pay.uk

Annual Report and Financial Statements

2021

pay.uk

Pay.UK is the recognised operator and standards body for the UK's interbank retail payment systems.

We provide the digital networks that make payments secure, safe and simple for the UK's banks and building societies, payment providers and their customers.

Highlights

4.6 bn Direct Debits processed (2020: 4.5 bn)	**£3.8 tr** Paid by Direct Credit (2020: £3.7 tr)	**£2.6 tr** Transferred by the Faster Payment System (2020: £2.1 tr)
3.4 bn Faster Payments were made (2020: 2.9 bn)	**153 m** cheques processed (2020: 188 m)	**5** New customers across our payment services (2020: 5)

99.9% for Bacs and FPS average uptime across our systems (2020: 99.9%)	**76%** Stakeholder awareness of CASS (2020: 79%)	**12%** increase in UTSP certificate users (2020: 30%)

Our purpose

Our purpose is to power payments, champion innovation and give the UK choice in how it pays. We enable individuals and organisations in the UK to transfer money to others whenever they need to, quickly, safely and cheaply.

Our vision

To be the smartest way to move money, now and in the future.

About us

As the recognised operator and standards body for the UK's interbank retail payment systems, we are supervised by the Bank of England's Financial Market Infrastructure Directorate (FMID) and regulated by the Payment Systems Regulator (PSR).

We provide the payments networks used by Bacs, Faster Payments and the Image Clearing System and also operate the Current Account Switch Service, enabling billions of pounds of payments to be made, safely and securely, every single day.

We combine technology, rules and standards to enable a powerful payments platform thereby reinforcing our position of leadership in the payments market and beyond. In our critical role supporting the UK economy, we continue to create common standards and a new platform that will drive future payments and opportunities for the industry.

By continuing to run a robust, resilient, and cost-effective payments platform, we can deliver greater value for all users of the services we provide, from individuals and businesses through to banks and building societies.

Key highlights

- Robustness and Resilience: We met or exceeded all our targets around the operation of the payment system critical national infrastructure.
- New Payments Architecture (NPA): We de-risked NPA by agreeing a new scope with the industry and our regulators. This enabled us to restart the competitive procurement and work is now well underway to select a vendor.
- Strategy: We finalised our new Strategy in 2021 and communicated it with the industry. Focus is now on implementation.
- Confirmation of Payee (CoP): Successfully released Confirmation of Payee Phase 2 therefore increasing access to this valuable service.

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Our Payment Systems

At Pay.UK we run the infrastructure and services necessary for the UK's interbank retail payments to function smoothly and safely.

There are three core systems that handle the UK's interbank retail payments: the Bacs Payment System, the Faster Payment System and the Image Clearing System.

These systems provide our customers and end users with flexibility and choice, allowing them to make their payments in a way that best suits their needs.

Bacs Payment System

Bacs is the bulk system for high volume, regular interbank retail payments.

Direct Debit is the payment option chosen by thousands of companies to automatically and securely collect important payments, from millions of people and organisations.

Bacs Direct Credit is used to pay eight in ten employees in the UK, whether that is wages, salaries, or benefits, as well as for settling business-to-business invoices.

The Direct Debit Guarantee offered by Bacs is a unique end user benefit.

Max Payment

£20m

Value limit (Customer grade participant)

Speed

3 working days

Use cases

- **Bacs Direct Credits:**
  - Payroll
  - Business to Business
  - Benefits payments
- **Direct Debits:**
  - Utility bills

Faster Payment System

Faster Payment enables payments to be made in near real time.

Faster Payment is a near real-time system, with near real time confirmation to sender, and immediate funds availability.

Max Payment

£1m

Value limit

Value limit increased in 2022. Organisations offering the service can set their own limits, which may be lower than those set by Pay.UK

Speed

seconds

Normally posts to recipient within seconds

Use cases

- **Online banking and mobile payments**
- **Bill payments**
- **Forward Dated Payments**
- **Standing orders (recurring payments)**
- **Person to Person, Person to Business, Business to Business and Business to Person transactions**

Image Clearing System

Image Clearing enables images of cheques to be exchanged for clearing and payment.

The introduction of the Image Clearing Service has significantly improved clearing process times following the closure of the previous Paper Clearing System in 2019.

Max Payment

Unlimited

Value limit

Organisations offering the service can set their own limits, which may be lower than those set by Pay.UK

Speed

2 working days

Typically, if a customer pays in a cheque on a weekday (before their bank or building society's advertised cut-off time) they will be able to withdraw the funds by 23:59 on the next working day. Non-working days are Saturdays, Sundays and English bank/public holidays.

Use cases

- **Utility bill payments**
- **Paying tradespeople**
- **Paying clubs, societies and charities**
- **Person to Person**
- **Paying trade suppliers**
- **Paying wages, salaries and employee expenses**

Chair's introduction

“Significant time was spent this year developing our new strategy, focusing on our responsibility for managing the payments ecosystem and taking a pro-active role in managing developments.”

Mark Hoban
Chair

The services that Pay.UK provides to its customers oil the wheels of our economy and society. Whether it is paying for some work at home, receiving Universal Credit or the state pension or sending a cheque to your favourite charity, our interbank payments platform ensures the right money is transferred from one bank account to another. Our schemes, such as Faster Payments, Bacs and cheque clearing, are at the heart of our business and at the heart of the economy and society.

We have, therefore, a particular responsibility for the robust and resilient operation of those services. Millions of people and businesses rely upon the predictability of those payments 24 hours a day, seven days a week and 365 days a year. It is a responsibility that we take seriously and during 2021, we achieved this with more than 99.9% availability. This high level of resilience was achieved during the pandemic. I am proud of the resilience shown by colleagues at Pay.UK during these challenging times.

This responsibility means that we are stewards of the interbank payments system and this extends beyond robust and resilient systems. This wider role has been at the centre of much of our activities this year.

To put this into context, at Pay.UK we recognise that we are part of an ever more complex and fragmented payments ecosystem. More people are seeking to use our payments platforms to provide innovative services, for example through Open Banking. The way they access them is changing too, as more businesses transition to cloud technology or outsource key parts of their payments technology. This adds challenge to our work as we facilitate these changes. We need to keep pace with and facilitate change whilst maintaining robust and resilient operations. Sadly, our platforms are not just used for good intent, they are also used by fraudsters as the victims of Authorised Push Payment (APP) scams will readily attest.

As a consequence, the Executive and Board spent significant time this year developing our new strategy. At its heart is a focus on our responsibility for managing the ecosystem. Rather than simply respond to new developments, we will now seek to shape them: taking a pro-active role in managing them. How do we facilitate new products and services? How do we encourage competition? How do we ensure that in a rapidly evolving payments landscape our rails are still used for the vast majority of account to account transactions? How do they deliver operational resilience? How do we protect consumers? These are all questions we will seek to answer as we implement our strategy over the coming years.

There are several strands to the implementation of our strategy. The first is people. In July last year, David Pitt joined us as our CEO. David has reshaped his Executive team and started to redesign the organisation in support of the execution of our strategy. I am grateful to David and his Executive team, particularly Matthew Hunt who was the interim CEO until July last year, for their commitment and dedication to the continued evolution of Pay.UK. We have also seen changes at Board level too. At the end of 2021, three board members retired: Richard Anderson, Christine Ashton and Tim Fitzpatrick. I am grateful to them for their tremendous contribution to the success of Pay.UK. Today's Board has a strong mix of skills needed to provide the support and challenge to the Pay.UK team. I am grateful to the Board for their support during 2021. Alongside changes to the Board we have reformed the governance of Pay.UK to align it more closely with the current stage of its journey.

During 2021, we have made significant progress on the New Payment System Architecture (NPA). This is core to the future of Pay.UK. We were able to drive the NPA forward having received agreement from the PSR that we could focus on limiting its scope to replacing FPS and restart a competitive procurement exercise. This gave Pay.UK and our customers the certainty required to push ahead with the NPA. One of the hallmarks of the programme this year has been the close and effective engagement between Pay.UK and the banks and payments businesses. This renewed sense of partnership will be key as we go forward. We should not forget, however, that the NPA is not an end in itself, it is an enabler of our strategy. It will enable Pay.UK and others to come forward with new ideas for services: promoting innovation and competition.

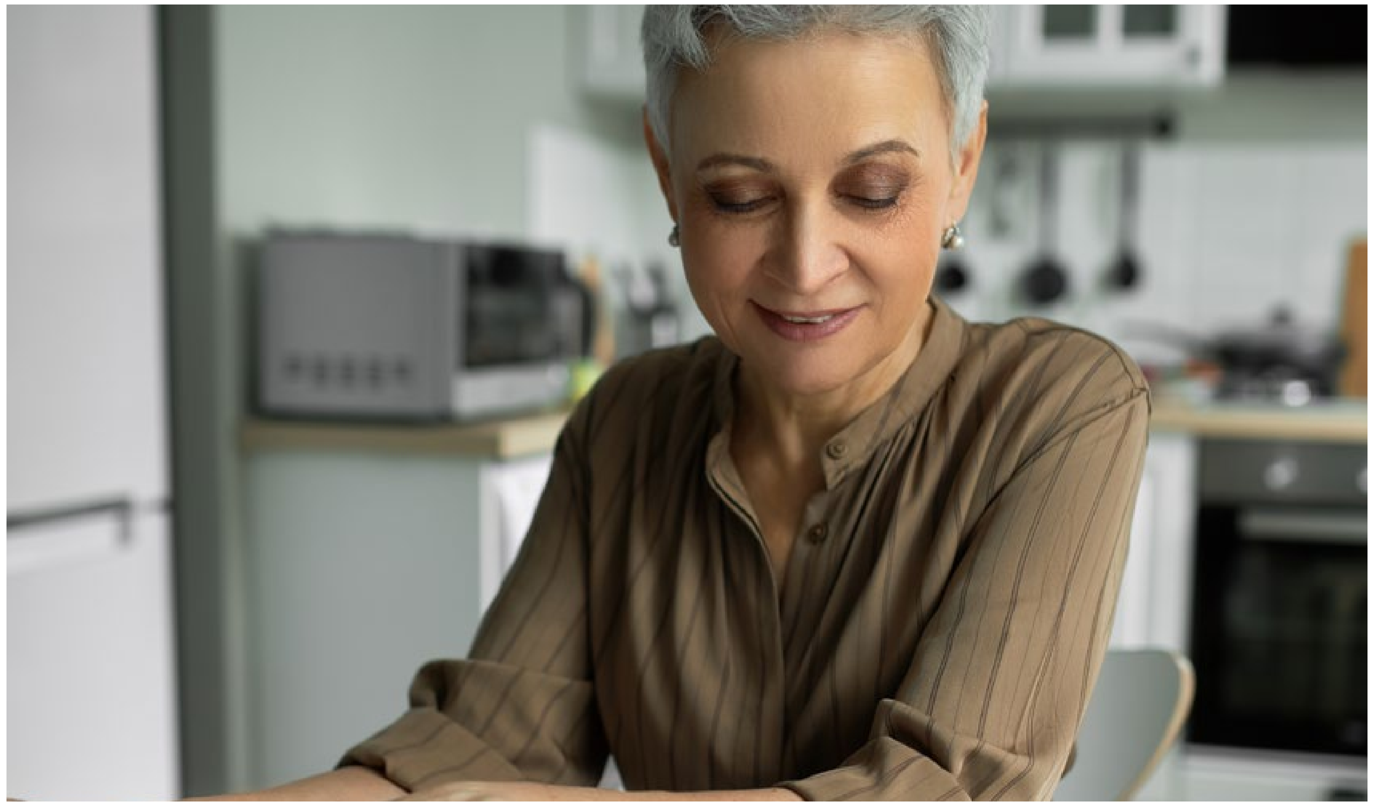
Stewardship of the platform also means safeguarding its credibility. In part, this is about ensuring it is robust and resilient, but users need to be confident that the payments they make are legitimate. It is for this reason that we have sought to play a more active role in tackling APP scams. Whilst many people have a part to play in the prevention, detection and reimbursement of fraudulent payments, Pay.UK must leverage its unique role to make its contribution. We stand ready to work across the ecosystem and with the Government and regulators to reduce the levels of fraud.

Colleagues are proud to work at Pay.UK. They are motivated by the role our schemes and services play in the economy and society. Like me, they relish the challenges presented to us as we to respond to a changing payments landscape and ensure the continued relevance of our schemes. I am grateful to the Board of Pay.UK and all the team for the solid foundations we have laid this year as we seek to take the business forward to the next level.

Mark Hoban
Chair
27th May 2022

Read more about OUR STRATEGY on page 16 and 17

Read more about OUR GOVERNANCE on pages 44 to 71



Strategic report

Chief Executive Officer's report

"Payments are central to our economy and key to almost every person and every business across the UK. This world of payments is continually changing and we are facing many opportunities and some challenges as a result of this. There has never been a better time to work together to power payments, champion innovation and give the UK choice in how it pays."

David Pitt
Chief Executive Officer

Introduction

I write my first report as CEO of Pay.UK with a strong sense of purpose. Payments are central to our economy and key to almost every person and every business across the UK. This world of payments is continually changing and we are facing many opportunities and some challenges as a result of this. To have joined Pay.UK, operator of the UK's interbank retail payment systems, at such an important time of change is both a responsibility and a privilege.

We can see that payments are evolving at pace. Consumer needs, expectations and habits have evolved and this has accelerated in light of Covid-19. The digitalisation of payments has accelerated as consumers want faster, frictionless payments. They want more choice. They want more protection when money falls into the wrong hands.

Competition in payments also looks different. There are new entrants; alternative payment fintech innovators bringing new highly-competitive business models and creating payment solutions to meet end user needs. They are enabled by the advancing capability of technology.

This backdrop means that being clear on our role in payments, what is for us to lead and own, and what is for us to enable for the payments ecosystem, is critical. We need, and indeed want, to respond to this ever-changing world of payments in a way that best serves the payments ecosystem as a whole and with end users at the heart of our cause. Our role as systemic risk manager is also key in such an evolving environment.

Strategy

We have devised our new strategy with this in mind. Our roles as payment system operator and systemic risk manager continue to hold strong. The step change our new strategy introduces is our role as platform leader. It is our technology, our rules and standards and associated controls and policies, that come together to give us a powerful platform. So we are leaders of it. We will build on our platform, reinforcing our position of leadership in the payments market and beyond.

As platform leader, we want to optimise value for a growing payments ecosystem. We want to drive innovation and competition as more players move towards the payments platform to create new products and services. Which brings me to our new purpose and vision:

Our purpose is to power payments, champion innovation and give the UK choice in how it pays

Our vision is to be the smartest way to move money, now and in the future

We have worked thoughtfully on our strategy and we are excited by what we need to do to bring it to life. In 2022, we will embed this more clearly. We will bring our strategy to life through our improved industry engagement. Customers and stakeholders will see this and feel this in how we talk, act and engage with you.

New Payments Architecture

Our next generation payments platform, the New Payments Architecture, is a significant vehicle for the implementation of our strategy, and will look to address some of the challenges that I have set out.

This year we have worked with our regulators, especially the PSR, to lower risks to the delivery of the NPA. The PSR's Policy Statement in July 2021 provided the regulatory direction for Pay.UK to narrow the initial scope of the NPA, in line with our response to the PSR consultation. This has helped us to give certainty to the industry on NPA scope and will help to de-risk the NPA programme as it moves to the next phases in 2022. We plan to consult on the longer-term answer for Bacs.

With a clear scope, we have agreed the need for a competitive tender process and defined the procurement strategy. We have engaged extensively with the industry to meet a major milestone of sharing a design with industry and bidders. This is important as it helps our customers to assess the impact of the NPA on their businesses and ensure that they are ready.

I see customer commitment for the NPA as one of our overarching priorities for the year ahead. To this end, we have made progress on the commercial strategy and business case and will build on this in 2022. We are focused on the need to finalise both so that we can give greater certainty to our customers. The release of the provisional pre-regulatory Request for Proposal (RFP) will be followed by ensuring that we secure the regulatory approval for the final RFP; whilst at all times ensuring that our engagement with bidders remains high.

Payment operations

As Payments Systems Operator, we have continued to manage the payments infrastructure delivering robust and resilient operations throughout a year where the Covid-19 pandemic has, unfortunately, continued to cast its shadow. We delivered operational availability at more than 99.9% and processed more than 10 billion retail payments to a value of just under £7.9 trillion. This represented a volume rise of 6.2% and a value rise of 9.3% from 2020. We saw our fastest growth in Faster Payments with transaction numbers reaching 3.4 billion payments, worth almost £2.6 trillion. We also welcomed five new customers to Faster Payments taking the number of directly connected customers to 38 for Faster Payments, 27 for Bacs and 20 for Cheques (Image Clearing System). Our wider services have also performed strongly over the year.

We maintained a solid financial position over 2021; our revenue increased by 5% to £152.0 million as transaction volumes grew for our core services by 5%. Our costs also grew largely due to our investment into the NPA and our services and processing our increased volumes. We are focused on ensuring value for our customers. We entered into a new contract with central infrastructure provider Vocalink, which will reduce the cost impact of volume growth, and also enable increased capacity and a smoother transition to the NPA.

We know that the changes in payments can present threats as well as opportunities. We are accountable for the end to end systemic risk management of the UK's interbank retail payment systems. It is vital that we understand the payments ecosystem which our payments systems underpin. We have therefore invested in our risk management capability, developing an approach to horizon scanning and systemic risk management. We will continue to develop and enhance this capability throughout 2022 to ensure we are anticipating the changes and developments, performing as a platform leader, and, crucially ensuring the payment systems continue to run effectively and efficiently.

We have a strong collaborative relationship with Vocalink who currently run the payments infrastructure on our behalf. We have developed enhancements to the commercial and operational governance model between us and we have worked together with Vocalink to develop an operational resilience framework. We have continued to enhance our business continuity capability ensuring that our critical teams are properly backed up. Over the last year we have also set up our Operational Resilience programme to develop the framework and capability needed to meet the Bank of England's policy requirements and improve the financial sector resilience. These are crucial given our role as a systemic risk manager.

At the time of writing it would be remiss of me not to mention the geopolitical unrest flowing from Russia's invasion of Ukraine. At the current time, this does not directly impact Pay.UK, but we continually monitor this given our role as systemic risk managers. We are working closely with the industry to monitor the impact of sanctions.

Read more about OUR STRATEGY on page 16 and 17

Read more about OUR NEW PAYMENTS ARCHITECTURE on pages 24 to 27

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Chief Executive Officer’s report
continued

Read more about OUR DIVERSITY on page 42

Regulatory engagement

We have continued to focus on the importance of our relationships with our two primary regulators – the Bank of England’s Financial Market Infrastructure Directorate (FMID) and the Payment Systems Regulator (PSR). FMID focuses on ensuring the robust and resilient operation of Bacs and Faster Payment System (FPS) to improve the stability of payment systems and the wider financial system. The PSR is focused on promoting competition and innovation in our systems to ensure that we operate and develop them in the interests of the people and businesses that use them. It is important that we work closely with both FMID and the PSR to ensure that their objectives are adequately considered.

We continued our dialogue with FMID and the PSR throughout 2021, keeping them fully up to date on progress across our activities. We have endeavoured to be proactive and transparent in responding constructively to the core strategic requirements of both regulators on the NPA as an example. I welcome the time and engagement that I have had with our regulators and thank them for their continued support.

Fraud

We have been working closely with regulators on how collectively as an industry we can mitigate the impact of fraud. We understand the devastating impact fraud has on customers, end users and the industry as a whole. In 2021, we accelerated our engagement with UK Finance and the industry on the fight against fraud.

Confirmation of Payee was the first new strategic service delivered by the NPA programme and is a name-checking service for UK-based payments, designed to help reduce misdirected payments and certain types of fraud. Over the last year, Confirmation of Payee has continued to be widely endorsed and received industry awards. At the end of the year we saw 766 million Confirmation of Payee checks had been made since launch in early 2020. Whilst we now see wide take up of Confirmation of Payee, we expect further take up in 2022. We launched a new phase of Confirmation of Payee (Phase 2) to expand the eligibility, therefore continuing to support the fight against financial crime.

We are keen to ensure that fraud is prevented and detected before it reaches the payment platform. In the year ahead we continue to push for a coordinated approach so that we can improve prevention and detection of fraud, which will include the most effective use and sharing of data.

Organisation and people

The pandemic that gripped us in 2020 has stayed with us for longer than we would have hoped or expected. Whilst we have maintained the robust and resilient operations, I am also struck by the robustness and resilience of our colleagues. I am heartened and humbled by our colleagues and I thank them. They have worked, and continue to work, with real dedication to support us across all elements of our operations despite the personal and professional challenges posed by the pandemic. It has therefore been a key priority for us to place colleague engagement and wellbeing as a priority.

I am also pleased that our work on diversity and inclusion accelerated in 2021 when we created our first Inclusion Strategy which will be launched in 2022. We also continued to support our local charity, the First Love Foundation, which helps and supports people out of crisis. I am very proud of how we are supporting our local community and I am heartened by the time and financial commitment of our colleagues here. We will build on this in 2022 with the formalisation of a Corporate and Social Responsibility Strategy.

We have made changes in our leadership both at Board, as Mark Hoban has mentioned, and also at Executive level. I’d like to thank the Board, both outgoing and new members, for their support. In particular, I would like to extend my thanks to Mark Hoban for the counsel he has given me since I joined, and to Matthew Hunt for similarly supporting my journey on getting to know Pay.UK, our colleagues, our stakeholders and our ecosystem, so much better.

Since I joined in July, we have redesigned our Executive structure to go hand in hand with our new strategy. This will drive the right clarity, delivery and accountabilities and will better equip us to take our strategy forward. With a combination of permanent appointments, new and expanded roles, I am confident that we have the right leadership in place to take our strategy forward and effectively deliver our vision and our purpose.

Looking ahead

In 2021, we resiliently delivered our core commitments as payment system operator and systemic risk manager and we will continue to do that. We have re-calibrated our role and our new strategy paves the way for us to deliver lasting benefits for customers and end users.

With the senior level organisational changes and expert, engaged colleagues, I am excited at the prospect of evolution that lies ahead. Delivering the next phase of the NPA will be important and we will be working together to secure customer commitment to it. Forging our role on detecting and preventing fraud will also be a priority. For all of this to be really successful, we will need great industry collaboration.

As Pay.UK’s new CEO, I am proud to lead Pay.UK on this next phase. I am very grateful to all of you who have supported me personally in my early months; our customers, our regulators, our colleagues and team at Pay.UK, I extend a warm and heartfelt, thank you. There has never been a better time to work together to power payments, champion innovation and give the UK choice in how it pays.

David Pitt
Chief Executive Officer
27th May 2022

Our market context

Today, individuals, businesses and organisations have a wider range of payment options available to them than ever before.

Cheques, cash, credit and debit cards, digital wallets and electronic payments such as Faster Payments and Direct Debits are just some of the ways to make or receive a payment in the UK.

Pay.UK's position within this landscape cannot be underestimated. We play a critical role in supporting the UK economy. If you transfer money into or out of a bank or building society in the UK then you will use one of the payment platforms that we operate, which together move more than £21 billion every single day.

Salaries, benefits, bills, mortgages and online banking payments to friends, family, businesses and organisations are just some of the examples of payments that are all made – safely and securely – through the systems that we oversee.

Over the next few years, we are likely to see major changes in the payments landscape, and we look at some of these key developments here.

Future industry changes

We monitor industry developments very closely, with a strong emphasis on identifying the key changes that will impact strongly in the future. As these are identified, we assess their impact, consider whether we should lead, facilitate or enable the market and prioritise our decisions for strategic investment accordingly. Decisions on the most important trends can have significant implications for us, and we consider the commitments we make with great care.

