemption from presenting consolidated financial statements

In January 2021, the Company entered into a securitisation structure over £453m of receivables. Three special purpose vehicles, which the Company controls and therefore recognises as its subsidiaries, were established under this securitisation structure.

The Company's subsidiaries are:

- Oban Cards 2021-1 Holdings Limited;
- Oban Cards 2021-1 PLC; and
- Oban Cards Receivables Trustee Limited

All three subsidiaries are registered at 10th Floor 5 Churchill Place, London, England, E14 5HU.

The Company has not prepared consolidated financial statements and has elected to take the exemption from presenting consolidated financial statements for a parent that is itself a subsidiary, as it meets all of the following conditions:

- The Company is itself a wholly-owned subsidiary and its ultimate parent, Vanquis Banking Group plc, does not object to the Company not presenting consolidated financial statements;
- The Company's debt or equity instruments are not traded in a public market;
- The Company does not file its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- The ultimate parent, Vanquis Banking Group plc, produces financial statements available for public use that comply with IFRS standards, in which subsidiaries are consolidated in accordance with IFRS 10

31 Contingent liabilities

Legal actions and regulatory matters

During the ordinary course of business, the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. In addition, there continues to be heightened claims management company activity, particularly in the non-standard lending sector in respect of irresponsible lending. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company 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 to 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 properly to assess the merits of the case, and no provisions are held in relation to such matters. However, the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

VANQUIS BANK LIMITED
(Company Number 2558509)

ALTERNATIVE PERFORMANCE MEASURES

In addition to statutory results and key performance indicators (KPIs) reported under International Financial Reporting Standards (IFRS), the Company provides certain alternative performance measures (APMs). These APMs are used internally by management and are also deemed helpful in understanding the Company's underlying performance. These non-statutory measures should not be considered as replacements for IFRS measures. The definition of these non-statutory measures may not be comparable to similarly titled measures reported by other companies.

The calculation methodology for a number of APMs has changed in the year. These changes are disclosed below. All comparatives have been represented where applicable.

APM	Previous APM and methodology	Method of calculation	Relevance
Average gross receivables	Average receivables - average of gross customer interest earning balances for the 12 months ended 31 December	Average of gross customer interest earning balances for the 13 months ended 31 December	This is used to smooth the seasonality of receivables in calculating performance KPIs.
Asset yield (%)	Income yield (%) – income divided by average receivables for year ended 31 December	Interest income for the 12 months ended 31 December as a percentage of average gross receivables	This measure shows the returns generated from customer receivables to allow comparison to other banks and banking groups
Risk-adjusted margin (%)	Net operating margin (%) -risk-adjusted net interest margin divided by average receivables for the year ended 31 December.	Total income, excluding exceptional items, less impairment charge for the 12 months ended 31 December as a percentage of average gross receivables	This measure shows the returns from customers after impairment charges
Impairment provision coverage ratio (%)	No change in methodology	Impairment provision divided by gross receivables as at 31 December	This ratio is a measure of potential credit impairment losses as a percentage of gross receivables
Return on equity (%)	No change in methodology	Profit before exceptional items after tax divided by average equity for the year ended 31 December	ROE shows the return being generated from the shareholders' equity retained in the business