NPA

Our next generation payments platform, the New Payments Architecture (NPA), will be a smarter way to move money and allow us to maintain leadership in interbank retail payments. The NPA, which is our most important strategic investment, will address the challenges presented by the rapid evolution of technology and competition, ensuring we are robust and resilient and maintain an end user focus, as well as providing an attractive platform to enable innovation through a rich system of Application Programming Interfaces (APIs).

Open Banking

Open Banking has the potential to transform the payments ecosystem and increase access and inclusion for all consumer segments. The UK is considered one of the pioneers of Open Banking, and growth in Open Banking payments could contribute substantially to our volumes. Opportunities like the removal of the 90-day authentication rule or the inclusion of Open Banking payments in major e-wallet systems at the point-of-sale would unlock great opportunity for Open Banking payments to thrive.

There are risks as well as opportunities in this space, and one such risk is consumer protection. Looking forward, we plan to accelerate work with the industry to ensure that users who make payments via Open Banking receive appropriate levels of consumer protection.

Cross-border payments

Cross-border payments are a key area of focus for international regulators and standards bodies, with the publication of the Financial Stability Board's roadmap setting a high-level and ambitious plan that addresses long-standing issues. The implementation of ISO 20022 will signal a major milestone in modernising cross-border payments and we are taking a careful look at the implications for our future in a new world of global competition.

Digital currencies

A wide variety of digital currencies, from volatile cryptocurrencies to Central Bank Digital Currencies (CBDCs) are in various stages of development. We are participating in HM Treasury and the Bank of England's Taskforce to consider whether to issue a digital version of cash in the UK, supported by a compelling rationale and unique use cases. The NPA scope includes the ability to be able to transport GBP and alternative tokens and is also intended to deliver many of the end user benefits often attributed to CBDCs, with significantly less risk and overall cost to the wider industry. However, our position depends on there being clear benefits and industry support, as the case for digital currencies continues to evolve.

Key trends

Post-Brexit/pandemic economic climate

The economic climate has been profoundly impacted by Brexit and Covid-19, changing the way people pay for goods and services. Moreover, these economic changes and the squeeze in the cost of living have increased the number of financially vulnerable adults in the UK, and in the world of work, the number of gig economy workers has also risen significantly. Socio-economic change means changes in the behaviour of individuals and organisations, which has a variety of corresponding effects on payment patterns.

Fraud

Addressing fraud across payment systems is a critical priority. Working with key players including the PSR and UK Finance, we are taking a leading role in the industry-wide two-year strategy to tackle and prevent fraud and scams, covering action by all stakeholders that can affect the customer journey, keeping in mind that most fraud is initiated outside the payment system. We are actively involved in the UK Finance Fraud programme that is working with the wider payments ecosystem, including regulators, government, financial services, and technology companies, to prevent fraud at source. We have implemented our own Fraud Programme, delivering key outcomes like sharing information within the payment journey to identify and prevent scam payments and identifying key data elements which can be incorporated into an Enhanced Fraud Data standard.

Increasing influence of global tech platforms

"Big Tech" players have continued to push into financial services, targeting the payments market with significant investments into acquiring payments companies, with particular interest in Buy Now Pay Later, building their own payment services and exploring digital currencies and open banking. This has led regulators increasingly to challenge and look to enhanced oversight of Big Tech through stringent regulations and anti-trust investigations. Some tech platforms, particularly marketplaces and social media with a large and active user base, have the potential to evolve into "closed-loop" systems where all payments are internal, potentially leading to a loss of transparency, misuse of data or anti-competitive practices. However, global platforms could also be vital allies, particularly if they commit to interbank payments in the way that they have done in countries such as India.

Increasing digital payments

The decline in the use of cash has led to the associated rise in the use of digital payment methods, as digitisation accelerates and technology plays a key role in people's daily lives. New digital business models have created an ecosystem of digital wallets, digital banks and fintechs, all adopting an end user focus to innovation to deliver a seamless, easy payment journey for customers. Nonetheless, increasing concern from regulators about scams, fraud and the proliferation of highly volatile cryptocurrencies means that the robustness and resilience of interbank payments will remain a key guarantor of integrity for financial market infrastructures.

Demand for instant payments

Instant payments are one of the most important trends in consumer and business payments, helping payments players maintain their competitiveness and acquire new customers who benefit from greater payment choice. Instant payments present an opportunity for more innovation and better insights into customer behaviour and schemes are being introduced worldwide. There is a plethora of instant payment models being introduced and we are committed to ensuring that many of them are able to use our current and future platforms to unlock the benefits for end users.

Our business model

Our purpose is to power payments, champion innovation and give the UK choice in how it pays.

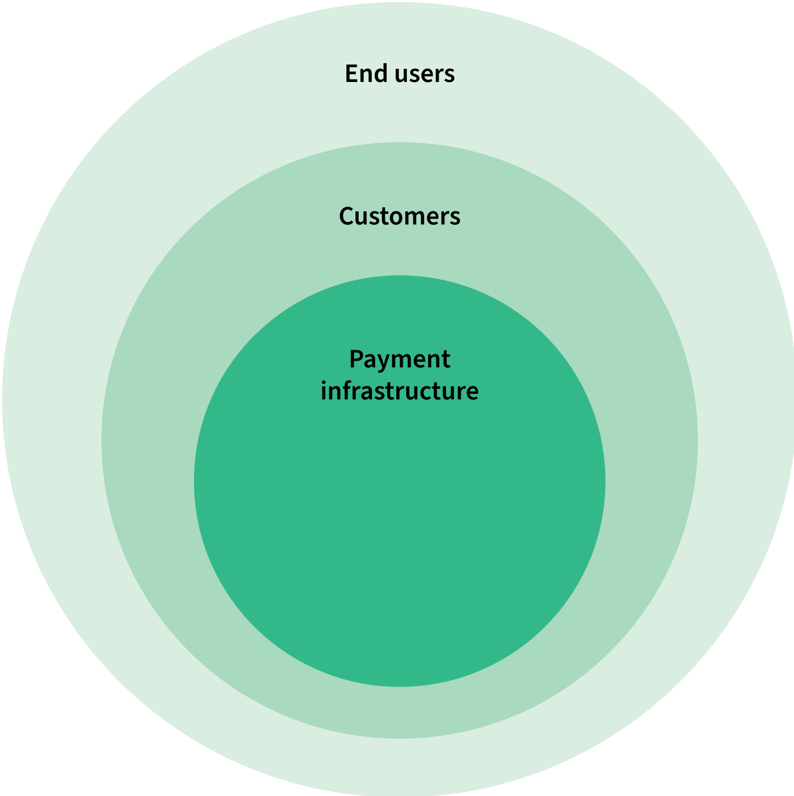
Key resources and relationships

Our platform
During 2020, the daily value of account to account payments made in the UK by individuals, businesses and organisations was £23.5 billion. Some £19.7 billion of this daily total travelled through our platform – making ours by far the most heavily used account to account payments platform in the UK. In 2021, we grew our volumes to an average of £21.6 billion per day.

Our people
The skills, knowledge and experience of our people are collectively a key component of our business. They continue to deliver robust and resilient payment platforms whilst using their expertise to innovate for the future.

Financial capital
Pay.UK holds sufficient capital to cover general and credit risk based on the CPMI-IOSCO Principles for Financial Market Infrastructure. Additional retained earnings arise due to timing differences between receipt of income and expenditure, providing funding to invest in our products and services.

Stakeholders
A wide variety of organisations and a huge number of individuals depend on our payments platform, or are otherwise affected by our activities. We work in close partnership with the regulators and policymakers and wider ecosystem stakeholders, ensuring that we proactively drive change whilst ensuring we adhere to the regulation within which we and others in our ecosystem, operate.



End users
End users want to be able to send and receive payments safely through the account to account interbank retail system. End users are becoming more demanding. They increasingly expect to make and receive payments in real time, ever more safely, and at minimal cost.

Customers
Our customers use our platform to deliver services to end users. They include Payment Service Providers (PSPs), particularly banks and financial institutions, as well as other organisations with which we have commercial relationships, such as aggregators, bureaux and suppliers of overlay services.

Payment infrastructure
We run the UK's account to account interbank retail payments operations, working with the central infrastructure provider, Vocalink, to ensure that every payment processed is done so safely and securely, managing systemic risk. We also create common standards and new infrastructure, the engine driving excellence and success throughout the industry. We support increased access, innovation and competition.

Pay.UK's role

Our primary role is to ensure that payments flow without interruption: salaries, benefits, bills, mortgages, direct debits, and other internet and mobile banking payments. Supporting this role for the future depends on driving competition and innovation in the market including, for example, new services that result from the introduction of financial data sharing under Open Banking rules and standards by continually modernising today's and tomorrow's platforms. By fulfilling this role we enable greater payment choice for individuals and organisations.

Our payments infrastructure

We launched as Pay.UK in 2018, bringing the three national retail payment schemes, Bacs, Faster Payments and Image Clearing System (ICS), together, into a single, consolidated, not-for-profit operation. We are supervised by the Bank of England's Financial Market Infrastructure Directorate (FMID) and regulated by the Payment Systems Regulator (PSR). We also provide the Current Account Switch Service in accordance with the requirements of undertakings given to the Competition and Markets Authority (CMA) and run a number of other products and services.

Delivering value

People
We inspire our colleagues, developing an empowering and inclusive culture and focusing on attracting, developing and retaining talent to support the delivery of our service.

Customers
We are focused on increasing customer satisfaction, by proactively responding to the evolving needs of our customers. We closely monitor and track customer satisfaction, understanding evolving end user needs and carrying out continual engagement with our customers. We aim to provide choice in the way our customers connect to our platform.

End users
Our end users benefit by us enhancing ecosystem access and innovation, enabling better use of data for others to innovate on our platform. We are evolving our platform to drive end user focused innovation.

Risk, safety and security
Building deep insight based on global trends and reacting accordingly, we drive enduring resilience, identifying and mitigating systemic risk across our platform. We continually evolve fraud detection and prevention functionality, rules and standards, working with the wider industry and beyond to mitigate fraud and enhance consumer protection.

Operations and data
We work proactively with the central infrastructure provider, Vocalink to continually enhance our platform. We work to deliver cost efficient payment services, getting the best value from our suppliers and automating and enhancing processes that drive efficiencies, as well as driving platform value through the use of data.

Wider society
We operate the UK's national retail payment systems: Bacs, including Direct Debit, Faster Payment System, and the Image Clearing System, the digital way to process cheques. The systems we operate and the services we manage, including the Current Account Switch Service, touch the lives of millions of people and businesses, each and every day.

Read more about OUR STAKEHOLDER ENGAGEMENT on pages 29 to 31

Our strategy

Our foundation for the future 2021-26

2021 represented a significant year for the transformation of Pay.UK, and our Board's endorsement of Pay.UK's new strategy for 2021-2026 in September was a key milestone. We began communicating our foundation for the future under David Pitt's leadership during 2021, presenting it to our colleagues and industry partners. The work to implement our strategy continues in 2022, and we published it externally to our wider stakeholder community in 2022.

As part of our strategic refresh, we considered our position in the payments ecosystem, alongside our role as a Payment System Operator running critical national infrastructure, and our responsibility to progress the implementation of the New Payments Architecture.

Purpose and vision

In considering our strategy for the years ahead, and our position as Payment System Operator and a leader in UK payments, we redefined our purpose and vision.

Our purpose

To power payments, champion innovation and give the UK choice in how it pays

Our role is to ensure that payments flow without interruption. We enable people across the UK to pay their bills, mortgages and other internet banking payments, as well as salaries and benefits. In order to do this effectively, we have a part to play in driving competition and innovation in the market, including through the development and implementation of the NPA. Enabling greater payment choice for people and businesses across the UK is at the heart of what we do, built on a platform of robust and resilient operations – this is why we need to retain the trust and confidence of our customers, end users, and regulators and policy makers.

Our vision

To be the smartest way to move money, now and in the future

We operate in an increasingly demanding environment. Only by continuing to run a robust, resilient, and cost-effective platform, can we deliver greater value for end users and customers today and in the future, by delivering a full programme of enhancements to our current platform, and delivering innovation and competition through a powerful next-generation payments platform – the NPA.

Our goals

Our goals drive benefits for end users and the economy, and current and future customers.

Drive enduring resilience

- Identify and mitigate systemic risk across our platform
- Continually enhance our platform
- Proactively manage our suppliers

Deliver value

- Deliver cost-efficient payment services
- Get the best value from our suppliers
- Automate and enhance processes that drive efficiencies
- Drive platform value through use of data

Strengthen safety and security

- Deliver continually evolving fraud detection and prevention functionality, rules and standards
- Work with the wider industry and beyond to mitigate fraud and enhance consumer protection
- Build deep insight based on global trends and react accordingly

Enhance access and innovation

- Enable better use of data for others to innovate on our platform for the benefit of end users
- Evolve our platform to drive end user focused innovation
- Provide choice in the way our customers connect to our platform

Increase customer satisfaction

- Proactively respond to the evolving needs of our customers
- Monitor and track customer satisfaction and understand changing end user needs
- Continual outcomes-focused engagement with our customers

Inspire our colleagues

- Develop an empowering and inclusive culture
- Focus on attracting, developing and retaining talent
- Live our values and deliver results.

We are developing new key performance indicators aligned with these goals, against which we will be measuring Company performance from 2022.

Platform leadership – how we will achieve our goals

Our new strategy is built on the principle of platform leadership. We have a critical role in supporting the UK economy.

Our technology, and our rules and standards, plus associated controls and policies, combine to give us a powerful platform.

We will build and strengthen our platform, and take a leading role in the payments ecosystem and beyond on key issues that affect our platforms, such as APP scams, digital currencies and cloud technology.

Deep insights

Research and analysis, horizon scanning, market, policy and academic intelligence

House views

Combining external and internal expertise to help us shape the conversation around issues that are important to us

Decision making framework

Determines what sits within our strategy, enabling us to determine our approach

Stakeholder engagement

We are building strong relationships and effective coalitions with the industry and the end users we serve, as well as regulators and policy makers.

This approach will enable us to strengthen our market intelligence to ensure the robustness and resilience of our platform as we drive value for our customers and end users. Operating with a commercial mindset is key to facilitating market growth, competition and innovation, in line with regulatory expectations, and our strategic roadmap will ensure that our decisions are based on deep insight.

Underpinning this is our work to transform our organisation and culture. In H2 2021, the Board reviewed and implemented a new Executive structure to put us in a strong position to lead the organisation through a period of change and to deliver our strategic priorities for the next five years. In 2022, we are embarking on an extensive change programme to ensure that the wider organisation has the right skills and capability to deliver our strategy – and to make us agile and able to play a leading role in the evolving payments ecosystem, today and tomorrow.

Our status as an independent company means that we are a key supplier to our customers, the banks and other payment providers. As the ecosystem changes, we also identified the need to build stronger relationships with other industry players, such as groups that represent the individuals and businesses that use our systems, as well as other key industry players such as aggregators, fintechs and key suppliers. A key part of our strategy work is a review of our engagement approach. This started in 2021 and we expect it will conclude in the first half of 2022.

Our new engagement approach, coupled with existing insights from other areas of the business (for example live operations), will enable us to deepen our market intelligence and monitor the evolution of the payments ecosystem during a time of significant change. We aim to capture this intelligence through our six house views, which will be the vehicle by which we scan the horizon for changes that will affect our business. This enhanced market understanding will enable us to build deep coalitions with industry, such that we can develop the interbank payments market based on our strategic objectives.

The focus of our house views

The importance of our payment system
Fulfilling our role in a world of global competition.

The future of money
The evolution of new forms of money and the technology that supports them.

Enabling the instant economy
How payments can become quicker, smarter and safer, to support the economy.

The power of trusted data
Building universal trust through shared data.

The evolution of end users
What drives consumers' and business' payment needs.

Driving out bad money
Combating fraud, financial crime and other bad behaviour.

Identifying emerging risks

Our work on the new strategy has been closely aligned with our focus on transforming how risk management works at Pay.UK, following the development of our Enterprise Risk Management Framework (ERMF). One of the key conclusions of that work was that we wanted to be more proactive in acting on emerging risks in the payments ecosystem. The increased focus on improving our market intelligence, via better engagement, will help us achieve this. In 2022, we plan further work on how these areas will interact, to ensure our responses to emerging risks gain appropriate focus and traction. Additionally, the risk team has provided second line challenge on the development of our strategy, in particular looking at the risks arising from the transformation that we are driving.

Looking ahead

Looking ahead, our new strategy will be the foundation that enables us to deliver our objectives, benefiting our customers and end users, and in line with what our regulators want from us. The next generation interbank payment system will maintain resilient operations, allow increased end user benefits through innovations like richer data, all enabled by a greater focus on competition, innovation and end user choice. In particular, we will focus on alignment with the Bank of England objective of robust and resilient scheme operations, and the PSR strategy focus on increased payment system choice for retail transactions. This new way of working is also fundamental to our ability to make progress in other areas such as APP fraud, the impact of digital currencies and the impact on our ecosystem of Open Banking.

pay.uk

Key performance indicators

In 2021 we again delivered against our strategic objectives, despite the continuing distractions of Covid-19 and widespread disruption across the payments industry. We retained our focus on the robustness and resilience of our core systems, with Bacs and FPS both maintaining over 99.9% uptime throughout 2021.

During 2021 we took a greater leadership and coordination role in the fight against fraudsters targeting users of our payment systems. This work will continue to gather pace during 2022. A key success was the progress made on the NPA programme. By the end of 2021, we had drafted our Request for Proposal (RFP), which was sent to potential vendors in January 2022.

Our new strategy was approved by the Board in September 2021. It sets out a new Vision and Purpose for our organisation. With this new strategy will come a new set of corporate targets and KPIs for 2022. As a result, our KPI reporting for next year will have a different look and feel, although many of the core elements will remain.

Strategic objectives

Robust & resilient

Keeping payments flowing for the UK economy

What we measure

- Compliance against our regulatory obligations
- Performance of the payment systems and services we operate
- Risk controls through our Enterprise Risk Management Framework
- Serious incidents/data breaches

How we performed

- FPS maintained 100% uptime throughout 2021. Bacs remained at 100% apart from an incident in July which reduced that month's uptime to 99.97%. ICS remained at 100% apart from an incident in August which reduced that month's uptime to 99.21%.
- Compliance – continued to build strong relationships with our regulators.
- Risk Maturity – completion of the Enterprise Risk Management Framework delayed until H1 2022.

End user focused

Ensuring that we meet the needs of our customers

How we keep focused on our customers' and users' needs

- What our customers think of us and our services.

How we performed

- The external engagement survey concluded in early 2021. Six high-level metrics were defined and action items agreed to improve engagement. The next survey is targeted for Q2 2022.
- During 2021, we commissioned research projects focused on two key end user segments: small and medium-sized enterprises (SMEs) and the financially vulnerable population. Results will be published in 2022.

Agile and innovative

Responding to the changing industry around us

What we measure

- Stakeholder sentiment and engagement with customers, regulators and the wider financial services industry
- NPA programme progress against the plan and budget

How we performed

- 2021 saw increased levels of industry engagement including over 190 engagement touchpoints with the industry.
- Established nine industry groups, including three senior industry groups and six user groups.
- Agreement of the NPA scope within the regulatory framework.
- Sourcing strategy was agreed and structure of the RFP finalised with input through industry conversations.
- Issued the Consolidated Design and Impact Document that brings together all of the elements of the NPA design and use cases.
- Facilitated the business impact assessment of 38 direct customers.

Accessible

Our systems and services are available to a wider group of customers

What we measure

- We track the onboarding journey of new customers.

How we performed

- Direct customer numbers on Bacs and ICS remained unchanged during the year. FPS grew to 38 with five new joiners and two customers off-boarding in 2021.
- During 2021 the onboarding process for Bacs, FPS and ICS was standardised ensuring new customers experience a consistent approach when joining any of these services.
- After our delivery of Confirmation of Payee in 2020, we extended the service to a wider range of customers, including Agency Banks and Building Societies.

	2020	2021	Onboarded	Offboarded
Bacs	27	27	0	0
FPS	35	38	5	2
ICS	20	20	0	0

Efficient

Driving value for our customers in everything we do

What we measure

We measure the effectiveness of our internal systems, including:

- Systems capacity
- Financial sustainability
- Governance

How we performed

- Increased income reflects higher volumes processed and funding for the NPA.
- Increased capital primarily reflects NPA funding invoiced in 2021 in advance of program spend planned in 2022.
- Bacs and FPS utilisation remained within target range throughout the year. Declining ICS volume resulted in monthly utilisation between 19% and 27% of capacity during 2021.

	2020 Actuals	2021 Actuals
Volumes*	9.5bn	10.1bn
Income	£145.0m	£152.0m
Capital and Accumulated Profit	£40.0m	£51.5m

* Volumes include Bacs, FPS and ICS.

Excellent people

Attracting and retaining talented colleagues

What we measure

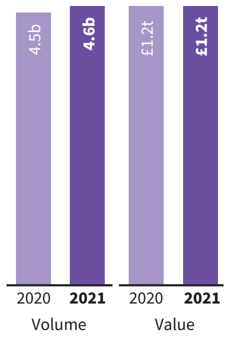
- How engaged our colleagues feel
- How we perform against a number of industry benchmarks, including attrition, gender split and absence rates

How we performed

- Our 2021 survey results included an increase in our Colleague Engagement to 76% (target 75%). Increases were observed across every category against the 2019 survey. Two surveys are planned for 2022.
- Colleague Sickness rates remained below the UK average during 2021.
- The UK average employee turnover rate was approximately 15% a year - Pay.UK's attrition rate was on average 14.4% during 2021.

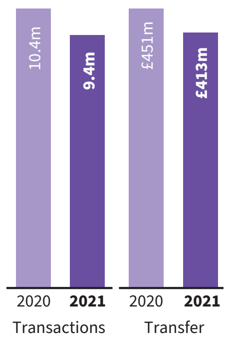
Our performance

Direct Debits



Faster Payments

Paym



Introduction

During 2021, despite the continued challenges brought on by the pandemic, we continued with the safe and secure delivery of robust and resilient interbank retail payment operations in the UK with operational availability measured at more than 99.9% (2020: 99.9%). We saw volumes increase (to 10.1 billion from 9.5 billion transactions in 2020) and the total value of these transactions showed a year-on-year increase, from £7.2 trillion in 2020 to £7.9 trillion in 2021.

The Faster Payment System set new volume and value records. In 2021, we processed 3.4 billion transactions, a 17% increase on 2020, with a value of £2.6 trillion (2020: £2.1 trillion).

In its fifty-first year, there was another new record for Direct Debit, with 4.6 billion transactions processed by the Bacs Payment System (2020: 4.5 billion transactions), a year-on-year increase of 2%. In total, Bacs Debit and Credit processed 6.5 billion transactions, £5 trillion in value.

The Image Clearing System processed 158 million items in 2021 (2020: 195 million items), including 153 million cheques (2020: 188 million cheques). The continued decrease in cheque usage to an extent has been driven by end users migrating to alternative automated payment systems.

We welcomed five new entrants to Faster Payments in 2021, taking the total number for each system to 38 for Faster Payments, 27 for Bacs and 20 for ICS. During 2021 we further encouraged competition by standardising the onboarding process for Bacs, FPS and ICS to ensure new customers experience a consistent approach when joining each of these systems.

Creating better outcomes for end users is at the core of what we do at Pay.UK. Our operations remain robust and resilient as we continue to deliver the expertise to be integral to the payments ecosystem.

Highlights

Confirmation of Payee – Phase 2

Since its launch in 2020, more than 35 payment providers have signed up and implemented Confirmation of Payee, with more expected to sign up in 2022. In 2021 close to 500 million Confirmation of Payee checks were successfully made, covering over 95% of applicable Faster Payment volumes (2020: one million Confirmation of Payee checks, covering 90% of applicable Faster Payment volumes). In 2021, Pay.UK launched a new phase of Confirmation of Payee (Phase 2) to expand the eligibility, such that all account holding payment providers can join the service.

Core operations

In 2020 we completed a major assurance review of our systems to make it easier for payment service providers to gain direct access to payments.

Throughout 2021 customers responded positively to the new model, significantly increasing the level of assurance obtained by Pay.UK with respect to the mitigation of key risks and protection of the schemes.

The 2021 assurance programme saw us complete 304 individual activities against a plan of 370 with the remaining 66 to be completed in early 2022.

During 2021, in addition to the pandemic, we have had to respond and adapt to outside influences, to ensure the continued robust and resilient processing of our interbank payment operations. In 2020 Microsoft announced it would be retiring its Internet Explorer browser in mid-2022, brought forward from 2025. Pay.UK, supported by Customer and Industry Working Groups, established a project to address the impact of the retirement. A number of Pay.UK services require Internet Explorer, most notably, the Bacs Payment Services Website (PSW), a portal for access to a number of Bacs services. PSW was designed and built over 15 years ago and has been undergoing a rebuild since 2019 to update to modern web standards, providing multi browser compatibility and improved navigation.

A communications programme in 2022 will drive the migration of affected end users to an alternative browser, to enable continued access to Pay.UK services. We are implementing the refreshed PSW 2022.

Payment systems and services

Bacs

Automated payment methods Direct Credit and Direct Debit are at the centre of the Bacs service, along with managed services for the Cash ISA Transfer Service and the Current Account Switch Service.

Direct Debit continues to grow in volume terms, adding 90 million transactions in 2021 to set a new annual record with a growth of 2% over the previous year. Increases came across a range of billing sectors, from utilities, council tax, and water rates to TV licences, mortgage repayments and the buoyant mobile market. As more and more people move to subscription-based services, that sector added 29 million new transactions over and above those in 2020. Transaction values across the year also grew by 5.5% over 2020.

Direct Credit saw the number of payroll payments increase by 2.2%, an increase of 7.7 million compared with 2020, whilst there was a 21.5% year-on-year increase in Universal Credits and an 18% rise in other government payments. Overall, though, the volume of state benefits fell by 53 million along with a dip in business-to-business payments, down 11 million against the previous year.

As the Covid-19 pandemic extended into 2021, we continued to work closely with the Bacs Payments Participant Committee to address any specific issues affecting customers' use of the Bacs service.

Enhancements made to the Direct Debit offering in 2020 were further extended, or made permanent. This included acceptance of scanned paper Direct Debit Instructions (DDIs), which continued for the entirety of the year, while the move to make the Direct Debit dormancy period 24 months – an increase from the existing 13 months – was made permanent.

In addition to this, we worked to proactively promote the benefits of the Automated Direct Debit Instruction Service (AUDDIS) to service users, with 2021 seeing a year-on-year increase in the number of organisations making the migration. Regular best practice guidance was also provided to service users in light of the continuing pandemic, including tips around business continuity.

Faster Payment System

Following the Board decision in April 2020 to initiate an increase to the Faster Payment System transaction limit from £250,000 to £1 million, in response to industry appetite, we successfully completed our live proving exercise in February 2021 and obtained the necessary regulatory approvals to proceed with the proposed increase.

By working with the industry to establish an implementation schedule for the increase, the transaction limit increase was successfully completed in February 2022, which enables payment service providers greater freedom when making their own competitive decisions about the amount they allow their customers to send. The volumes and value of payments being processed to date clearly demonstrates that the increase has benefited not only our customers but their end users as well. This increase will also help to develop parity with the transfer limits of other payment systems and provide PSPs with greater choice.

Standing order volumes overall have remained static month on month during 2021, at around 33 million each month. Forward Dated Payments, however, saw an increase through the year starting off with 21 million in January and ending up with 33 million in December.

We do expect Standing Order volumes to increase and Forward Dated Payments to continue their upward trend in 2022. We are also seeing strong growth in the Single Immediate Payments (typically those made via online and mobile banking channels) and expect volumes to increase significantly during 2022.

By the end of 2021, the Faster Payment System had 38 directly connected customers (2020: 35 directly connected customers). We welcomed five new joiners to the service in 2021 (2020: two new joiners) – Pre-Paid Financial Services and Mettle in March, Tesco Bank in July and JP Morgan and Cashplus Bank in August, with two customers exiting the Faster Payments service during this period as well, with more joiners planned for 2022.

Image Clearing System

Cheque usage was impacted significantly due to the effects of the Covid-19 pandemic and subsequent lockdowns, which resulted in a reduction in volumes. The volumes of cheques and credits being processed through the Image Clearing System in 2021 were, on average, 19% lower than they were during 2020.

To enable more options for end users to deposit cheques we worked closely with our customers to identify possible solutions which resulted in several, who offer image capture via their mobile banking apps, increasing their limit from £500 to £1000.

At the end of 2021, the Image Clearing System remained at 20 Settlement customers, with potential new customers looking to join in 2022.

Current Account Switch Service (CASS)

Forty-seven participating brands (2020: 49 participating brands) use the service, covering 99% of the market (2020: 99%). Consumers and businesses switched over 782,000 current accounts in 2021 (2020: over 700,000), taking the total number of switches to 7.8 million since the Current Account Switch Service (CASS) launched in September 2013. The service has also successfully redirected more than 117 million payments since inception.

CASS has achieved its customer satisfaction and awareness Key Performance Indicators (KPIs) in 2021 as well as the seven day switch completion rate. Overall customer satisfaction[1] with CASS in 2021 was 92% (2020: 92%) with overall customer awareness[2] of the service for the year reported as 76% (2020: 79%) and 99.8% of all switches[3] were completed within seven days (2020: 99.5%). These outcomes are higher than the CASS' KPI target of 90%, 75% and 99% respectively. The service ran two advertising campaigns in 2021, with both campaigns exceeding the 90% reach target (2020: 90%+)[4].

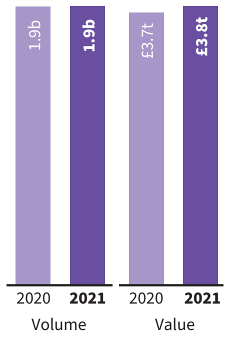
CASS also achieved designation by the PSR for the fifth consecutive year as the alternative switching service. It continues to deliver against the CMA undertakings set in 2016 and is supervised by Her Majesty's Treasury. Switching numbers began to rise again in 2021 with 94,822 switches completed in October 2021, the highest monthly volume since the pandemic restrictions began to take effect in March 2020. The marketing approach remained focused on those who could benefit most from the service throughout 2021 given the ongoing implications of Covid-19.

Cash ISA Transfer Service

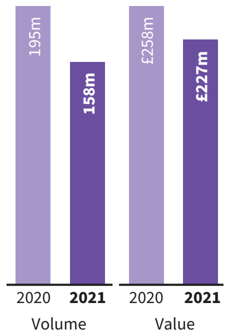
The Cash ISA Transfer Service automates the communication between the two financial organisations (new and old) involved in a Cash ISA transfer.

Seventy-five participating brands use the electronic Cash ISA transfer service, covering 93% of ISA transfer volume across the industry (2020: 92 %). Consumers transferred over 330,000 ISAs in 2021 (2020: 350,000), taking the total

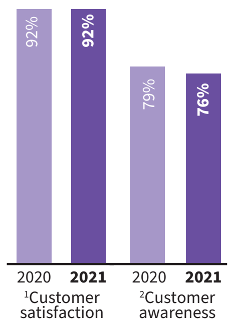
Direct Credits

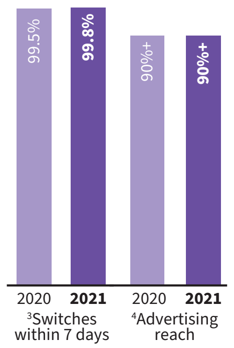


ICS



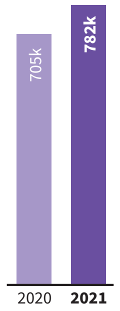
CASS





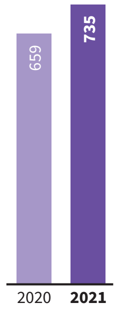
Our performance
continued

CASS



Number of Switches

UTSP



UTSP Live Certs

CoP

Volume of personal and non-personal requests

number of transfers to 5.4 million since the Service launched in October 2012. The service continues to perform strongly against the 15 working day industry SLA, achieving an average completion time of 5.5 days (2020: 6 days).

Paym

The UK's mobile payment service has been operating since 2014, and provides end users with the ability to make a payment without needing the recipient's account number or sort code.

2021 was a strong year for the Paym service operationally, with £413 million transferred (2020: £451 million). Although Payment volumes decreased 10% year-on-year to 9.4 million transactions in 2021 (2020: 10.4 million transactions), the cumulative value sent across the Paym service since its launch amounts to £2.3 billion (2020: £1.879 billion). The number of registered users now totals nearly 5.7 million (2020: 5.8 million).

Universal Trust Service Provider (UTSP)

UTSP had a 12% year-on-year increase in certificate users in 2021 and continued to provide certificates to Pay.UK overlay services, such as Request to Pay. Since it was introduced, UTSP has helped more than 20 customers securely access the central infrastructure, with more expected to join in 2022.

It provides cost-effective public key infrastructure services, a set of rules and policies enabling digital certification and encryption, to UK banks and financial institutions that want to join the Faster Payment System and the Bacs Payment System.

Confirmation of Payee

The Confirmation of Payee service continues to receive positive feedback from customers and the payments industry, enabling improvements in prevention and detection, and was recognised at the Payments Awards 2021, winning the 'Consumer Anti-Fraud Solution of the Year' category.

In addition to the launch of Phase 2 and building on this success, we are working closely with the PSR and industry to deliver Secondary Reference Data (SRD) and other service enhancements that will broaden access to Confirmation of Payee further.

Confirmation of Payee was the first new strategic service delivered by the NPA programme. Confirmation of Payee is a name-checking service for UK-based payments, designed to help reduce misdirected payments and certain types of fraud. It gives payers greater assurance that their payments are being sent to the intended recipient and not accidentally or deliberately misdirected.

Request to Pay

The rules and standards for the Request to Pay framework were launched in 2020, in close collaboration with the industry. Request to Pay is an innovative and flexible way to settle bills between people, organisations and businesses. It is a standard messaging service that gives billers the ability to request a payment rather than sending an invoice, and gives end users different options to pay – in full, in part, ask for more time, communicate with the biller, or decline to pay – without changing their legal obligations. Technical and service providers are now part of the Request to Pay ecosystem and more organisations are set to join the framework in 2022. We continue to work in consultation with consumers, banks, fintechs and utility companies to further develop the service, including Interactive Advance Notification (IAN) to support the Direct Debit experience that was well-received by industry. We are encouraged to see increased industry press coverage of the merits of Request to Pay and the growth and adoption of the ecosystem.

Supplier management

Our most critical supplier is Vocalink, the payment systems company, which provides us with a core central infrastructure that runs the above services. We have a dedicated governance structure in place to support our management of Vocalink, which covers all aspects of service delivery, change and contractual compliance. This is underpinned by a formal meeting structure, with regular management information reporting. Assurance and compliance-checking activities are regularly conducted, including ISAE 3000 audits of Vocalink's key controls.

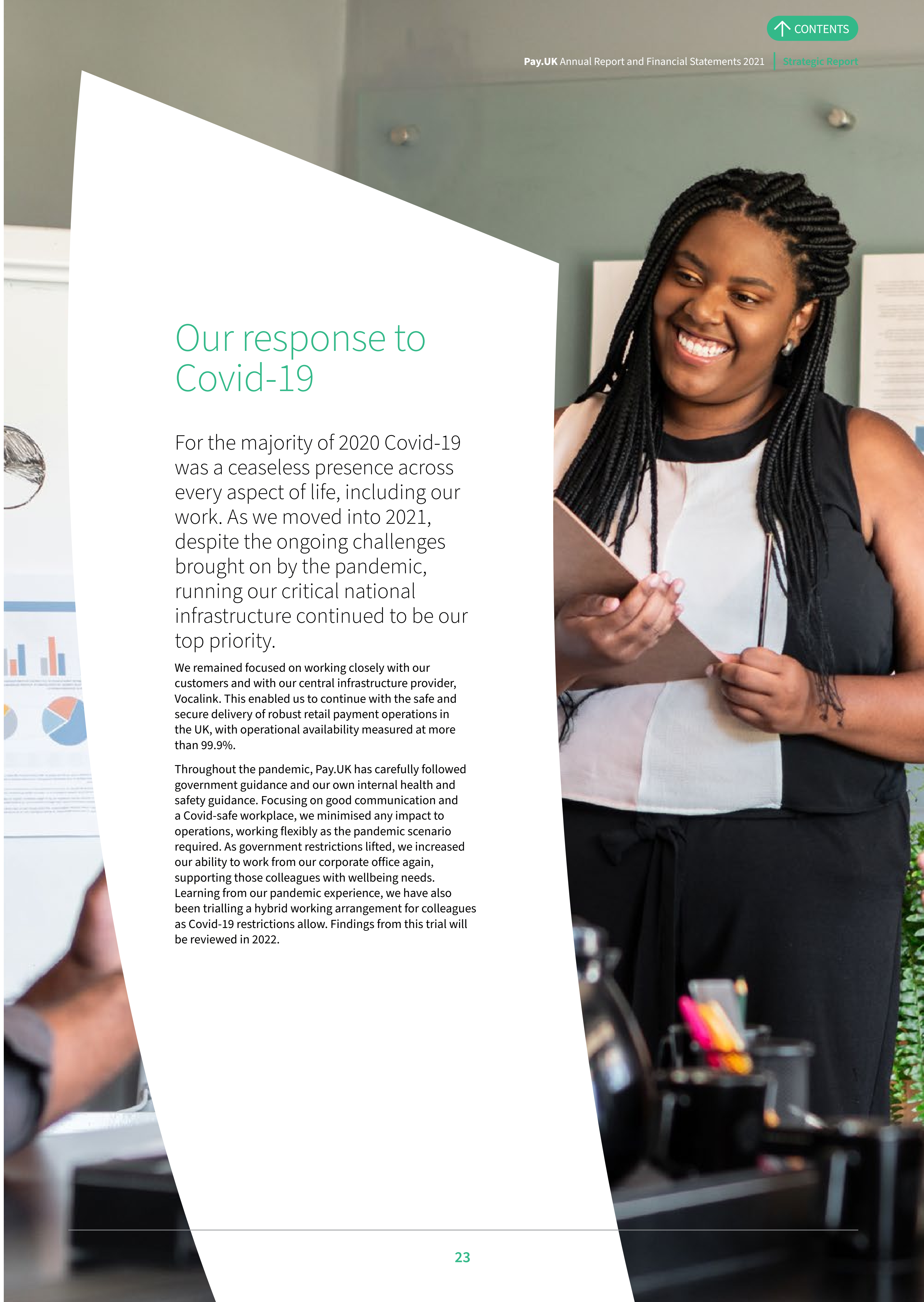
Risks and the corresponding controls related to Vocalink are recorded, managed and reported through our Enterprise Risk Management Framework, with Vocalink also reporting to us its own recorded risks relating to the services it provides us with. Our Procurement Team and Operations Team manage and oversee the contract management activities of Vocalink, with our Risk and Security teams providing a second-line view and challenge.

More broadly across all our suppliers, in 2021, we approved a new Third-Party Management Framework that will build upon our existing processes and capability, for implementation across our whole supply chain during 2022.

It proposes a clearly documented framework for managing risk and value within our supply chain, underpinned with increased capability. This is the result of a maturity assessment carried out in early 2021, with a view to setting a target state for third party management more strongly aligned with our best practice activities.

Under this new Framework, management oversight of third parties is determined according to their strategic importance, financial value and risk profile. A small number of suppliers, including Vocalink, are in our 'top tier' of importance, and our new framework processes are being fully implemented and embedded with them. This includes some changes to the governance structure for Vocalink, that are designed to ensure the relationship is managed holistically, as well as to enable swift escalation of issues and prioritisation of strategically-important matters.

It is an ongoing and evolving process that will take time to become established with our largest suppliers, and also across our entire supply chain.

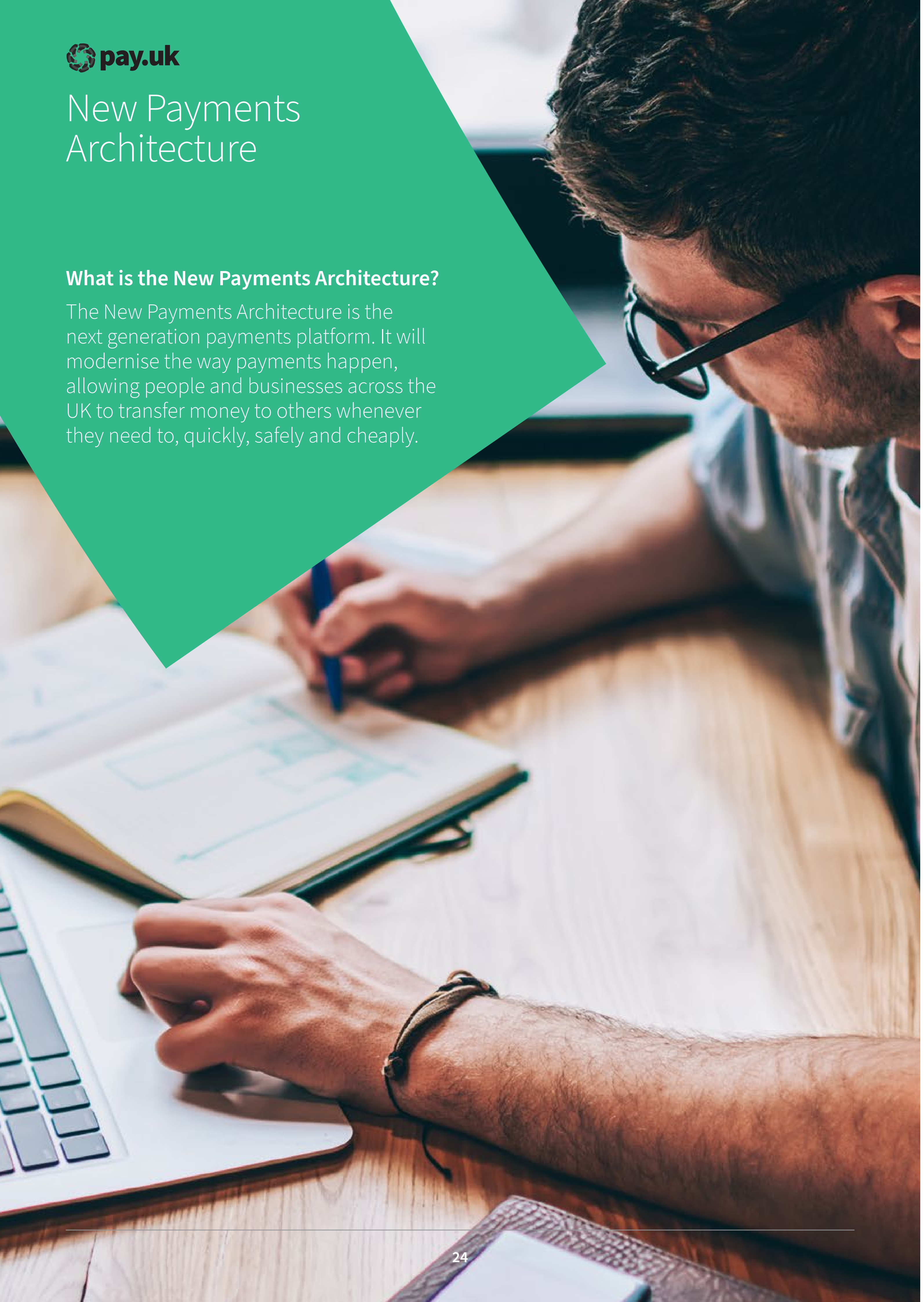


Our response to Covid-19

For the majority of 2020 Covid-19 was a ceaseless presence across every aspect of life, including our work. As we moved into 2021, despite the ongoing challenges brought on by the pandemic, running our critical national infrastructure continued to be our top priority.

We remained focused on working closely with our customers and with our central infrastructure provider, Vocalink. This enabled us to continue with the safe and secure delivery of robust retail payment operations in the UK, with operational availability measured at more than 99.9%.

Throughout the pandemic, Pay.UK has carefully followed government guidance and our own internal health and safety guidance. Focusing on good communication and a Covid-safe workplace, we minimised any impact to operations, working flexibly as the pandemic scenario required. As government restrictions lifted, we increased our ability to work from our corporate office again, supporting those colleagues with wellbeing needs. Learning from our pandemic experience, we have also been trialling a hybrid working arrangement for colleagues as Covid-19 restrictions allow. Findings from this trial will be reviewed in 2022.



New Payments Architecture

What is the New Payments Architecture?

The New Payments Architecture is the next generation payments platform. It will modernise the way payments happen, allowing people and businesses across the UK to transfer money to others whenever they need to, quickly, safely and cheaply.

This means making payments, from paying salaries to settling bills, will become easier. Developed in collaboration with businesses from across the payments industry, with end user insight and supervised by our regulators, the NPA will be a cutting-edge, state-of-the-art payments processing platform. It will allow us to explore new technologies, unlock innovation and competition, and tackle existing problems in new ways for the benefit of people and businesses across the country.

The creation of the NPA will be one of the most significant developments in the payments industry. It is a major programme to change the way we process interbank retail payments.

Delivering the NPA, together with the industry, will enable the UK to maintain its role as a global leader in interbank retail payments.

NPA developments in 2021

We operate in a fast-moving, 'always on' environment, where our customers and end users expect (and need) more. Technology and competition are evolving fast and payment volumes are increasing. It is crucial that we develop a powerful next generation payments platform, which continues to be robust and resilient at all times, benefiting the UK economy and beyond. The New Payments Architecture programme is creating the interbank retail payment infrastructure that will address these challenges and supports the delivery of the Pay.UK strategy.

Our role is to ensure the platform delivers long-term value aligned to our focus and vision as a key enabler of our strategy. We have worked with the wider payments industry to set its scope collaboratively and agree the strategic principles for the programme:

NPA principles in 2021

1. **Maintaining a robust, resilient and scalable platform –** enhanced by new technology and able to handle rising payment volumes
2. **Adoption of the ISO 20022* messaging standard,** which will enable new capability; for example, tracking and tracing payments
3. **Developing real-time payment capability,** creating more choice for those who make and receive payments
4. **Lowering barriers to entry** so more customers can access NPA services more easily and create more choice for end users
5. **Delivering a safe, secure environment** equipped to help combat fraud and financial crime
6. **Ensuring users benefit from efficiencies;** for example, using data to support innovative new services

*ISO 20022 is an emerging global and open standard for payments messaging. It creates a common language and model for payments data across the globe.

New Payments Architecture

continued

2021 overview

NPA programme

In early 2021 we built on the work started in 2020 to mitigate delivery risks in the NPA programme, working extensively with our regulators and customers to agree the initial scope of the programme and procurement approach. We worked closely with the industry consultation conducted by the PSR. We also worked with our delivery partner to build programme capability, focused on the developing needs of the programme and future needs of the wider Pay.UK organisation.

NPA design

In 2021 we developed the NPA Requirements, a consolidated overview of the NPA Design outlining the design requirements of all transaction types. In addition, we published the Consolidated Design and Impact Document (CDID), a single reference point that brings together all of the elements of the NPA design and use cases. It provides one definitive reference point for all customers to access the design, and will support them in their readiness and business impact assessment activities.

Engagement – how we engage our stakeholders every step of the way

2021 saw an increased level of industry engagement.

During the period from February 2021 to the end of September 2021 we held over 40 industry user groups, a large number of bilateral meetings with over 40 organisations representing industry subject matter expertise from across the payments industry.

In total there were over 190 engagement touchpoints with the industry. These included: individual customer meetings, user groups and senior industry groups.

The result of our engagement was the definition of the NPA design and an industry collaboration that enabled the development of the NPA CDID.

Regulatory engagement

In 2021, the PSR issued two policy statements based on their consultation on how to de-risk the delivery of the NPA Programme. We welcomed the policy statements that were informed by our collective analysis. The statements provided improved clarity concerning the scope and procurement process, and also defined the regulatory framework under which the NPA will operate. Finalising the exact scope of the NPA is subject to further analysis and consultation by Pay.UK and its stakeholders, and non-objection from regulators.

NPA: Looking ahead

The integrated programme plan

We have an integrated programme plan for the NPA. In 2022 we will take the solution requirements we have defined and run a competitive process to select the common infrastructure services provider.

The pre-regulatory RFP was issued in January 2022 to the vendors to enable them to begin work on their responses. The aim is to agree the commercial and funding model and obtain commitment from our customers with the master service agreement in place by mid-2023. The vendor selection process includes securing the support of stakeholders and regulators for the proposed scope, design and recommended vendor.

Procuring the NPA

Informed by both the industry and the PSR's Consultation, it was agreed that a competitive procurement process is the best way to deliver the NPA. We are basing our approach on the NPA Procurement Strategy that outlines the process by which Vendors will be engaged in the procurement of a supplier to deliver the NPA central infrastructure.

As part of the vendor selection we will go through an evaluation exercise in order to assess where the prospective vendors' solutions meets our requirements. We expect that vendors will have solutions available which will satisfy a high proportion of our NPA Requirements, limiting the amount of IT development required.

The Commercial Strategy

In 2021, we set the foundations of the commercial strategy for the NPA, shaped by engagement with our customers. For 2022 the focus is to refine the funding, pricing and commercial strategy for the NPA in conjunction with the wider programme workstreams such as the solution evaluation, the procurement process and our development of the NPA proposition.

Industry engagement

Our current and future customers are key to the design and success of the NPA. We have established user and industry working groups to engage constantly in both forums and individual meetings. This engagement will carry on through 2022 and beyond, specifically supporting customers with their technical requirements, implementation queries, business impact and readiness assessments. Our focus is to secure customer commitment to usage of the NPA.

Finance review

> Retained earnings grew to £47.1 million (2020: £35.5 million), helping to ensure that investment in existing services and NPA can be further increased in 2022."

Revenue grew in 2021 by 5% to £152.0 million (2020: £145.0 million) as transaction volumes grew for our core services by 5%, with net assets growing 29% to £51.6 million (2020: £40.0 million) and cash balances by 17% to £86.2 million, supporting the resilience needed to operate as a trusted Payment Services Operator in a changing ecosystem and continued investment in the NPA programme which underpins delivery of our strategy.

Revenue is principally from per-transaction charges for the payment systems we operate, with a small additional revenue stream from ancillary services. Prices are set annually to ensure the costs to operate our services are recovered and funding secured to ensure service resilience and invest in our strategy, including NPA.

Costs rose by 18% to £138.0 million (2020: £116.5 million). This increase was principally driven by increased investment in the NPA programme and in the resilience of Pay.UK and our payment systems as we meet the needs of a changing and more complex ecosystem. Costs from our Central Infrastructure provider, Vocalink, increased as volumes grew. Delivering value to customers and end users is a key priority and, to this end, a new contract was agreed with Vocalink, for Faster Payments and Bacs. The revised contract allows for increased capacity whilst reducing the cost impact of volume growth and enabling a smoother transition to the NPA services.

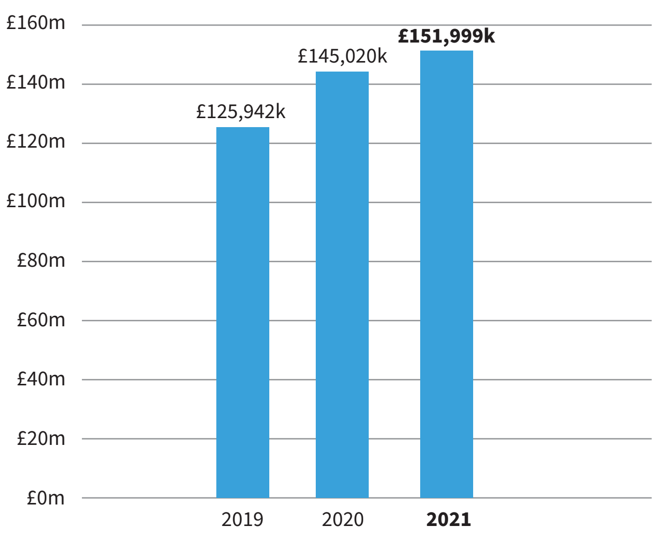
Retained earnings grew to £47.1 million (2020: £35.5 million), bringing total equity to £51.5 million (2020: £40.0 million), helping to ensure that investment in existing services and NPA can be further increased in 2022. Strong cash flow ensured that £10.8 million of advances from customers received as Pay.UK was set up in 2018 could be repaid.

Financial resilience continues to meet the requirements of the CPMI-IOSCO principles for Financial Market Infrastructures as set out in our viability statement on page 37.

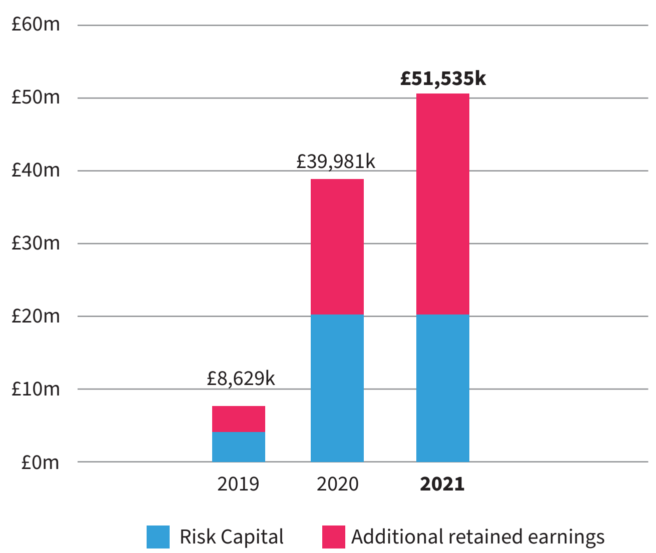
We finalised the full buyout and then wind-up of the defined benefit pension scheme in the year, following a buy-in completed in 2020. The 2020 buy-in had secured an insurance policy to match the liabilities on the balance sheet, ensuring that Consolidated Total Equity for Pay.UK Group was not exposed to changes in valuation of scheme liabilities. The buyout has enabled the full derecognition of assets and liabilities.

Read more about OUR VIABILITY STATEMENT on page 37

Revenue 2019 to 2021



Capital growth 2019 to 2021



Stakeholder Engagement

Stakeholder engagement

Our work touches a broad spectrum of stakeholders, from the customers that use our systems, individuals and businesses who make and receive payments, to policy makers, regulators, consumer and trade representatives, and the wider payments ecosystem.

We actively engage outside our organisation and our relationships with our stakeholders help us make decisions and set objectives. We engage formally and informally with our stakeholders almost every day, and in 2021, we focused on reviewing and strengthening existing relationships, as well as reaching out to new stakeholders and broadening our audience.

Collaboration and engagement with our varied stakeholders helped us evolve our products and bring some new ones to market, including Confirmation of Payee and Request to Pay, and our Standards framework. Our Board Advisory Councils, working groups and service committees continued to advise and support our work, and we also benefited from informal engagement through, for example, our digital first webinar programme and our Knowledge Hub.

A key pillar of our new Strategy is engagement. Therefore, to ensure we are collaborating with our different stakeholder groups in the right way, and getting the most out of that work, we began a comprehensive review of our engagement programme in H2. The findings of this review, which completed in H1 2022, will help us set the foundation for even stronger working relationships with the wider payments ecosystem, now and in the future.

Councils, groups and forums

Participant Advisory Council

In 2021, our Participant Advisory Council continued to advise us on issues pertinent to our current and future customers. This included providing valuable insight on both internal and externally facing work, including the development of our strategy and organisational culture, our work on fraud prevention, our house views, and our products and market testing.

Our external stakeholder engagement review has now concluded that our industry engagement in this space needs to be reformed, in particular, to ensure we have a representation model that affects the breadth and diversity of our ecosystem; therefore, in 2022, we will create a new Industry Advisory Council, replacing the Participant Advisory Council.

End User Advisory Council

We continued to focus on end user needs and representation via our End User Advisory Council in 2021, giving us invaluable insight from the perspective of the people and businesses that use our services.

The Council supported our work on authorised push payment scams, our response to the Payment Systems Regulator's call for views on interbank payments, and our work on fraud prevention. We welcomed the contribution of individual council members in discussions on consumer protections and the approach to our research and methodology. In addition to engaging with the Participant Advisory Council, we also sought the opinion and expertise of the End User Advisory council on the development of our strategy, our house views on key payment themes and the development of our corporate culture.

Both of our advisory councils publish independent annual reports, which are available on the Pay.UK website at www.wearepay.uk/who-we-are/our-organisation/advisory-councils/

Read more about OUR STRATEGY on pages 16 and 17

Stakeholder Engagement
continued

Strategic Participant Group

The SPG continued to meet regularly in 2021 to advise Pay.UK and make recommendations to the board on the NPA programme. SPG is a representative group of customers including large banks, small banks, non-banks and indirect players; the input of this advice is vitally important due to the role customers will play in transmitting the benefits of NPA to end users, and programme funding.

Participant Engagement Forum

Our Participant Engagement Forum allows us to engage openly with our direct customers, and benefit from their opinions and expertise on a variety of issues. During 2021, the Forum continued to work with us on a wide range of topics, including the NPA programme and its structure, our engagement with the wider industry and our regulatory responses, as well as finance, standards and operational issues.

One of our key engagement channels, the Forum's work in 2021 allowed us to gain valuable customer insight on our key strategic priorities. We also hosted a collaborative meeting with the Payment Systems Regulator, UK Finance and industry specialists, to explore our holistic industry approach to fraud prevention.

Guarantors/AGM

Pay.UK is a company limited by guarantee. We have 42 guarantor members including banks, fintechs and payment service providers. The role of our guarantor members is to hold the Board to account for the continuing fulfilment of our purpose and strategic objectives. We hosted a meeting for our guarantors in June, and in September we held our Annual General Meeting virtually for the second time, with 25 guarantors in attendance.

Platform leadership

Our strategy sets out our approach to being a platform leader in the wider payments ecosystem and beyond. In 2021 we leveraged our position as a financial market infrastructure, to begin strengthening our platform and driving greater value for our customers.

Knowledge hub – championing innovation

Our industry collaboration platform, the Knowledge Hub, aims to foster a community of innovation and address the challenges that end users and the wider industry face. In February 2021, we launched our first 'ecosystem challenge' asking the payments community to share views on how payments had changed as a result of the pandemic. The challenge complemented our white paper, *Strategic trends: Retail payments in a future world*, and resulted in global collaboration and insight, from experts in markets as diverse as Pakistan and Canada.

We continue to focus on growing our collaborative community of innovators into 2022 and beyond, having built a total of over 550 users from over 230 organisations since its launch in November 2020. In 2021, we published three white papers on the Knowledge Hub:

- **Strategic trends:**
  Retail payments in a future world
  We published this paper alongside our ecosystem challenge, considering the key issues facing the industry in a world still being reshaped by the global pandemic. We invited representatives from major users, tech providers, trade associations, regulators and payment service providers to be involved in the debate, through our Knowledge Hub and during our live webinar.
- **ISO 20022 – A new language, for better payments**
  We believe that transforming UK retail payments to operate on the ISO 20022 standard is a once-in-a-generation opportunity in terms of investment and modernisation for our retail payment systems. It must enable benefits for all, through new data-driven services for payments. We collaborated with Baringa Partners on a White Paper that explored the role of data in offering meaningful customer insights and improving customer experience, while offering seamless interactions.
- **Smart payments modernisation**
  Our Standards White Paper, *UK Payments Modernisation: The Profound Impact of ISO 20022*, explores the importance of the adoption of ISO 20022. The report, which we co-authored with Volante Technologies, examines the essential elements of a smart modernisation strategy that balances the tactical requirements of message compliance with the need to build differentiated services enabled by the newer, richer and more flexible ISO 20022 standard.

Our Standards Authority

In 2021 our Standards Authority continued to engage widely with the payments industry and wider ecosystem, ensuring the development of standards is open and inclusive, and balances the interests of our broad range of stakeholders.

As part of our ongoing engagement with the industry in 2021, we reached two major milestones around our publication of technical standards material. This focused on a range of different use cases from single and multiple priority payments, to returned payments and status requests. We received positive feedback on these from the industry and, as a result, we are planning subsequent publications in 2022.

We issued a joint statement with the Bank of England on our partnership and our joint work supporting the use of improved quality and quantity of data (through the implementation of the ISO 20022 standard), and the benefits this will bring.

We worked closely with UK Finance and some of its members (specifically economic crime specialists) in 2021 to standardise key fraud data that could be exchanged between our customers and others to help mitigate Authorised Push Payment (APP) fraud. We led the development of a first-phase Enhanced Fraud Data Standard that will define and structure how key fraud information can be used to identify and resolve suspicious transactions earlier in the payment process.

We collaborated with HM Revenue and Customs (HMRC), Open Banking and the Bank of England to develop a proof of concept regarding the tax data collected when businesses make regular PAYE tax payments. The aim is to reduce friction, oversight and operational risk by standardising the data so it can be sent and received more easily by businesses and HMRC.

Compliance with PSR General Direction 4

The Payment Systems Regulator's directions apply to Pay.UK as an operator of regulated payment systems and in relation to those systems. General Direction 4 (GD4) requires that, as an operator of a regulated interbank payment system, we must:

- Actively ensure that we take the views of each relevant service user into account in setting our strategy and in making decisions;
- Communicate our strategy and decisions to service users; and
- Publish a report on our engagement with service users once a year.

Our success as an organisation is maintained by regular and ongoing engagement with our stakeholders, in particular our service users. It helps to ensure that all our stakeholders understand why we exist, what we want our organisation to deliver and how we're planning to do it.

In 2021 we consulted the payments industry and our varied stakeholder groups on many topics, including our organisational strategy, Request to Pay (including its new identifier mark) and Confirmation of Payee, all of which are covered elsewhere in this document. We provide a range of formal and informal channels for open dialogue (such as committees, working groups, advisory councils and forums), giving our stakeholders the opportunity to engage, consult and challenge us on the work we do.

We published our General Direction 4 Annual Compliance report in October 2021.

Risk and compliance

Pay.UK is accountable for the risk management of the infrastructures operating our recognised payment systems. We consider both the risks to Pay.UK directly and risks to our payments systems. To fulfil both our systemic risk and platform leadership roles, we actively scan the ecosystem for new and emerging risks; opportunities and threats. We continuously monitor and manage the risks in the core of the payment systems, which we control directly. We also analyse the risks across the ecosystem for any potential systemic impact.

Risk management is an essential part of the way we support the effective delivery of our strategic goals (page 16). It is also key to us fulfilling our role as a provider of payment system services that have systemic importance to the UK economy and, as such, are recognised as Critical National Infrastructure (CNI).

We continue to enhance our Enterprise Risk Management Framework (ERMF). This included a refresh of our operational risk management, with enhanced Risk Control Self Assessments (RCSAs), and we initiated a review of our strategic risks to give a greater focus on systemic risks.

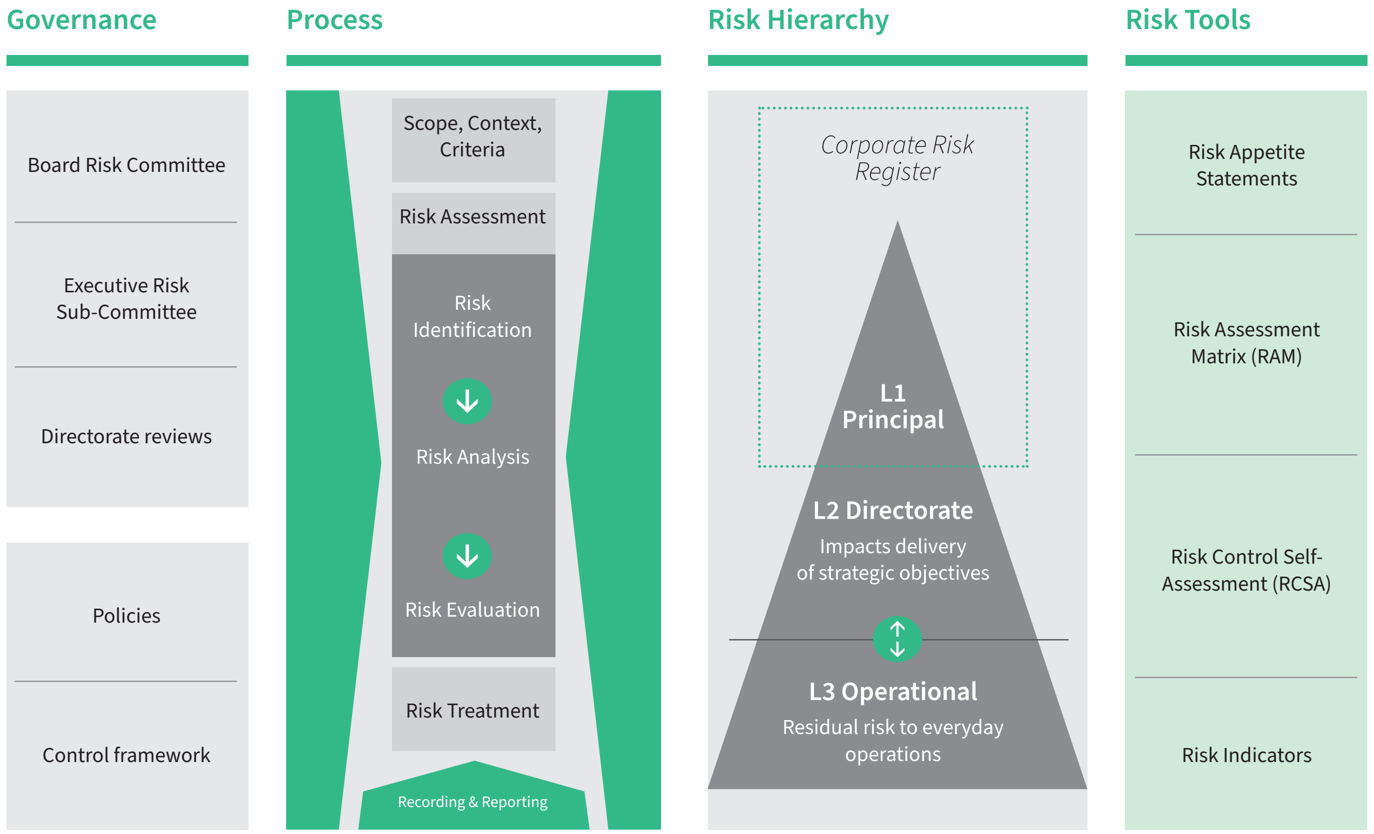
Our ERMF meets the risk management guidance set out by the Financial Reporting Council in the UK Corporate Governance Code 2018 and is aligned to ISO 31000. The ERMF also takes into consideration that under the Banking Act 2009, we are required to have regard for the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions (CPMI-IOSCO) principles for financial market infrastructures in operating our recognised payment systems.

We have an established governance framework within which risk management plays a key part. We employ a 'tone from the top' approach, with our Board responsible for setting our risk appetite statements, which we review annually. Our Board Risk Committee has detailed oversight of risk management and is responsible for overseeing the effectiveness of the ERMF. We continue to mature our responsibility and accountability framework to meet best practice, with segregation of duties and clear roles and responsibilities across the first line, risk management, compliance and internal audit.

We are making good progress to complete our Operational Resilience self-assessment and develop an Operational Resilience Framework by the end of March 2022. This will enhance our ability to fulfil our role as a systemic risk manager and comply with the operational resilience part of Bank of England's Code of Practice.

Looking ahead, we will continue to enhance our ERMF, including our approach for the management of systemic risks. We will invest in expanding our capability to manage systemic risks through the establishment of new systemic risk management roles throughout the first line. This recruitment will scale up our capability to scan for new risks across our end-to-end payment systems, including those parts outside our control, and to be more agile in our response to risks.

Enterprise risk management framework



Risk culture

Our ERMF supports successful delivery of Pay.UK's strategic, regulatory and business objectives as a recognised Payments System Operator (PSO) and Systemic Risk Manager. It requires every part of the business to monitor, communicate, and report changes in the risk environment and the effectiveness of controls to manage identified risks on an ongoing basis.

Our risk appetite statements

As the recognised Payments System Operator (PSO) responsible for the robust and resilient running of the UK interbank retail payment systems, we take care to reduce all risks to a minimum and have a zero risk appetite towards payment service operations. Our priority is to make sure that service levels continuously are maintained. We do not tolerate any degradation to confidentiality, integrity or availability of payment services impacting our end users. This applies to any future service provision and operational performance of any new platforms, solutions or architecture.

We have a cautious risk appetite with regard to the delivery of our internal services (e.g. internal technology, enterprise change, Pay.UK facilities and Human Resources) and aim to ensure service provision at all times. However, we tolerate minor disruption to service availability whilst maintaining the integrity and confidentiality of Pay.UK data.

In pursuit of our objectives we accept, in some circumstances, risks that may result in financial loss or exposure. This includes the potential that we will request customers to increase agreed funding levels. We do not pursue any additional income-generating or cost-saving initiatives unless there is a high level of certainty of the benefit to our customers.

We will not knowingly accept any material breach of a regulatory requirement, legislation and/or contractual obligation. We strive to identify early any potential changes to contracts/regulations/legislation and prepare as necessary for timely compliance.

We want to be seen as a leading retail payments entity, trusted and respected across the industry as the UK's interbank retail payment system operator. We do not undertake anything that could be perceived by stakeholders to be inappropriate, unethical or inconsistent with our values.

pay.uk

Risk
continued

Systemic risk

In 2021 we enhanced our approach to systemic risk to improve how we identify, analyse and manage systemic risks across the payment system ecosystem. This includes improved horizon scanning, prioritisation and faster analysis of emerging risks which have the potential to have a systemic impact.

New risks can be introduced from anywhere within the payment ecosystem and our ERMF provides us with the ability to identify new risks and assess them for potential systemic nature and impact. In 2021, we initiated new projects to support our colleagues to better understand the potential sources of systemic risk and improve the timely reporting of potential risks. In 2022 we are continuing the improvement activity in this area specifically around timely risk analysis and development of systemic risk controls.

We apply the following tools and techniques to identify systemic risks:

- Strategic risk management: Identification of strategic risks with the members of the Executive Team.
- Operational risk management: Identifying operational risks by undertaking and managing Risk Control Self Assessments (RCSA). Risks can be identified by process step or aspects of Important Business Services (IBS), such as Bacs and the Faster Payment System.
- Horizon Scanning: Our Horizon Scanning team carries out research on emerging risks to better understand them.
- Business continuity and operational resilience: We have an operational resilience programme, which will identify any loss that is not recoverable within limits, and help identify (and mitigate) systemic risks.
- Learning from events: Root Cause Analysis (RCA) are carried out for our incidents, and Vocalink shares details of incidents and their causes with us.
- Customer monitoring: We closely monitor customer risks in a number of areas, including operational incidents and compliance with our rules and codes.
- Scenario analysis and stress testing: We develop extreme scenarios for strategic risks that are systemic as part of recovery and wind-down planning. This helps us understand such risks better.

Emerging risks

We seek to identify emerging risks to Pay.UK and our payment systems. We particularly focus on identifying emerging systemic risks to our payment systems, for those within our direct control and those beyond. Our responses to emerging risks range from tactical investigations to research projects.

Emerging risk topics include:

- New technologies used in our payment systems
- Customer outsourcing
- Unexpected changes to customers' overlay services
- Geo-political changes
- Payment ecosystem changes
- New payment products
- Changes to payment patterns
- Payments originating overseas
- Economic impacts of the pandemic and resulting lockdowns

Principal risks

Our principal risks are owned by Executive Committee members and assessed monthly. They are reviewed at monthly Directorate Risk Review meetings, and monitored by our Executive Risk Sub-Committee and Board Risk Committee.

Principal Risk	Description	Potential Impact	Mitigation
Architecture	Our architectural decisions could be uncoordinated or misaligned.	Reduction in robustness and resilience of our payment systems.	• We make sure that our programmes are co-ordinated, prioritise controls to mitigate architectural risks and continue to deepen our end-to-end knowledge of our payment systems. • We have invested in architectural resource to develop our ecosystem mapping to support operational resilience and our understanding of our important business services and to support identification of areas which may be vulnerable to systemic risk.
Business Development	Our products and services do not keep up with changing consumer needs.	Over time, our payment systems may become less attractive compared to alternatives.	• We have appointed a Chief Business Development Officer to lead on the development and maintenance of our products. • We are investing in new and innovative solutions to meet changing customer demand. • We are working to reduce end user fraud, which will help to maintain confidence in our existing and future products and services.
Financial	We might have poor financial control, funding issues or an inappropriate funding model.	Unexpected costs and/or reduced revenue. We may need to use our capital reserve in support of our liquidity and have to reclaim this from our customers.	• We currently hold a capital reserve of approximately £21 million and have a £6 million liquidity buffer. • Financial controls. • Stress-tested recovery plan with mitigations and triggers. • Our customers fund Pay.UK and its systems on a not-for-profit basis.
New Payments Architecture (NPA)	The NPA programme, which will deliver the next-generation interbank retail payment systems for the UK, could experience challenges with design, procurement, build, implementation and transition.	Like all complex IT programmes, the NPA programme has the potential for cost overruns, delays and reduced uptake. A failure to deliver the NPA programme would undermine our ability to compete in the market and could lead to long term end user detriment.	• NPA robust governance structure and Integrated Programme Plan (scope, schedule, resourcing and budget). • Customer commitment strategy and framework. • Sourcing Strategy, Evaluation Strategy, Procurement Approach and Request for Proposal (RFP). • Stakeholder engagement forums such as the Strategic Participant Group (SPG), the three SPG sub-groups (Commercial, End User & Propositions and other customer engagement industry forums.

Risk
continued

Principal Risk	Description	Potential Impact	Mitigation
People	Due to competition for talent, it is possible that we are unable to attract, hire and retain best-in-class talent, capability and experience.	Lack of resource, particularly for subject matter experts, undermines our capability to deliver our strategy and adequately fulfil our regulated responsibilities.	• We offer unique employment opportunities through our role as the operator of the UK's national interbank retail payment systems. • We offer benchmarked and attractive employment packages and have developed directorate-level retention plans. • Through our Diversity and Inclusion (D&I) strategy, we are intentionally attracting and identifying talent and creating opportunities for under-represented groups.
Payment system availability and integrity/ Operational resilience	Our payment systems have inherent availability and integrity risks. These risks reside in the core of our payment systems, such as with Vocalink and our customers, and beyond that to end users of our systems. New payment technologies can mitigate existing risks and introduce new risks.	Systemic failure in our payment systems could cause payments to be delayed and disrupted. Widespread disruption in our payments systems could result in material impact on the UK economy.	• We set standards to control systemic risk and to make sure services operate within tolerances defined within the relevant rulebooks. • Our Operational Resilience programme works to make sure that all outages in both Pay.UK and our payment systems can be recovered within tolerable limits. • We work closely with Vocalink, customers and other stakeholders in the payment system to manage systemic risks. • Since the year end we appointed a Chief Technology Officer.
Regulatory and legal compliance	As the operator of the UK's three interbank retail payment systems, we are regulated by FMID and the PSR. FMID's role is to protect and enhance financial stability in the UK. The PSR's role is to make sure the UK benefits from world-leading payment systems by encouraging innovation and competition. We also adhere to a wide range of other applicable regulations and the UK's laws.	• Non-compliance with regulatory principles, regulations and law could result in fines, regulatory action against Pay.UK and degradation in trust and reputation. • The confidence of our regulators in Pay.UK could be eroded.	• We have proactive and transparent dialogue with our regulators. Our Board and Executive leadership regularly engage with their regulatory counterparts. • Through our platform leadership role, we work to be informed about all aspects of our payment systems and aim to act quickly to respond to developments. • We operate a compliance framework.
Security	Information and data security are key components of keeping Pay.UK, its customers and supply chain safe from cyber-attacks and data breaches. Hostile actors are known to target the financial services sector for economic gain and to disable UK infrastructure.	A successful cyber-attack or insider breach could disrupt payments platforms, cause economic loss and data insecurity, and damage confidence in UK CNI.	• For our internal company side information technology we mitigate risk through our information/cyber security strategy and management programme. • We provide oversight/assurance on our Critical suppliers to ensure our information assets are appropriately protected within our risk appetite and appropriate recovery controls are in place and practiced. • We make sure that our operations are secure and that customers confirm compliance with security aspects of the payment systems' codes of conduct. • We provide assurance and appropriate due diligence of third-party suppliers (including Vocalink) and the wider supply chain. • Suppliers assessed to be a higher risk because of the types of data they hold are subject to more regular scrutiny and security assurance, as part of the Pay.UK supplier management framework.

Viability statement

We have prepared these financial statements and accounts on a going concern basis.

The Board has assessed our current viability, and confirms that the Directors have a reasonable expectation that we will be able to continue in operation and meet its liabilities as they fall due over the period to December 2024.

We have selected this time frame on the basis that:

- It is within the 5-year strategic planning horizon being adopted by the Company.
- Pay.UK is a not-for-profit company, limited by guarantee. It is funded primarily through a cost recovery business model, which means that the Company sets transaction payment tariffs to recover its costs in full. The tariffs are calculated using estimates of forecast volumes and are set at the beginning of each year. The Company has flexibility to adjust the tariffs during the year in consultation with its customers if required. This model is not anticipated to change for at least the next three years.
- The long-term debt held on the balance sheet from our funding customers was repaid early at the end of 2021.

The Directors are satisfied that this period is sufficient to enable a reasonable assessment of the viability of the Company to be made.

Analysis

As part of our assessment of our viability, we used financial models to project cash flows and monitor financial risks and liquidity positions. We analyse forecast funding requirements and other key financial ratios to understand the resilience of the Company and our business model against our principal risks. This analysis takes account of the mitigating actions that we could realistically take to avoid or reduce the impact or occurrence of the underlying risks. It also considered other sources of funding or actions such as increase in our tariffs and reduction of expenses or deferral of significant projects.

In light of this the Directors believe Pay.UK is well placed to manage its business risks.

The impact of Covid-19 on the business was considered by the Board throughout the year. This included assessing the impact of the pandemic on stakeholders and payment volumes. Additional commentary on our continued response to the pandemic may be found on page 23.

In making this statement, the Directors considered our ability to withstand five severe but plausible scenarios based on these risks, in terms of the impact on our financial resources and on delivery of our key projects and operations, which materially impact the Company's financial base considering specific areas of vulnerability, mainly long-term stresses that impact our capital base.

On the basis of this robust assessment of the principal risks facing the Company and, on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the other matters considered and reviewed during the year, and the results of the analysis undertaken and described above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2024.

Scenario 1: Disintermediation – Systemic/Market-based and slow burn.
A new payment platform from a competitor or new technology attracts customers away from our services, reducing funding.

Risk: We might have poor financial control, funding an inappropriate funding model.

Scenario 2: Idiosyncratic and slow-burn
We suffer a personal data breach triggering an investigation by the Information Commissioners Office leading to a substantial General Data Protection Regulation (GDPR) fine, creating an unfunded cost.

Risks: We might have poor financial control, funding an inappropriate funding model.

Scenario 3: Combined Scenario
For the purpose of developing the combined scenario, we have amalgamated both the idiosyncratic and market-based stress events: The adoption of a new technology by customers to process real-time payments and a significant GDPR fine, reducing funding and creating an unfunded cost.

Risks: We are unable to manage legal, contractual and regulatory risk resulting in inefficiencies, enforcement and legal action. We might have poor financial control, funding an inappropriate funding model.

Scenario 4: Failure of the NPA Vendor
A key vendor awarded the delivery of the NPA becomes insolvent, creating an unfunded cost.

Risk: We might have poor financial control, funding an inappropriate funding model.

Scenario 5: Non-Financial crisis
Restrictions on economic activities resulting from events like global health crisis caused by a pandemic, creating failure of significant delay of NPA change programme with unfunded costs.

Risk: We might have poor financial control, funding an inappropriate funding model.

Read more about OUR GOING CONCERN on page 81

Section 172 Statement

Throughout the accounting period, the Board of Directors of Pay.UK has individually and collectively fulfilled their obligations as set out in section 172 of the Companies Act (2006), as summarised in the table below and evidenced throughout these financial statements:

The Directors of Pay.UK have acted in a way that they consider, in good faith, to be most likely to promote the success of Pay.UK for the benefit of its members as a whole, and in doing so had regard to the broad range of interests of our stakeholders.

Matters to which the Directors have had regard	Summary of activity
The likely consequence of any decision in the long term	With regard to our business and the environment in which we operate, the Directors are aware of the responsibility that they have to ensure that the decisions they make are for the benefit of the Company and the wider payments ecosystem. A refresh of our corporate strategy was undertaken during 2021, which was approved by the Board in September 2021. This sets out a revised roadmap for the business which will be implemented over the next five years. This document considers how we will engage with the payments ecosystem and the challenges of delivering the NPA. A copy of the new strategy can be found on the Pay.UK website: https://www.wearepay.uk/ Throughout 2021, the Directors' top priorities remained the seamless running of the critical national infrastructure and the long-term safety and wellbeing of our colleagues throughout the pandemic. Our health and wellbeing programme continued to provide our colleagues with the technology and equipment they needed to effectively and safely work from home, and ensured regular two-way communication across the organisation. Regular industry engagement took place throughout the period, either formally through one of our formal engagement channels or informally through industry round tables or one-to-one meetings with senior members of the payments industry. We maintained a constant dialogue with our two regulators, FMID and PSR, throughout the year.
The interests of the Company's employees	Attracting, retaining and developing talent sits at the heart of our people strategy. The Board is responsible for setting the culture of our organisation. As a key pillar of our strategic objectives ('inspire our people'), the Directors took a keen interest in the development of our talent management and reward frameworks, colleague wellbeing and our work on diversity and inclusion. This continues to help ensure that we celebrate and respect our differences, and recognise the value these differences bring to our lives and our work, creating a supportive and sustainable working environment. We recognise that our colleagues and the values-based culture we promote are fundamental to the success of our company – especially the wellbeing of colleagues during the pandemic. We continued to engage with our colleagues through a number of channels throughout the year, including our Colleague People Forum, our 'Getting to know…Pay.UK' series, and our pulse surveys. Our Social Committee helped keep colleagues connected during the remote working period and we established a network of mental health first aiders to support anyone with mental health concerns or impacted by the pandemic. The Board was kept aware of, and was fully supportive of, engagement with colleagues, including steps to ensure their wellbeing during the pandemic.
The need to foster the Company's business relationships with suppliers, customers and others	We evidence the way we work with the payments ecosystem and wider stakeholders in the Stakeholder engagement and NPA sections of this report 29 to 31 and 24 to 26 respectively. In 2021 we continued to develop our relationships with suppliers, customers and other stakeholders through a number of existing and new initiatives, including public consultations, industry forums and working groups. A new Third-Party Management Framework (TPMF) for supplier management was approved and initiated during the year. This framework continued to be implemented across the whole supply chain during 2022, building upon existing processes and capability. Further information may be found on page 22. We maintained our compliance with PSR General Direction 4, with focuses on stakeholder engagement and our service user engagement helped inform the Board's decision-making through regular updates, particularly with regard to change initiatives including the NPA. As the systemic risk manager for the payment systems we operate, understanding the risks we could be exposed to, including modern slavery and human trafficking, are extremely important considerations for our supply chains. Our Board remains committed to continuous implementation and improvement of systems and controls to ensure modern slavery is not taking place within any of our supply chains.

Matters to which the Directors have had regard	Summary of activity
The impact of the Company's operations on the community and the environment	Our Board is committed to upholding our corporate and social responsibilities. Our increasingly digital systems are reducing the industry's environmental impact. On a more local level we are working to promote sustainability and support our local community through our work with our partner charity, the First Love Foundation. Chosen by colleagues, the Foundation helps people facing crisis and tackles poverty in Tower Hamlets. We are very proud of the work that we do to support our local community and further details can be found on pages 40 to 43.
The desirability of the Company maintaining a reputation for high standards of business conduct	Our Company values set the tone for the way we work, both within our organisation and as part of the wider payments ecosystem, led by our Directors. During 2021, new purpose and vision statements were introduced: **Purpose:** **To power payments, champion innovation and give the UK choice in how it pays** **Vision:** **To be the smartest way to move money, now and in the future** Our values continue to be reflected in the performance objectives that are set for all colleagues as part of the annual review process. Our approach to risk management balances the need to manage inherent threats while identifying opportunities to improve performance. Our policies such as our Ethical Code of Conduct and Anti-Bribery and Corruption help us maintain high standards of business conduct. Our compliance activities involve the enhancement of our internal policies to maintain these standards, enable effective monitoring, and provide constructive reporting to the Board. We set best-in-class standards and rules for the industry to follow and, through our Standards Authority, are responsible for coordinating the interbank retail payments standardisation activities on behalf of our customers, the wider payments industry and other relevant stakeholders. Further information may be found on page 31. We ensure our suppliers have adequate controls and risk management in place and we hold our Executive to account alongside the Board and its Committees to comply with their legal and regulatory obligations.
The need to act fairly as between members of the Company	As a company limited by Guarantee, Pay.UK has guarantors rather than shareholders. There are currently 42 guarantors, drawn from a broad range of banks, fintechs and payment service providers. It is our intention that our Guarantors represent a broad cross-section of our stakeholder base. Pay.UK is committed to acting in an open and transparent way with all its guarantor members, providing them with regular updates from Pay.UK and specific guarantor member events, including the Annual General Meeting (AGM).

People, community and environment

People

In 2021, we developed our first ever People Strategy, which is closely aligned to our new corporate strategy highlighted on pages 16 to 17.

Our People Strategy will provide the strategic focus and direction for all of our 'People' initiatives over a three-year period. Our colleagues were instrumental in the development of this strategy, ensuring our new values and culture reflect the employee voice.

Our priorities of 'colleague experience', 'growing potential' and 'talent and leadership' all acknowledge the significant value and contribution of our colleagues, and the difference we all make to the UK economy.

Employee engagement

As remote working continued into 2021, our colleague engagement efforts increased to ensure we continued to be connected to our workforce. This included the continuation of our colleague engagement survey, pulse surveys and the addition of a Company-wide culture survey.

Our all-colleague calls continued and are now an established two-way engagement forum. During the year, as well as hearing from our CEO and other members of our Executive team, we increasingly encouraged colleagues to provide updates on their own areas of expertise. We also continued our programme of colleague blogs and vlogs, which provide quick updates on specific topics of interest.

Our 'Getting to Know' sessions were well attended during 2021 and proved to be very popular amongst colleagues. The sessions included access to Pay.UK board members for the first time. We also introduced a new learning initiative: 'Sound Bites', at which colleagues learn from each other in a TedTalk informal presentation format. Our CEO and Chief People and Culture Officer delivered the first sessions to start the initiative off.

We ran a Colleague Engagement Survey in February, which achieved a 79% response rate. This was above the industry average and showed a 6% increase on our 2019 survey.

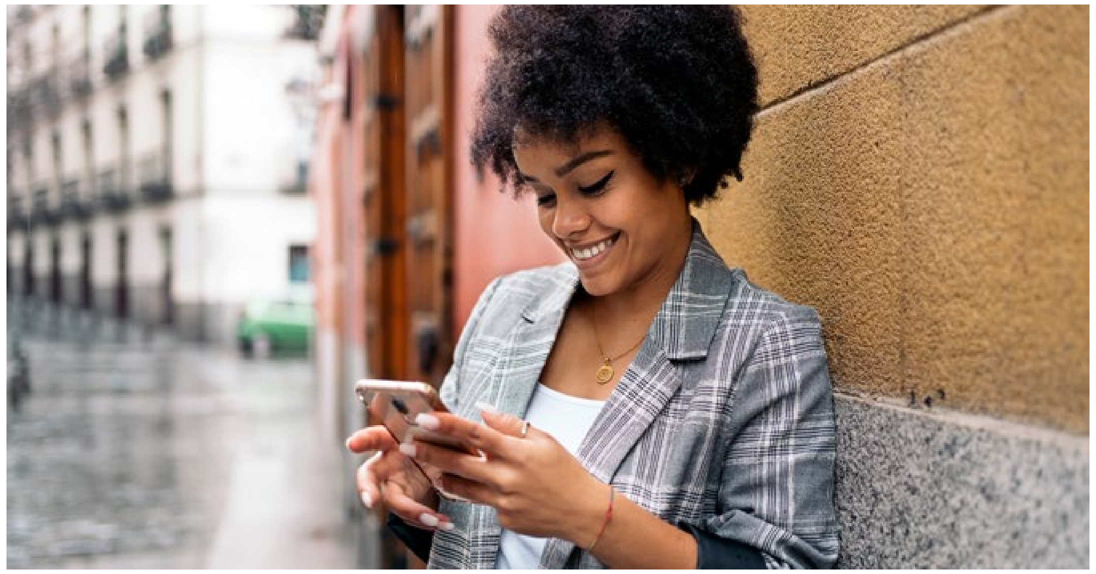
Our overall engagement score increased by 8% to 76% (although this remains 2% below both the general norm and financial services norm). Our engagement scores also improved across all five engagement pillars (Engaging Managers +5%, Employee Voice +4%, Realising Potential +8%, Organisational Integrity +9% and Compelling Leadership +10%).

Our highest scoring question related to the support provided to our colleagues during the pandemic, which scored 94% (16% above the industry norm).

Despite this increase in engagement, we have further work to do and our development areas include 'Compelling Leadership' and 'Organisational Integrity'. This sits below the financial services norm and will form the focus of our engagement activities during the coming year.

Our Social Committee continued their endeavours throughout 2021 and delivered engaging and entertaining events. Sadly, we cancelled many of our face-to-face events as a preventative measure during lockdown. However, our committed team still enabled a variety of events including quizzes, a book club, coffee randomisers, remote escape rooms, theatre visits and virtual Christmas events.

What employees requested	How we responded in 2021
More focus on Diversity and Inclusion	• We developed our first 'Inclusion Strategy' with a focus on race and disability. • Inclusion and culture champions were established across Pay.UK.
A review of Pay.UK values and culture	• We launched a culture survey where focus groups and colleagues led the development of our new Pay.UK values and behaviours.
A workplace where colleagues can challenge and speak out in an open and supported environment	• Our new value, 'Constructively Challenge' was developed, which will be supported by a Speak Up/Speak Out campaign which was launched early in 2022.
A more empowered workforce that can contribute in more ways to the success of Pay.UK	• We have reviewed our delegated authority approach to empower our leaders. • We refreshed our leadership and management programmes which focused on delegation and empowerment.
Career enhancing opportunities	• We launched a new secondment policy to open up career development opportunities within the business and externally to Pay.UK. • During 2021, we delivered the highest level of professional and technical training qualifications to date.
Increased developmental opportunities	• We launched our mentoring and job shadowing schemes. • We secured our first Pay.UK apprenticeship schemes.
More leadership visibility and feedback	• Board presence at colleague events and forums was increased and well received. • We ensured executive sponsorship and support of critical programmes and initiatives. • In 2022, we will launch our new 360 feedback tool for Board, Executive Management and Senior Leadership.



Read more about OUR STRATEGY on pages 16 and 17

People, community and environment continued

Diversity

Our work on Diversity and Inclusion (D&I) progressed significantly during 2021, supported by our partnerships with Business in the Community, an organisation dedicated to responsible business, and with the think tank New Financial. We conducted a Diversity and Inclusion audit and inclusion survey to assess our level of maturity, followed by a series of focus groups across our organisation to further understand the expectation of our colleagues, Executive and Board.

We will use the results from these initiatives to launch our first-ever Inclusion Strategy in 2022. This will use the Financial Services Skills Council (FSSC) Inclusion Measurement Guide to monitor and track our progress and impact in this area.

During 2021, we recruited a Head of Inclusion to support and accelerate our Diversity and Inclusion agenda, which has led to us developing our strategy and roadmap towards being a truly inclusive organisation. Our Inclusion Committee became more firmly established during 2021 and our Inclusion and Culture champion network has also been developed to ensure inclusion is embedded into the fabric of how we operate.

In 2022, our focus will be on engaging and impactful measures and at the request of our colleagues, our immediate priorities will be around race and disability. We aim to sign the Race at Work Charter and join the Disability Confident Scheme.

Underpinning our approach to inclusion during 2021 and into 2022 will be the theme that we are 'learning together'. All our activities and efforts are underpinned by a comprehensive programme of learning, development and awareness initiatives.

We launched our menopause initiative during 2021, becoming one of the first organisations in the UK to acknowledge and address this important issue in the workplace.

Gender Pay Gap

In 2021, Pay.UK's permanent and fixed-term contract employees exceeded 250 for the first time and, as a result, we were required to publish our first Gender Pay Gap report as at 5 April 2021. The results showed that although we benchmark favourably against pay gaps in the financial sector, we have work to do to close this gap over the long term.

The report may be found on the Pay.UK website at www.wearepay.uk/who-we-are/our-organisation/corporate-information/

Community

As the pandemic continued into 2021, we recognised the importance of our role in supporting local charities and communities, and our colleagues rose to the challenge throughout the year.

We continued our partnership with local charity First Love Foundation, which expanded rapidly during 2021 to reach out to an increasing number of families and individuals in need.

Our support in 2021 included financial and volunteer time, including supporting families at a Love Summer Programme, delivering Employability Workshops and Christmas warehouse and food bank volunteering. Additionally, we supported The Open Minds Project during 2021, raising awareness of their work during Black History Month and the results of a Christmas raffle supported the purchase of books and educational materials.

Through our colleagues' participation in a number of fundraising events, a total of £3,511 was raised for these charities.

We continue to encourage and support our colleague to get involved in community and charity events and offer additional leave benefits to enable them to do so.

Environmental

We took significant steps forward in our work on inclusion, charity and community involvement during 2021, although our environmental strategy and policy definitions are still at a developmental stage. The performance of our suppliers is likely to be one of the key determinants of our success in achieving our aims. Our largest supplier by value in 2021 was Vocalink, a Mastercard company. Both Mastercard and Vocalink have mature strategies in the area of environmental sustainability and provide information on their websites. For instance, at Vocalink, responsible engineering practices include a range of projects to enable more efficient cooling of their UK data centres, from which we benefit as a user of these data centres.

Our recent RFP for the design and build of the NPA included detailed questions in the areas of environmental policy, governance, waste disposal and pollution, natural resource depletion, greenhouse gas emissions and environmental destruction. These will form part of the assessment criteria by which we select our delivery partner.

In terms of greenhouse gas emissions performance from our corporate activities in 2021, changes in staff working practices, and positive steps taken to improve operational efficiency have led to a significant reduction in our emissions.

During 2021, our headcount increased compared with the previous period. Despite the pandemic, our office remained open for facilities, IT and other business critical colleagues in particular who needed to attend for operational reasons. Additional upward pressure on emissions resulted from the need to increase office ventilation to mitigate the spread of the virus.

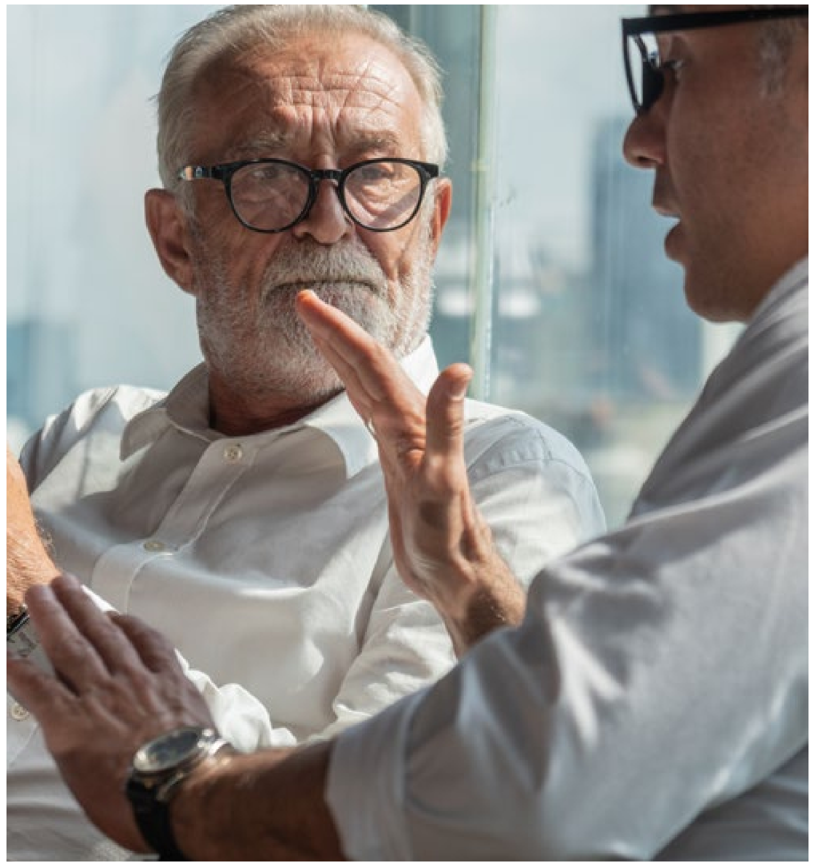
During 2021, hybrid working became the new normal for the majority of our staff including our bureau auditors who now travel less to carry out audits contributing to a dramatic reduction in emissions from travel. We also focused on turning off non-essential equipment and making improvements to the efficiency of ventilation equipment not under landlord control. These positive actions have meant that in 2021 we saw a reduction in our total energy consumption despite the increased company headcount.

We have assessed our greenhouse gas emissions using the 'GHG Reporting Protocol – A Corporate Accounting and Reporting Standard' and in accordance with Defra's 'Environmental Reporting guidelines: including Streamlined Energy and Carbon Reporting requirements'.

	kWh	tCO_2e
Electricity (Scope 2, indirect energy emissions from generation of purchased energy)	346,501	80.1
Transport (scope 3, business travel in employee-owned vehicles)[1]	–	–
Total	346,501	80.1
Intensity ratio (gross total/Average FTE)	1117.7	0.25833

In 2021, our annual energy consumption was 346,501kWh (2020: 505,085kWh). We generated total emissions of 80,083kg CO_2e in the calendar year 2021, down significantly from 2020 (127,849kg CO_2e) when operations remained normal until the impact of the Covid-19 pandemic in March. Our 2021 usage was solely through imported grid electricity for operations at 2 Thomas More Square as Covid-19 halted business travel for employee vehicles.

Our landlord continues to operate a zero to landfill waste policy further reducing our impact on the environment. As a tenant, Pay.UK does not have control of its electricity supplier, so we have included location-based emissions only for electricity, covering both associated Scope 2 and 3 emissions. This data is based on quarterly and monthly meter readings for 2021 for Pay.UK accommodation at 2 Thomas More Square[2].



We are committed to developing policies and strategies that contribute to lower emissions, improve resource management and help promote sustainability. Our work in this field continues to evolve and we are focusing our efforts on increasing the sustainability of both our business and our operations in 2022; optimising our office and home working environments as we do so.

1 In previous years we reported energy use from transport. In 2021 there was no business travel in employee owned vehicles due to the ongoing Covid-19 pandemic.

2 The conversion factors take into account both electricity generated (Scope 2) and transmission/distribution (Scope 3).

The Strategic Report was approved by the Board of Directors and signed on its behalf by:

David Pitt
Chief Executive Officer

27th May 2022

Governance

Chair's introduction to governance

One of the Chair's roles is to ensure that the governance arrangements for the organisation are sound and support the running of the business. Since my appointment in November 2020, I have been working to improve our governance arrangements.

My focus, together with my colleagues on the Board, has been to ensure that our governance evolves to meet the increased maturity of the business. Pay.UK has moved beyond the stage of creating a new organisation and integrating the various schemes and is now a more mature financial market infrastructure business.

The Board invited PwC to assist in this process by reviewing our governance structure in the context of the new challenges posed by an increasingly fragmented and innovative ecosystem and the continued work on the delivery of the NPA, within a framework of statutory and regulatory governance requirements.

We have already initiated a series of changes. The Board Committee structure has been streamlined. We have disbanded four committees, the NPA Programme Committee, the Legal, Governance and Standards Committee, the Managed Services Committee and the Finance Committee and their responsibilities have been reassigned to the Executive or other Board Committees as appropriate. Further, the Board has increasingly focused on the strategic issues including the development, approval and implementation of our strategy, people and culture and the NPA.

We have also reviewed the skills and capabilities of the Board, to ensure that they provide the appropriate governance of Pay.UK. As Non-Executive Directors have retired during the course of the year, we have used an understanding of our existing skills and capabilities needs in the recruitment of new Non-Executive Directors.

The remainder of this report sets out in more detail the composition and activities of the Board and its committees.

Mark Hoban
Non-Executive Chair

Board of Directors

The Directors who served during the period under review, and at the date of signing the Financial Statements were:

Mark Hoban

Chair

N Re

Appointed 1 November 2020

Mark joined Pay.UK as Chair in November 2020. He is Chair of Flood Re and of the Jersey Financial Services Commission and in addition, he is a member of PwC's Advisory Council and Chair of the Financial Services Skills Commission. Mark's previous roles include Non-Executive Director of the London Stock Exchange and Chair of the International Regulatory Strategy Group. Previous roles include Member of Parliament for Fareham (2001–2015) and Financial Secretary to the Treasury (2010–2012).

David Pitt

Chief Executive Officer

David regularly attends the Audit, Risk, Nomination and Remuneration Committees at the invitation of the Chairs.

Appointed 26 July 2021

David joined Pay.UK in July 2021. David has a strong and successful track record delivering high-profile projects both in the UK and internationally, and leading organisations through periods of transformational change. Most recently, he delivered a transformation strategy at the government's Test, Trace and Containment operation where he was Chief Operating Officer, responsible for overseeing the end-to-end process to improve overall delivery across the UK. David was COO at esure, leading the business through major transformational change prior to its sale. He has also held senior roles at RSA Insurance, including CEO, Greater China.

Anna Bradley

Senior Independent Director
Chair of End User Advisory Council

Re N

Appointed 1 October 2017

Anna is an experienced Non-Executive Director and Chair. She has a background in regulation, policy and consumer advocacy across a variety of sectors. She is currently Chair of the Solicitors Regulation Authority. Anna is Pay.UK's Senior Independent Director, Chair of the Remuneration Committee and Chair of Pay.UK's End User Advisory Council.

Diane Côté

Independent Non-Executive Director

R A

Appointed 12 January 2022

Diane is a chartered accountant with a financial services career spanning over 30 years, and brings significant experience of managing risk in financial market infrastructure, most recently as Chief Risk Officer at the London Stock Exchange Group where she also chaired its Foundation and its Diversity and Inclusion Committee. As well as her new position with us at Pay.UK, Diane also sits on the boards of Société Générale Group and X-Forces Enterprise, a social enterprise for retired armed forces members. She is Chair of La Nuova Musica, Trustee on the board of Shaw Trust and of Shaw Education Trust, and a member of the Women's Network Forum.

Together with Diane's time at the London Stock Exchange and interest in diversity and inclusion, she brings additional breadth and depth to our Board.

Matthew Hunt

Chief Strategy Officer,
Deputy Chief Executive Officer

Matthew regularly attends the Risk Committee at the invitation of the Chair.

Appointed 23 April 2018

Matthew was appointed Chief Strategy Officer, Deputy Chief Executive Officer, in July 2021. Matthew was interim CEO from November 2020 to July 2021. He joined the organisation as Chief Operating Officer in April 2018. Matthew previously worked at the Bank of England from 2006, covering a variety of operational and payments leadership roles, most recently as COO for the Monetary Policy area. During his time at the Bank, Matthew was Head of Customer Banking Division with responsibility for banking, securities and gold custody services provided to the UK Government and other central banks. He also performed senior management roles, including running the RTGS payment system and banknote distribution. Prior to this, Matthew was a business manager for UBS Investment Bank and a consultant with Accenture.

John Mountain

Non-Executive Director

As a Non-Executive Director, John does not attend any Board Committees.

Appointed 1 May 2022

John is a technology leader and software engineer and has led systems projects across a variety of sectors.

John has led technology at Starling Bank since joining in 2015, initially working on its proprietary banking system and early regulatory engagement as Starling sought its banking licence.

Since becoming Starling's Chief Information Officer in 2016, he has been responsible for overall IT strategy and governance, operational resilience and business continuity.

John has extensive experience in enterprise scale software design and implementation and has worked on a variety of modern and legacy platforms.

Prior to Starling, he spent several years consulting as an engineer and technical architect for different clients and sectors at BJSS.

Board of Directors
continued

Marc Pettican
Non-Executive Director

As a Non-Executive Director, Marc does not attend any Board Committees.

Appointed 24 May 2021

Marc joined Barclays over two decades ago and has undertaken a succession of senior coverage, leadership and general management roles in Barclaycard covering small business through to global corporates. He has held his current role as President of Barclaycard Payments since October 2019, where he is responsible for all aspects of commercial activity, including issuing, Acquiring and the growing area of Partnerships.

Jean-Yves Rotté-Geoffroy
Independent Non-Executive Director
Chair of Participant Advisory Council

R Re

Appointed 7 March 2018

Jean-Yves has led procurement in large corporations globally and has extensive experience in post-merger value creation. After working on the external sourcing of innovation at P&G in the 1990s, he joined InBev in 2001 as Procurement Director and later became part of the AmBev Executive leadership team as CIO, before serving as Group Chief Procurement Officer at Cadbury and then GSK. Jean-Yves is a Senior Adviser at McKinsey.

Lesley Titcomb
Independent Non-Executive Director

A R

Appointed 1 January 2021

Lesley joined the Board in January 2021 as an Independent Non-Executive Director. Lesley is a qualified accountant and has a strong financial services and regulatory background, including the Pensions Regulator and the Financial Conduct Authority.

Lars Trunin
Non-Executive Director

As a Non-Executive Director, Lars does not attend any Board Committees.

Appointed 1 March 2021

Lars Trunin is the Head of UK Product at Wise, formerly TransferWise. He leads teams focused on helping over 10 million people around the world move their money internationally as quickly, inexpensively and conveniently as possible. He spearheaded the initiative of Wise joining the Bank of England's Real-Time Gross Settlement (RTGS) system as the first Non-Bank Payment Service Provider and as a direct customer of the Faster Payment System. Before Wise, Lars founded Raudwara, an Estonian publishing house, authored several bestselling books in Mathematics, and worked with the Walt Disney Company in Kenya, Nigeria, and South Africa. He holds an MBA from Saïd Business School, University of Oxford.

Peter Wyman
Independent Non-Executive Director

A R N

Appointed 1 October 2017

Peter is an experienced Chair and Non-Executive Director with a current portfolio of appointments in the private, public and third sectors, which includes being Chair of NHS Blood and Transplant and of Sir Richard Sutton Limited. He was previously a senior partner in PwC, President of the Institute of Chartered Accountants in England and Wales and Chair of the Care Quality Commission.

Committees served on during the year

Audit	A
Nomination	N
Risk	R
Remuneration	Re
Committee Chair	●

The NPA Programme Committee, the Finance Committee, the Legal Governance and Standards Committee and the Managed Services Committee were all formally disbanded during the course of 2021.

Formal reporting for the Audit, Nomination, Remuneration and Risk Committees can be found on pages 58 to 71.

Former Directors
This table relates to Directors who served during the year, but were no longer in post at the time of signing the Annual Report.

Director	Start date	End date
Richard Anderson	12/04/2018	31/12/2021
Christine Ashton	07/03/2018	31/12/2021
Tim Fitzpatrick	01/06/2018	31/12/2021

pay.uk

Governance framework

Guarantors

The role of Guarantors

The composition of the Guarantor Group

Pay.UK is a Company limited by guarantee. There are currently 42 guarantors, drawn from a broad range of banks, fintechs and payment service providers. It is our intention that our Guarantors represent a broad cross-section of our stakeholder base.

Responsibilities

The role of our Guarantors is to hold the Board to account for the continuing fulfilment of our purpose and strategic objectives. The main opportunity for this is at the Annual General Meeting and engagement throughout the year is welcomed.

Board of Directors

Responsibilities

- The Board is responsible for the overall leadership, strategy, development and control of the Company in supporting its strategic goals.
- Setting the Company's purpose, values and strategic aims and satisfying itself that these and its culture are aligned.
- The Board is also responsible for ensuring there is an effective system of internal controls and risk management. That risks are properly assessed and managed in order to safeguard the business.
- The Board is the ultimate decision-making body of the Company, responsible for all matters of significance, which are detailed in the matters reserved for the Board, and is accountable to our Guarantors for the sustainable long-term success of the business.
- Ensuring its responsibilities to stakeholders are met, through effective engagement.
- Ensuring the necessary resources are in place for the Company to be able to meet its objectives and measures performance against these.
- Setting and management of the Company's corporate governance arrangements.
- Matters not specifically reserved for the Board, including the day-to-day management of the Company, have been delegated to the Chief Executive Officer.

Key Board Committees

1 Audit Committee

Responsibilities

- The Committee is responsible for ensuring the integrity of Pay.UK's internal audit, external audit and internal control environment.
- The Committee is responsible for monitoring the integrity of the Annual Financial Statements of the Company, including any other formal statements relating to its financial performance.
- The Committee is responsible for keeping under review the Company internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control management systems.

2 Nomination Committee

Responsibilities

- Regularly review the structure, size and composition, including skills, knowledge, experience and diversity of the Board.
- Identify and nominate candidates to fill Board vacancies.
- Keep under review the leadership needs of the organisation, both executive and non-executive.

3 Remuneration Committee

Responsibilities

- Determine the policy for Directors' remuneration and set remuneration for the Company's Chair, Executive Directors and the executive team.
- Review workforce remuneration and related policies.
- Have oversight of pay gaps based on gender, ethnicity and other protected classifications.
- Oversight of the People Strategy.

4 Risk Committee

Responsibilities

- Provide oversight and advice to the Board on the Company's role as systemic risk manager.
- Oversee and advise the Board on the Company's current risk exposure, overall risk appetite and tolerance, and on its risk strategy.
- Oversee the emerging risk the Company is facing and advise the Board on its strategic impact.
- Review the effectiveness of the systems of internal controls in place to manage key risks including non-compliance risks.

Corporate governance and Directors' report

The Board

UK Corporate Governance Code

As a large Company limited by guarantee, we are not obliged to apply the principles of the UK Corporate Governance Code (the 'Code'). However, as in previous years, the Board has chosen to follow the Code as closely as possible in order to provide Guarantors and all stakeholders with as much information about the business as possible, such that this report is considered to provide a true and fair view of the organisation as a whole.

As part of the ongoing embedding of the governance arrangements, it is anticipated the business will be able to report on progress towards compliance with the Code during 2022.

Role of the Board

The Board is responsible for the overall leadership, strategy, development and control of the Company in supporting its strategic goals. The Board is also responsible for ensuring there is an effective system of controls to safeguard the business and that risks are properly assessed and managed.

The Board is the ultimate decision-making body of the Company, responsible for all matters of significance, which are detailed in the matters reserved for the Board, and is accountable to our Guarantors for the sustainable long-term success of the business.

Specific areas of responsibility include: agreeing the Group's values, purpose and culture; approval of the Company's strategic aims and goals; ensuring a sound system of internal controls and risk management, including approval of the Company's risk appetite statement; responsibility for the Company's corporate governance arrangements; and ensuring the Company has the necessary financial and human resources in place to deliver the long-term strategy of the Company.

Matters not specifically reserved for the Board, including the day-to-day management of the Company, have been delegated to the Chief Executive Officer.

Governance framework

A schedule of Board meetings is set in advance, to ensure the Board meets at regular intervals throughout the year. In 2021, the forward-looking schedule was revised to achieve better alignment with the operations of the business and financial reporting generally.

Read more about OUR GOVERNANCE FRAMEWORK on page 50

Further to the changes made to the Board Committee structure during the year, the Board now has four committees to which it has delegated certain responsibilities. These committees are: Audit, Risk, Remuneration and Nomination, the work of each is dedicated to provide more focused attention to these particular areas of the Board's work. Membership of these committees is made up of Independent Non-Executive Directors. The Chair of the Board is also Chair of the Nomination Committee and a member of the Remuneration Committee.

The work of these committees is explained in more detail on pages 58 to 71.

All Directors have access to the Head of Corporate Governance, who is responsible for the Company's governance framework and embedding this into the business as a whole and for ensuring the Board and Committees receive the necessary support.

Directors, if thought appropriate, may obtain independent professional advice in respect of their responsibilities, at the Company's expense. No such advice was sought during the year.

Board composition

The names and biographical details of all current Directors, as at the date of this report, are set out on pages 46 to 49 and may also be found on the Company's website.

The following Directors served during the year ended 31 December 2021:

Board member	Appointed to the Board
Richard Anderson[2]	April 2018
Christine Ashton[2]	March 2018
Anna Bradley	October 2017
Tim Fitzpatrick[2]	June 2018
Mark Hoban	November 2020
Matthew Hunt	April 2018
Marc Pettican	May 2021
David Pitt	July 2021
Jean-Yves Rotté-Geoffroy	March 2018
Russell Saunders[1]	October 2017
Lesley Titcomb	January 2021
Lars Trunin	March 2021
Peter Wyman	October 2017

1 Russell Saunders stepped down from the Board on 30 April 2021

2 Richard Anderson, Christine Ashton and Tim Fitzpatrick stepped down from the Board on 31 December 2021

Independence of Non-Executive Directors

The results of the skills and capabilities review highlighted the need to refresh the Board's composition. This resulted in a number of Directors stepping down from the Board during the year to allow for this refresh. Through the work of the Nominations Committee, the Board widened the skills and experience mix of its members, to provide a wider diversity of experience, industry background and relevant industry experience in order to provide the right level of challenge and support to executive management.

More information on this work may be found in the Nomination Committee Report on pages 62 to 64.

The Nomination Committee also reviews the other external positions held by the Independent Non-Executive Directors to ensure continued independence, and to support this, at the start of every Board meeting Directors are required to confirm any potential conflicts of interest.

Through the work of the Committee, the Board is satisfied that each Director continues to be independent.

There are also three non-executive directors, Lars Trunin and Marc Pettican, who joined the Board in 2021 and through their industry roles, bring their own perspective of the ecosystem and represent small and large customers respectively. In addition, John Mountain joined the Board in May 2022, to provide technology expertise from within industry. All of these directors were not considered independent on appointment and continue to meet that criterion.

Director induction

Upon appointment, all new Directors receive a tailored induction programme, meeting all other Board members and executive management who provide operational and background information to aide the Director's understanding of the work of the Company and a wider understanding of the payments ecosystem.

Read more about OUR BOARD OF DIRECTORS on pages 46 to 49

Key responsibilities

Chair	• Leading the Board in determining the strategy • Leadership of the Board, promoting open and constructive discussion with all Directors • The effectiveness of the Board • Setting the Board's agenda, ensuring it aligns with the Company's strategic goals
Chief Executive Officer	• The day-to-day management of the Company • Leading the executive team • Developing the strategic goals, approved by the Board and leading executive management in delivering these within the agreed risk appetite approved by the Board • Promoting the Company's values, purpose and culture
Chief Strategy Officer/Deputy CEO	• Leading the execution of our strategy, strategic planning and enterprise change • Responsible for Regulatory Engagement and Policy Communications, Standards and Architecture. • Executive Director charged with leading stakeholder engagement
Senior Independent Director	• Providing a sounding board for the Chair and supporting him in his leadership • Leading the Chair's performance appraisal by the Non-Executive Directors and serving as an intermediary for the other Directors with the Chair if necessary • Non-Executive Director responsible for ensuring the end user voice is heard in the Boardroom
Non-Executive Directors	• Contributing to the development of the strategy and constructive oversight of its execution • Providing support and challenge to the executive management • Monitoring executive management's progress against agreed performance criteria
Executive management	• Assisting the CEO in the running of the business • Implementing the strategic goals, operational plans, business processes and monitoring business performance • Overseeing the assessment and management of risk within the business and wider payments ecosystem

Corporate governance and Directors' report
continued

Read more about OUR AUDIT COMMITTEE on pages 58 to 61

Read more about OUR NOMINATION COMMITTEE on pages 62 to 64

Board and Committee attendance

The following table sets out the attendance record of the Directors at the scheduled Board and Committee meetings held during the year.

Board member	Board	Audit	Risk	Remuneration	Nomination
Richard Anderson	10/11	7/7	6/6	–	–
Christine Ashton	10/11	–	–	–	–
Anna Bradley	11/11	5/7	4/6	5/5	8/8
Tim Fitzpatrick	11/11	7/7	6/6	–	–
Mark Hoban	11/11	–	–	5/5	8/8
Matthew Hunt	11/11	–	–	–	–
Marc Pettican	3/4	–	–	–	–
David Pitt	3/3	–	–	–	–
Jean-Yves Rotté-Geoffroy	10/11	–	–	–	–
Russell Saunders	6/6	–	–	–	–
Lesley Titcomb	10/11	–	5/6	–	–
Lars Trunin	7/7	–	–	–	–
Peter Wyman	11/11	–	–	5/5	8/8

Topic	Key activities and discussions in 2021
Financial	• The Company's Financial Recovery Plan was approved in February 2021. • The Wind Down Plan was approved in May 2021.
Controls and governance	• Pay.UK's Risk Appetite Statements were approved by the Board in July 2021. • The PFMI Self-Assessment was considered and approved in September 2021. • Board and Committee Structure was reviewed during 2021 and PwC appointed to assist the Company with this work. • The Board undertook a review of its Skills and Capabilities Matrix in July 2021 and undertook further analysis and restructuring of its Governance requirements throughout the latter part of the year to ensure that this aspect of its control framework remained fit for purpose. As a result of this work, a number of Board Committees were closed. • The Board was asked to consider the Important Business Services (IBS) in November 2021 and further work on the IBS will continue into 2022 as part of the work on Operational Resilience.
Strategy	• The Board discussed the proposed strategy and key priorities for the business on a number of occasions in 2021, formally approving the revised Strategy at its September meeting. • KPMG was appointed as a core partner in January 2021 to assist and support the work of the NPA team. • In response to stakeholder feedback, a decision was made to review and rationalise the existing stakeholder engagement structure to remove duplication and ensure that there are clear communication channels available to all stakeholders looking to engage with the business.
People and employee engagement	• The Board approved the Company's first Gender Pay Gap Report and also the Modern Slavery Statement. Copies of both of these documents may be found on the Pay.UK Website. • The Board considered the new Company's Values, which reflect the culture we are trying to create. • Members of the Board participated in an off-site all colleague launch of the new Strategy. • The Company continued to run regular 'pulse' surveys throughout 2021 to monitor colleague engagement and wellbeing.
Covid-19	• Throughout the year, the Board regularly discussed Pay.UK's response to Covid-19 and steps required to ensure that we continued to provide a robust and resilient service, and that we prioritised and protected the wellbeing of colleagues.
Sustainability	• A reduction in the use of the Company's offices at 2 Thomas More Square, as a result of the Covid-19 pandemic, allowed the business to consider if the space could be utilised in a more compelling and sustainable way. A 'Future Ways of Working' project has been established to consider the best way the building can be used, accommodating a hybrid working pattern.
Regulatory	• A detailed response was submitted to the PSR's consultation on the NPA in January 2021 and the Board also responded to Calls for Views on APP Scams and Consumer Protections in March 2021. • The Board responded to FMID's interest in the Company's governance arrangements.

Read more about OUR RISK COMMITTEE on pages 65 to 67

Read more about OUR REMUNERATION COMMITTEE on pages 68 to 71

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Corporate governance and Directors' report
continued

Board evaluation

To assist in the evaluation of governance arrangements, the Chair invited PwC to carry out a review, the results of which were presented to the Board in early 2021. Since that time, the focus has been on the development of the governance framework, including the skills and experience of Board members and the evolution of governance arrangements, such that they support the maturity of the business.

A further external evaluation is planned for the end of 2022, to provide an update on progress and where any further development may be required.

Board visit to operations (Vocalink)

During the year, as part of their induction programme, a visit for all new Board members was arranged to our main supplier, Vocalink, at one of their operational sites. This visit was to provide a better understanding of the payments operations and to provide an opportunity for Directors to meet with key Vocalink management and staff.

During the visit, they received an overview of the Vocalink business and strategy, risk management, the UK operations and technology for Pay.UK, innovations in services and security strategy.

Stakeholder relations

Through a scheduled programme of meetings, there is effective engagement with a wide range of stakeholders. Led by the Chair, CEO, and Chief Strategy Officer, these regular meetings with stakeholders promote direct discussions on a number of areas of common interest. These meeting include: Guarantors; Industry stakeholders; central infrastructure providers; customers; end user representatives and our regulators FMID and PSR.

Articles of Association

The Articles of Association were updated and subsequently approved by Guarantors on 8 September 2021 as it was thought appropriate to bring them up to date, a change which included the introduction of the annual re-election of Directors.

As a result, all Directors, the names and biographical details of which may be found on pages 46 to 49 and in the Notice of AGM, will be standing for re-election.

2022 Annual General Meeting

The Company's Annual General Meeting (AGM) is a key date for the Board as it provides the Directors an opportunity to meet with our Guarantors.

The 2022 AGM will be held on 13 July 2022 at the offices of Pay.UK, 2 Thomas More Square or virtually for those who are unable to attend in person.

BDO LLP will be recommended by the Directors for re-appointment as independent auditors by the Directors at the AGM. BDO has indicated their willingness to continue in office.

Internal control and risk management

The Directors acknowledge they are responsible for the Company's internal control and risk management systems and for reviewing their effectiveness. Details of this review process may be found on page 33.

Insurance

Pay.UK made qualifying third-party insurance provisions for the benefit of our Directors during the period and these remain in force as at the date of this report.

Political donations

In compliance with the Articles of Association, the Company did not make any political donations during the year (2020: £nil).

Events after the reporting year

Since the start of 2022 the Board and Executive have monitored closely the evolving geo-political situation and the development in energy prices. Further information on these topics may be found in note 21 to the financial statements.

Financing

The Company finances its operations through a mixture of in-year income, retained earnings and advances from the funding customers. These advances were repaid early and in full at the end of 2021. The Company does not trade in financial instruments.

Going concern

As a consequence of the work undertaken to support the viability statement, which may be found on page 37, the Directors have continued to adopt the going concern basis in preparing the financial statements (see note 2.2 in the financial statements).

Financial reporting

The Annual Report and Accounts is intended to provide a balanced and clear assessment of the Company's past performance, present position and future prospects. A statement by the Directors on their responsibility for preparing the financial statements is given below.

Directors' responsibility statement

The Directors are responsible for preparing the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 for that period. In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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, our financial position, enabling them to ensure that the Financial Statements comply with the requirements of 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.

Having considered the Annual Report and Accounts as a whole, the Board is in agreement that it provides sufficient information for our guarantor members to assess our position, performance, business model and strategy.

We publish our Financial Statements on our website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

Statement as to disclosure of information to the auditor

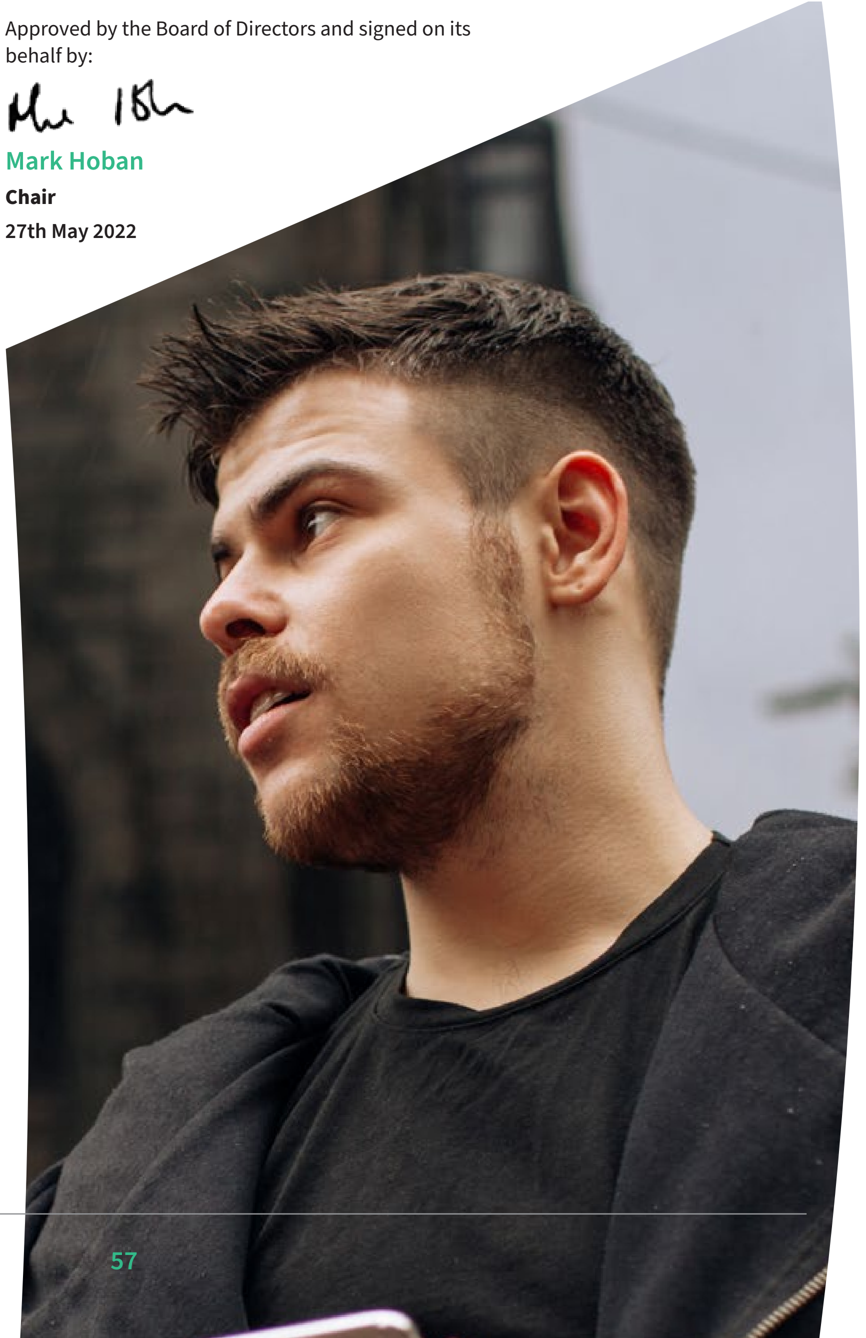
Each person who is a Director at the date of approval of this report confirms that:

- As far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware.
- The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is 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 of Directors and signed on its behalf by:

Mark Hoban
Chair
27th May 2022



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Audit committee report

Having taken over as Chair of the Audit Committee in January 2022, I am pleased to report on the work the Committee carried out during 2021 and the work planned for the year ahead.

I would like to begin by thanking Tim Fitzpatrick for the contribution he has made in guiding the work of the Committee since his appointment in June 2018, and also to thank the other members of the Committee, Anna Bradley and Richard Anderson, who also stepped down from the Committee at the end of 2021.

I am pleased to be joined by fellow directors, Lesley Titcomb and Diane Côté, who is also the newly appointed Chair of the Risk Committee, both of whom joined the Committee with effect from 1 January 2022.

I was previously the Chair of the Pay.UK Finance Committee. However, with the appointment of a permanent Chief Financial Officer, it was considered that a Finance Committee was no longer appropriate or required as part of the formal governance structure and therefore, that Committee was formally stood down towards the end of 2021. Whilst many of the functions carried out by the Finance Committee will now more properly sit with the management, it is appropriate that a number of its former responsibilities will now be picked up by the Audit Committee in 2022 and beyond. The Committee's Terms of Reference have been amended accordingly to reflect this extended remit. I therefore expect that my report next year will be broader and cover a wider range of topics and priorities than hitherto.

> "The Committee's work focused on the effectiveness of the internal control framework and financial reporting."
>
> **Peter Wyman**
> **Chair of the Audit Committee**

Role of the committee

The Board has delegated responsibility to the Committee for the oversight of the Company's financial reporting, to monitor the integrity of the Financial Statements, and is responsible for ensuring an effective governance framework is in place for the Company and Group as a whole and for considering whether accounting policies are appropriate.

The Committee operates under Terms of Reference that are reviewed and updated on an annual basis to consider any changes in the Committees responsibilities, and are approved by the Board. During the year, the Committee terms were refreshed. They follow the UK Corperate Governance Code (the 'Code') and the Chartered Governance Institute standard, whilst also incorporating some elements specific to Pay.UK, which will ensure the work of the Committee is appropriately aligned to support the work of the Board and the refreshed strategy.

During the year, the Committee met seven times, under the Chairship of Tim Fitzpatrick, to cover the planned work of the Committee and any ad hoc topics requiring attention.

As previously noted, Tim stood down from the Pay.UK Board and as Chair of the Committee, at the end of 2021. Accordingly, Peter Wyman was appointed Chair, with effect from 1 January 2022. As Richard Anderson and Anna Bradley also stepped down from the Committee at the end of the year, Peter is joined by new members, Diane Côté and Lesley Titcomb. All Committee members are Independent Non-Executive Directors of Pay.UK, in accordance with the UK Corporate Governance Code 2018.

Audit Committee meetings are attended by the Chief Executive Officer, Chief Financial Officer and the Director of Internal Audit. The Chief Risk Officer also attends Committee meetings to ensure that discussions on the internal control environment are considered and to contribute to discussions on risk management. Other senior members of the finance team attend as required. The Auditors attend Audit Committee meetings periodically, both as observers and to present their Annual Audit plan and Report, and to discuss any significant matters identified.

Committee membership

The members of the Committee during the year ended 31 December 2021 were as follows:

Audit Committee member	Appointed to the Committee
Tim Fitzpatrick[1]	June 2018
Richard Anderson[1]	May 2018
Anna Bradley[1]	May 2018

[1] All members stood down from the Committee on 31 December 2021

All members who served on the Committee during the year are considered to be independent and did not have any personal interest in the matters decided by the Committee.

Under provisions of the Code, the Committee should have at least one member with recent and relevant financial experience and competence in accounting and/or auditing, and the Committee as a whole should have competence relevant to the sector in which the Company operates. The Board considers that the members of the Committee collectively have such relevant experience with which to satisfy this requirement.

Key responsibilities:

- The Committee is responsible for ensuring the integrity of Pay.UK's internal audit, external audit and internal control environment.
- The Committee is responsible for monitoring the integrity of the annual financial statements of the company, including any other formal statements relating to its financial performance.
- The Committee is responsible for keeping under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control management systems.

2021 Key achievements:

- In addition to its routine work of reviewing and considering Internal Audit findings and providing guidance, challenge and counsel to management, the Committee also:
  - Received regular insights from the Internal Audit team on matters of additional interest.
  - Approved the KPIs for the Internal Audit team.
  - Approved the Internal Audit Charter.
  - Considered and approved the annual review of the Internal Audit methodology.
  - Considered and recommended the 2020 Financial Statements and supporting documentation to the Board.
  - Approved the 2021 External Audit Plan.
  - Approved the 2022 Internal Audit Plan.
  - Approved the Committee's revised and updated Terms of Reference.

Areas of focus in 2022:

- Consideration and approval of the 2021 Financial Statements and supporting documentation.
- Oversee the relationship with the Company's External Auditors.
- Approval of the 2023 External Audit Plan.
- Approval of the 2023 Internal Audit Plan.
- Review and approval of the Financial Recovery Plan.
- Review the budget to be set for the following financial year and to monitor on a quarterly basis performance against budget.
- Consider the design and operational effectiveness of the internal control environment.

Audit committee report
continued

Activities of the committee in 2021

Financial Reporting

- Review of the financial results for the year ended 31 December 2020.
- Review of the 2020 Annual Report and Accounts and the Audit Committee Report in the Annual Report. This included assessments of the pension accounting following the completion of the buy-in the defined pension scheme and revenue recognition.
- Considered management's review of the Vocalink ISAE 3000 report, with particular regard to revenue recognition.

External Audit

- Review of the effectiveness and independence of the Company's Auditor, audit fees, scope, terms of engagement and audit plan, including threshold levels of materiality for the Financial Statements.

Internal Audit

- Review of internal audit reports, recommendations and remediation plans.
- Consideration of the effectiveness of the internal control function.
- Approval of the internal audit plan for the year.

Governance

- Review of the Audit Committee Terms of Reference.
- Consideration of the non-audit work carried out by BDO.
- Approval of the Internal Audit Charter.
- Recommendation of the statement confirming the Annual Report is fair, balanced, and understandable.

Viability and Going Concern

- Review and confirmation of the going concern statement and viability statement at the year-end.

Committee effectiveness:

A Committee effectiveness review was carried out in late 2020, in the form of a questionnaire-based survey.

The results showed that, whilst the work of the Committee scored highly, there was room for improvement to ensure open and candid debate. Also, some improvement could be made to ensure papers were issued in a timely manner to enable members sufficient time prior to the meeting, to consider the content and to allow appropriate challenge and discussion.

External audit

The Committee is responsible for managing the relationship with and the performance of the Auditors, which includes making recommendations in respect of the appointment or reappointment.

BDO LLP was appointed Pay.UK's External Auditor in 2018 following a tender process.

The Committee places great importance on the quality, effectiveness and independence of the external audit process. The Committee approved and has since monitored BDO's execution of the external audit plan. It also discussed all significant matters identified in BDO's 2020 final audit report, including the key accounting judgements taken by management and management's responses to any audit findings.

The Committee is responsible for the implementation and monitoring of our policies on external audit, which are designed to maintain the objectivity and to safeguard the independence of the external auditor. These policies are reviewed annually.

The Committee's review of BDO's independence included examining written confirmation from BDO that they remained independent and objective within the context of applicable professional standards.

The Committee continues to be satisfied with the work of BDO and will be recommending their reappointment to the Board to be put before Guarantors at the 2022 Annual General Meeting.

Audit and non-audit fees

The Committee keeps under review the audit fees to ensure these remain appropriate for the size and scale of the work required. The fee for the 2021 audit is £142,000 (2020: £144,000). Details of the fees paid to BDO for the year ending 31 December 2021 may be found in Note 5 of the Financial Statements on page 86.

The Committee recognises that certain permissible non-audit services can be completed more cost effectively and efficiently by the incumbent Auditor, given BDO's existing knowledge of Pay.UK. The Board has delegated responsibility for authorising the purchase of non-audit services from the Auditor to the Audit Committee.

Pay.UK does not expect, in the ordinary course of business for non-audit fees, to exceed 70% of the total annual audit fees, unless under exceptional circumstances. The Committee confirms that the non-audit work performed by BDO, which included tax compliance services, was properly assessed and authorised in accordance with Pay.UK's company policy.

External audit effectiveness

The effectiveness of the external audit is assessed continually, using measures including a review of the quality and scope of the proposed external audit plan and progress against it; responsiveness to changes in our businesses; appropriate scepticism and challenge of management; and monitoring the independence, professionalism and transparency of the external audit.

Having considered the above assessment, the Committee is satisfied that BDO continues to provide an effective audit.

Internal audit

In order to reinforce its integrity and objectivity, the Internal Audit function has no responsibility for operational management of the business. The Director of Internal Audit maintains independence by reporting directly to the Chair of the Committee, and also has an additional administrative reporting line to the CEO. The Committee monitors and reviews the effectiveness of Internal Audit and ensures that it has the resources required to carry out its responsibilities.

The Committee annually approves the Internal Audit Charter from which Internal Audit derives its authority and responsibilities, including its access to the Chair and Committee members.

The Audit Committee approves the annual internal audit plan, reviews internal audit reports and receives periodic reports from the Director of Internal Audit. It also reviews any major issues arising. Internal Audit undertakes audits on a risk-assessed basis and agrees appropriate findings with management and actions to improve internal controls, risk management and governance.

Internal Audit also actively undertakes business monitoring by engaging with internal stakeholders on a regular basis, including attending key Committee and management meetings, to understand changing business risks, trends and emerging issues. Internal Audit regularly reports insights, progress and the status of its work to the Committee.

Financial reporting and significant judgements

The Committee is responsible for monitoring the integrity of the Financial Statements including significant judgements. In undertaking this review the following critical accounting polices and judgements were discussed with management and the External Auditors.

	Audit Committee review	Conclusions
Basis of Preparation of the Financial Statements	Financial Statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.	There is an option to apply full IFRS but it was decided not to adopt this approach as an organisation with limited financial complexity such as Pay.UK it would currently add little value compared to the increased cost of preparation and level of disclosures.
Going Concern	The Committee reviewed the assumptions surrounding the going concerns as detailed in page 56.	Pay.UK Ltd remains a going concern.
Revenue Recognition	The tariff letter covering the Bacs and Faster Payments services, published in November 2020, explicitly committed Pay.UK to the return of revenue to customers as a result of volumes above forecast through the following year's pricing. Consequently, the additional revenue was not recognised in the profit and loss account in 2020. The September 2021 letter, which governs pricing for the 15 months to December 2022 does not explicitly commit Pay.UK to the return of any revenue to customers.	The accounting treatment adopted was consistent with the substance of the transaction.

2021 Annual Report and Accounts

Following discussions with the Auditors, and the conclusions set out in the table above, the Committee was satisfied that the Financial Statements dealt appropriately with each of the areas of significant judgement. BDO also reported to the Committee on any misstatements that they had found in the course of their work and confirmed that no material amounts remained unadjusted.

In accordance with the Code, the Committee reviewed the Annual Report and was able to confirm to the Board that the Committee considered the Annual Report, taken as a whole, was fair, balanced and understandable and provided the information necessary for Guarantors and all stakeholders to assess the Company's performance, business model and strategy.

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Nomination committee report

“The Committee focused on ensuring that our Board has the right skills and capabilities in place which support the strategic direction for our business.”

Mark Hoban
Chair of the Nomination Committee

I am pleased to report on the work of the Committee during the year, which continued with the refresh of the composition of the Board.

During the year, the Committee reviewed the composition of the Board, taking into account recent and likely future Board member changes, diversity and tenure. The Committee used the skills map, created as part of the governance review, to inform the requirements for recruiting new Board members and to refresh the membership of the Board's Committees.

One key piece of work the Nomination Committee led on was the recruitment of our Chief Executive Officer. As well as the specific requirements for the role of CEO, the balance of skills, knowledge, experience and diversity on the Board was evaluated.

The Nomination Committee felt that David Pitt was an exceptional candidate who would be an asset to Pay.UK with a deep knowledge of business transformation and recommended his appointment to the Board.

To support this workload, Committee members and all Directors gave generously of their time in reviewing candidate profiles, participating in the recruitment process, and meetings with potential directors.

This work will continue in the year ahead and will be reported in the 2022 Committee Report.

Role of the committee

The Committee is chaired by the Chair of the Board and is composed of Independent Non-Executive Directors.

The Committee is responsible for reviewing and making recommendations to the Board on the size, structure and composition of the Board and Committees and in doing so, ensures that plans are in place for the orderly succession to both the Board and senior management positions and to oversee the development of a diverse pipeline for succession.

The Committee is also responsible for evaluating the balance of skills, knowledge, experience and diversity of the Board and in doing so the selection process for the recommendation of candidates to fill Board positions and the re-election of Directors.

The Committee operates under Terms of Reference to ensure that its work remains appropriate. Revised Terms of Reference were approved by the Board during the year and will inform the work of the Committee for 2022.

Committee membership

The members of the Committee during the year ended 31 December 2021 were as follows:

Nomination Committee member	Appointed to the Committee
Mark Hoban	November 2020
Anna Bradley	May 2019
Peter Wyman	June 2018

All members who served on the Committee during the year are considered to be independent and did not have any personal interest in the matters decided by the Committee.

Activities of the committee in 2021

In 2021, the Committee oversaw a number of significant changes to the composition of the Board.

Nathalie Oestmann and Russell Saunders, both Industry Board members, stepped down from the Board in December 2020 and April 2021 respectively and so the Committee focused its activities on the continued evolution and strengthening of the Board, with the appointment of two Non-Executive Directors, Lars Trunin and Marc Pettican, to the Board. Both of whom bring first-hand payments industry experience representing both smaller and major customers to their roles.

The Committee also worked in refreshing the skills, knowledge and experience on the Board, with the recruitment of an Independent Non-Executive Director, Lesley Titcomb, who joined the Board in January, and who has considerable knowledge and experience of industry regulation. And, the appointment of Diane Côté, as an Independent Non-Executive Director, who joined the Board in January 2022, and who has extensive financial markets infrastructure and risk management experience and will additionally Chair the Risk Committee.

The Committee also focused on the appointment of David Pitt, as Chief Executive Officer, who joined the Board in July 2021. David has considerable experience in the financial services sector and of managing operational change.

The Committee also considered a number of senior management positions and advised on the planned changes to the senior executive management reorganisation.

The recruitment and selection process for all Board and Executive roles is rigorous and transparent, being supported by the Chief People and Culture Officer internally and externally by Odgers in respect of Independent Non-Executive Director appointments, a specialist recruitment company engaged to facilitate the search, with which the Company has no other connection. Industry non-executive appointments are supported by our customer network.

To complete its work, the Committee met eight times during the year, both formally and on other occasions to participate in ad-hoc discussions and candidate selection interviews.

In June, the Committee reviewed the skills and capabilities assessment undertaken by external consultant PwC, which covered the structure, size and composition of the Board. This review supported the work of the Committee already underway and further identified Board succession requirements, supported by a skills and capabilities map, used to identify skills gaps.

The output from the skills assessment, which included executive management, highlighted the need to strengthen financial management skills within the Executive team; this recommendation was accepted and resulted in the appointment of Michael Ellis as Chief Financial Officer. This appointment also supported the decision to close the Finance Committee.

Key responsibilities:

- Regularly review the structure, size and composition, including skills, knowledge, experience and diversity of the Board.
- Identify and nominate candidates to fill board vacancies.
- Keep under review the leadership needs of the organisation, both executive and non-executive.

2021 Key achievements:

- Strengthened the executive experience on the Board, through the recruitment and appointment of a new Chief Executive Officer, David Pitt.
- Appointed additional Independent Non-Executive Director with the recruitment of Lesley Titcomb in January 2021.
- Refreshed the skills and experience of the Non-Executive Directors, with the recruitment of two Non-Executive Directors, Lars Trunin and Marc Pettican, who also joined the Board during the year.
- A further appointment to the Board has been the recruitment of an additional Independent Non-Executive Director, Diane Côté, who joined the Board in January 2022.

Areas of focus in 2022:

- Progress the diversity and inclusion agenda across the business.
- Continue to review and enhance succession planning processes at both Board level and for senior management.
- Oversee the work being undertaken on talent and leadership, including the Employee Value Proposition.

Nomination committee report
continued

In July, the Committee discussed a rolling programme of Board development with a combination of deep dives into Pay.UK and of developments and issues relevant to the payments ecosystem.

The Committee reviewed the time required from both Independent Non-Executive Directors (INEDs) and Non-Executive Directors (NEDs) and agreed that the time expectations would remain as currently stated.

The Committee's recommendations to the Board on all candidates were approved and implemented during the year.

Committee effectiveness

A Committee effectiveness review was carried out in late 2020, in the form of a questionnaire-based survey.

The results supported the work of the Committee in the identification of Board succession requirements, supported by a skills and capabilities map, used to identify skills gaps. The work of the PwC governance review also concluded all aspects of diversity should be considered when succession planning for the Board and executives.

The appointment of a new Committee Chair and work focused on the needs of the business has improved the Committee's effectiveness during the year. A further committee evaluation will be carried out at the end of 2022, the results of which will be reported in the 2022 Annual Report.

Performance evaluation

Anna Bradley, Senior Independent Director, led a review of the Chair's performance. Anna interviewed a wide selection of individuals with whom Mark has had contact in his role as Chair during the year, including all members of the Board, executive management and representatives from UK Finance and the Strategic Participant Group (SPG). She also received written views from both of our regulators, FMID and PSR. The feedback was discussed between Anna and Mark and further discussed by the Board as a whole.

As part of the further embedding of the governance framework and in order to assess progress to date, the Directors will participate in a mid-year 360 review, during 2022, the results of which will help direct actions for the rest of the year.

Diversity

The Board

The aim of the Committee is to ensure the Board is well balanced and meets the needs of the business in developing and implementing the strategy, supported by Directors who have the relevant skills, knowledge and experience. The Committee is also mindful of the need to widen the diversity of both industry and cultural background of all members.

Policy

As part of the work carried out in 2020, on our Equality, Diversity and Inclusion programme, the Committee received input and support from Business in the Community (BiTC). This advice included the development of metrics, which may be used to measure the progress of diversity and inclusion within the business. The Committee recognised this data was crucial in the setting of appropriate goals for improvement and to track progress.

The result of this work was the approval of the Diversity and Inclusion Policy by the Board in January 2022, which was followed by a Company-wide launch in early 2022.

Risk committee report

"The Committee continues to develop a deeper understanding of the risk profile of the evolving and more challenging payments ecosystem, focusing on the key strategic risks facing the business."

Diane Côté
Chair of the Risk Committee

Key responsibilities:

- Provide oversight and advice to the Board on the Company's role as systemic risk manager.
- Oversee and advise the Board on the Company's current risk exposure, overall risk appetite and tolerance, and on its risk strategy.
- Oversee the emerging risk the Company is facing and advise the Board on its strategic impact.
- Review the effectiveness of the systems of internal controls in place to manage key risks including non-compliance risks.

2021 Key achievements:

- Recommended the Financial Recovery Plan to the Board for approval.
- Recommended the Risk Appetite Statements to the Board for approval.
- Recommended the Wind Down plan to the Board for approval.
- Approved the Compliance Framework.
- Recommended the Operational Resilience Important Business Services to the Board for approval.
- Recommended the Risk Policy to the Board for approval.

Areas of focus in 2022:

- Operational Resilience and the implementation and integration of the new Framework.
- Oversight of the emerging risks and related management responses.
- Review of the maturity and effectiveness of the Enterprise Risk Management Framework. including the Risk Appetite Statements and tolerance levels.
- Review of the Company's wider role as a systemic payment infrastructure risk manager
- Oversee the effectiveness of the third-party risk management.
- Oversight of the management of the New Payment Architecture (NPA) related risks.
- Oversight of risk management deep dive into key risks.
- Monitoring of the risk and compliance culture.

Risk committee report
continued

Having recently joined the Board of Pay.UK as a Non-Executive Director and Chair of the Risk Committee, I am pleased to present the report on the work of the Committee during 2021.

I take this opportunity to thank Richard Anderson and the other members of the Committee, including Tim Fitzpatrick and Anna Bradley, for their work in developing the foundation stones of a risk-based culture within the organisation.

This foundation will help to underpin the developing maturity of the Committee's work, working alongside the evolving maturity of the business as a whole. The Committee's focus will continue to be on the key strategic risks facing the business, whilst developing a deeper understanding of the risk profile of the wider ecosystem.

I am joined by my newly appointed fellow committee members, Peter Wyman and Jean-Yves Rotté-Geoffroy and by Lesley Titcomb, who has been a member since 2021.

Role of the committee

The Risk Committee is responsible for providing leadership, direction and oversight of the Group's overall risk appetite, risk tolerance and strategy. The Committee advises the Board on the current and future risk exposures of the Group, including emerging risks, and carries out a robust assessment of the Company's emerging and principal risks. It reviews and approves the Group's risk management framework, monitoring its effectiveness and adherence to various risk policies.

The responsibility and authority of the Committee covers the whole of the Group's businesses. Where there is a perceived overlap of responsibilities between the Audit and Risk Committees, the respective committee chairs will have the discretion to agree the most appropriate committee to fulfil any obligation.

The Committee operates under Terms of Reference, which inform the work of the Committee. Revised Terms of Reference were approved by the Board in November 2021 and will be used to ensure all areas of the Committee's work are covered in the year ahead.

Committee membership

The members of the Committee during the year ended 31 December 2021 were as follows:

Risk Committee member	Appointed to the Committee
Richard Anderson[1] (Chair)	May 2018
Anna Bradley[2]	May 2018
Tim Fitzpatrick[1]	June 2018
Lesley Titcomb	January 2021

During his time as Interim CEO, Matthew Hunt was an Executive member of the Risk Committee. He stood down in 2021, upon the appointment of David Pitt. David also stepped down as a member of the Committee in 2021 and with effect from 2022, both David Pitt and Matthew Hunt attend the Committee at the invitation of the Chair of the Committee.

None of the members who served on the Committee during the year had any personal interest in the matters decided by the Committee and are all considered to be independent. With the exception of the Executive members, all members during 2021, were independent.

In addition to the members, noted above, the Chief Risk Officer, and the Director of Internal Audit were standing invitees to all Risk Committee meetings, and continue to attend all meetings at the invitation of the Committee Chair. Since the introduction of the updated Terms of Reference in November 2021, the Chief Executive Officer, Chief Strategy Officer and Chief Financial Officer regularly attend at the invitation of the Committee Chair.

The Board is satisfied that each member of the Committee has the skills and experience necessary for the Committee to effectively discharge its responsibilities. The members and details about their backgrounds, may be found on page 46 to 49.

The cross-membership of the Chairs of the Audit and Risk Committees reduces the potential for duplication of work and ensures the coverage of key risk matters.

The Chairs of both of these committees completed their tenure with Pay.UK at the end of 2021. As a result, Diane Côté who was appointed Chair of the Risk Committee, with effect from her appointment to the Board on 12 January 2022, joined the Audit Committee and Peter Wyman, who took over as Chair of the Audit Committee with effect from 1 January 2022, also joined the Risk Committee at that date.

Chief Risk Officer

To maintain the objectivity and ensure the right stature of the Risk and Compliance function, the Chief Risk Officer reports to the Chair of the Risk Committee in addition to her reporting line to the Chief Executive Officer. In that regard, the Committee oversees the effectiveness of the Risk Function and the performance of the Chief Risk Officer. The Chief Risk Officer is currently serving her notice period following her resignation at the beginning of 2022. The Chair of the Committee is actively involved in the recruiting process to find her replacement.

1 Richard Anderson and Tim Fitzpatrick stood down from the Committee at the same time as standing down from the Board on 31 December 2021

2 Anna Bradley stood down from the Committee on 31 December 2021

Activities of the committee in 2021

During 2021, the Risk Committee held six regular meetings in which it reviewed the Company's risk profile, risk appetite and emerging risks. As part of regular agenda items, the Committee focused on systemic risk management, cyber security, assurance of the risk management for the NPA Programme and supplier management. The Committee provided key input to, and oversight of, the ongoing development of a risk-based culture. The Chief Risk Officer also provided regular updates to the Chair.

Throughout 2021, the Committee continued its programme of deep dives, covering areas of strategic risk, to provide the Committee with a deeper understanding of key risk areas from which they could provide additional challenge.

During the year, the Committee:

- Monitored the operational resilience and robustness of the Company, the adequacy of the business continuity plans and support to colleagues to manage the impact of the Covid-19 pandemic.
- Provided robust reviews of strategic risks and of emerging risks.
- Monitored compliance with risk management procedures.
- Reviewed regulatory compliance reports, such as the PSR's PFMI self-assessment report, and the actions in place to ensure ongoing compliance.
- Reviewed and recommended to the Board the Risk Appetite Statements including stress tests and challenging the scenario results.
- Further considered the risks and impact of Brexit.
- Monitored and reviewed the Company's cyber security and technology risk management and resilience enhancement. This included the oversight of the work to design, test and implement the tertiary data centre.
- Monitored the work to identify and categorise the risk associated with each of Pay.UK supplier contracts.
- Monitored the delivery of actions to manage risks within risk appetite.
- Reviewed and monitored the operational resilience programme.
- Reviewed the adequacy and effectiveness of the internal controls in place to manage all strategic risks including the review of data governance and the executive management's assessment of information supplier management as well as the associated mitigating actions.

Committee effectiveness

A Committee effectiveness review was carried out in late 2020, in the form of a questionnaire-based survey.

The results showed that all the members agreed that the Chair's leadership style and tone promoted effective decision-making and constructive debate and were content with the support provided by the Secretariat, that papers were issued in a timely manner and were of a sufficient calibre. Improvements could be made in Committee members having more detailed input into forward agendas to support the work planned for the year ahead. From this, a more detailed forward look at topics requiring the Committee's attention is in place and will continue to be developed during the year ahead.

Priorities	Work carried out	Outcome
Priority 1 **Systemic Risk Management**	• Reviewed and monitored the work undertaken on the management of the concentration and individual risks that aggregators brought to Faster Payments. • Undertook a deep dive of Customer Risk. • Discussed the risk exposure from US sanctions affecting a customer. • Reviewed how standards could be utilised to mitigate systemic risks.	• Provided a deeper understanding of the key strategic risks of the business.
Priority 2 **Refresh of the NPA programme risk management strategy and assurance framework**	• Reviewed and challenged the assurance and risk management of the deliverables associated with the Request for Proposal for the NPA. • Undertook a deep dive of the risks associated with the NPA programme. • Challenged and reviewed the revised programme risk framework. • Received regular updates on the action plans in place improve and enhance programme risk management. • Received updates from external consultants on the assurance work undertaken. • Monitored the progress of the work undertaken to improve and embed behaviours to increase the NPA Programme team's awareness of risk.	• Artefacts for FMID non-objection of the RFP for the NPA approved by the Board. • Updated NPA risk management strategy implemented. • NPA programme assurance framework implemented.
Priority 3 **Operational Resilience**	• Received regular updates on the status of the Operational Resilience programme. • Reviewed the Important Business Services and the methodology used to identify them.	• Important Business Services approved by the Board.

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Remuneration committee report

“The Committee worked to ensure that we appropriately reward our Executive Directors, senior management and colleagues.”

Anna Bradley
Chair of the Remuneration Committee

I'm pleased to report on the activities of the Remuneration Committee and how its work has helped develop the reward structure for executive management and the wider workforce during the year.

The work covered a new pay policy, which is better aligned to market practice, enabling Pay.UK to attract talent in a competitive market and which is more closely linked to both the performance of the business, but also the individual contributions made by all employees. This policy sought to deliver a transparent and simplified approach to all employee pay and benefits, a clear, flexible and fair bonus scheme, that supports accountability and empowerment with a focus on high performance.

The Committee was particularly involved with setting the remuneration arrangements for the new Chief Executive Officer, David Pitt. These arrangements include considering a new cash-based long-term incentive plan, the details of which are covered further in this report, and are in respect of a three-year performance period, 2022–2024. The outcome will be reported in the 2024 Annual Report.

The development of the People Strategy was overseen by the Committee. It was aligned with the Pay.UK strategy refresh with a focus on culture, values, behaviours and strategic people initiatives. The People Strategy was finalised and launched in early 2022.

Role of the committee

The Remuneration Committee is responsible for determining the policy for Directors' remuneration and setting remuneration for the Company's Chair, Executive Directors and senior management. The Board is responsible for determining the remuneration of the Non-Executive Directors, following a recommendation from the Remuneration Committee.

The Committee also considers the remuneration arrangements across the business for all employees to ensure the design of remuneration policies and practices support strategy and promote long-term sustainable success, with executive remuneration aligned to Company purpose and values, clearly linked to the successful delivery of the Company's long-term strategy.

The objective of the remuneration policy is to attract, retain and motivate management of the quality required to run the company successfully without paying more than is necessary, having regard to views of stakeholders.

In setting the policy, the Committee considered external benchmarking from relevant sectors and advice from external remuneration consultants, Korn Ferry.

Remuneration decisions are aligned to relevant financial services/financial market infrastructure organisations, acknowledging the need to attract and retain talent, whilst also considering the economic environment and the impact on our customers and end users.

Committee membership

The members of the Committee during the year ended 31 December 2021 were as follows:

Remuneration Committee member	Appointed to the Committee
Anna Bradley	May 2019
Mark Hoban	November 2020
Peter Wyman[1]	June 2018

[1] Peter Wyman stood down from the Committee on 31 December 2021

None of the members who have served on the Committee during the year had any personal interest in the matters decided by the Committee and are all considered to be independent.

Activities of the committee in 2021

The Committee met five times during 2021 and discussed reward policies and practices for colleagues and executive management. These discussions ensured the reward framework was directly linked to the successful delivery of the new long-term strategy and considered the principles of transparency, clarity, sustainability and simplicity. The Committee provided challenge and input to ensure the policy motivated and retained colleagues, whilst being attractive to new talent. This included ensuring the policies demonstrated a clear link between performance and reward to drive the right behaviours and encouraging colleagues to operate within risk appetite.

Korn Ferry spent time with the Committee providing advice on external market practice during the development of the Reward Framework and Pay Policy, ensuring clear links to our strategic objectives and KPIs. The Policy was approved to be put into effect for the 2022 financial year.

For 2021, a bridging bonus framework was implemented, using performance employee ratings only. This resulted in employees receiving bonus awards between 5–20% of basic salary, depending on grade level, for a 'meets' performance. A multiplier of 1.25x or 1.50x was applied for an 'exceeds or substantially exceeds performance' for our higher performers. Employees with a below meets performance rating were not eligible for a bonus payment.

As the Company exceeded 250 employees for the first time, the Committee considered the results of the Gender Pay Gap Report, which was recommended to the Board for approval. This report may be found on the Pay.UK website at www.wearepay.uk/who-we-are/our-organisation/corporate-information/

Prior to the appointment of the Chief Executive Officer, the Committee considered the remuneration structure for this position, including the responsibilities of the role, benchmarked against other organisations and the reward structure within the Company. The Committee agreed the remuneration, including the development of a cash-based Long-Term Incentive Plan (LTIP), which covers the three-year financial period 2022–2024. The inclusion of this LTIP is in line with the view that the CEO's remuneration package is a long-term investment in Pay.UK's future.

The Committee agreed the 2022 pay increase of 2.5% for all colleagues in accordance with the new Reward Framework and Pay Policy, having considered other financial sector benchmark data and the economic conditions generally. Executive pay was also increased in line with that of all Pay.UK colleagues.

The Committee reviewed and adopted its updated Terms of Reference in line with the 2018 Code.

Key responsibilities:

- Determine the policy for Directors' remuneration and set remuneration for the Company's Chair, Executive Directors and the executive team.
- Review workforce remuneration and related policies.
- Have oversight of pay gaps based on gender, ethnicity and other protected classifications.
- Oversight of the People Strategy.

2021 Key achievements:

- Approval and publication of Pay.UK's first Gender Pay Gap Report.
- Approval of revised Company Reward Framework and Pay Policy.
- Approved the remuneration arrangements for the new CEO, including the design of the proposed Long Term Incentive Plan.
- Oversight of Executive pay approach in line with new pay policy.

Areas of focus in 2022:

- People Strategy launch.
- Embedding the Reward Framework and Pay Policy.

Remuneration committee report
continued

Committee effectiveness

A Committee effectiveness review was carried out in late 2020, in the form of a questionnaire-based survey.

The results showed the Committee was working well and received the support needed for the effective running of meetings. However, it was recommended that some forward agenda planning would benefit the Committee's work.

2022 Remuneration plan comprises:

- Basic pensionable pay.
- A non-contributory defined contribution pension scheme with a 12% employer contribution.
- Additional 1.5% employer contribution matched to employee Additional Voluntary Contributions (AVCs).
- Competitive employee benefits including life assurance, private medical scheme, additional medical benefits, and fitness subsidy.
- Employee performance-related bonus scheme, paying up to 15% for performance rating of meets performance rating.
- Performance related bonus for Executive and senior management, paying up to 20% for meets performance rating.

Director emoluments

Directors' remuneration for the year ended 31 December

	Remuneration		Bonus		Pension		Pension Allowance		Other minor benefits[1]		Total remuneration	
Name	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Executive Directors												
David Pitt[2]	**153**	–	**30**	–	**–**	–	**18**	–	**–**	–	**201**	–
Matthew Hunt[3]	**283**	253	**83**	52	**4**	11	**27**	21	**4**	3	**401**	340
Non-Executive Directors												
Richard Anderson	**73**	73	**–**	–	**–**	–	**–**	–	**–**	–	**73**	73
Christine Ashton	**73**	73	**–**	–	**–**	–	**–**	–	**–**	–	**73**	73
Anna Bradley	**73**	73	**–**	–	**–**	–	**–**	–	**–**	–	**73**	73
Tim Fitzpatrick	**73**	73	**–**	–	**–**	–	**–**	–	**–**	–	**73**	73
Mark Hoban	**160**	39	**–**	–	**–**	–	**–**	–	**–**	–	**160**	39
Jean-Yves Rotté-Geoffroy	**73**	73	**–**	–	**–**	–	**–**	–	**–**	–	**73**	73
Russsell Saunders[4]	**24**	–	**–**	–	**–**	–	**–**	–	**–**	–	**24**	–
Lesley Titcomb	**73**	73	**–**	–	**–**	–	**–**	–	**–**	–	**73**	73
Peter Wyman	**73**	73	**–**	–	**–**	–	**–**	–	**–**	–	**73**	73
Total	**1,131**	**803**	**–**	–	**–**	–	**–**	–	**–**	–	**1,297**	**890**

	Remuneration	Bonus	Pension	Pension Allowance	Other minor benefits		
Highest paid Director	283	83	4	27	4	401	346

1 Other minor benefits include life assurance, private medical insurance, additional medical benefits and fitness subsidy

2 David Pitt joined the Company on 26 July 2022 and his remuneration has been prorated accordingly. David's 2021 annual basic salary was £350k

3 Matthew Hunt, who stood in as interim Chief Executive Officer from November 2020 until David Pitt's appointment in July 2021, was paid an 'acting up' allowance of £23k, to cover the additional responsibilities taken on during the period

4 Russell Saunders was paid a Non-Executive fee for the period 1 January 2021–30 April 2021, for his services as a Director, following his retirement from his paid position with Lloyds Bank Group plc on 31 December 2020

Long-term incentive plan

As part of the recruitment process for the CEO, it was agreed a cash LTIP should form part of the compensation element, in addition to base salary and annual bonus. The LTIP was scheduled to come into effect following the successful completion of the CEO's probation period, in early 2022. This period was successfully completed in January 2022, and the Board approved the granting of this award in March 2022.

The LTIP Agreement and long-term performance indicators cover all Pay.UK strategic goals, but specifically: Strategy; NPA; Stakeholder Engagement and Culture.

In addition to the key performance indicators, a number of other elements form an underpin, providing the Committee with the discretion to scale back LTIP payment levels, if considered necessary.

The LTIP covers a three-year performance period, at the end of which time, if the performance is not achieved, no payment will be made. However, under the LTIP Rules, the Committee may exercise its discretion, having considered mitigating circumstances, should the performance metrics not be achieved.

Performance will be reviewed at the end of the three-year period, in early 2025, and will be reported in the Remuneration Committee Report in due course.

Malus and clawback conditions have been incorporated into the Agreement and will remain in place for two years from determination of payment, and cover circumstances which would lead the Committee to question the basis upon which payment was made.

Specialist advice and support was obtained from Korn Ferry in developing the LTIP approach and contractual agreements.

Non-Executive Director fees

There was no increase in Independent Non-Executive fees for the 2021 financial year.

Independent Non-Executive Director remuneration is benchmarked against relevant sectors and reviewed periodically. It is anticipated a further review will be carried out in 2022.

Non-Executive Director roles are unpaid, as these individuals are remunerated by their own organisations.

Financial statements

Independent auditor's report to the members of Pay.UK Limited

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Pay.UK limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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 Group's and Parent 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. 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.

Other Companies Act 2006 reporting

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 Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Director's responsibilities, 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 Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities 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.

Extent to which the audit was 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:

- We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, requirements of the Payments Systems Regulator and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).
- We discussed among the engagement team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud due to improper revenue recognition and management override of controls. Furthermore, we communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- We focused on laws and regulations that could give rise to a material misstatement in the financial statements. Our tests included, but were not limited to:
  - agreement of the financial statement disclosures to underlying supporting documentation;
  - enquiries of management and review of key correspondence with the Payment Systems Regulator and the Bank of England; and
  - review of minutes of board meetings throughout the period
- We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Orla Reilly

Orla Reilly

Senior Statutory Auditor

For and on behalf of BDO LLP, Statutory Auditor
London, UK

27th May 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Revenue	4	**151,999**	145,020
Administrative expenses		**(137,752)**	(106,687)
Other operating expenses	18	**(260)**	(9,831)
Other operating income	18	**260**	3,748
Operating Profit	5	**14,247**	32,250
Interest income	8	**8**	86
Profit on ordinary activities before taxation		**14,255**	32,336
Tax on profit on ordinary activities	9	**(2,701)**	(7,067)
Profit for the financial year		**11,554**	25,269
Other comprehensive income for the year:			
Actuarial profit on defined benefit pension scheme	18	**–**	2,351
Changes in asset limit other than interest	18	**–**	3,732
Total comprehensive income for the year		**11,554**	31,352

The notes on pages 81 to 96 form part of these financial statements.

Consolidated statement of financial position

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Fixed Assets			
Tangible Assets	10	**463**	503
Investments	11	**–**	–
		463	503
Current assets			
Debtors	12	**20,976**	15,539
Cash at Bank		**86,202**	73,605
		107,178	89,144
Creditors: amounts falling due within one year	13	**(54,060)**	(44,106)
Net current assets		**53,118**	45,038
Total assets less current liabilities		**53,581**	45,541
Creditors: amounts falling due after more than one year	14	**(2,046)**	(5,560)
Total assets less total liabilities		**51,535**	39,981
Equity			
Called up share capital	15	**–**	–
Profit and loss account	16	**47,058**	35,504
Capital Reserve	16	**4,477**	4,477
Total Equity		**51,535**	39,981

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

David Pitt
Chief Executive Officer
27th May 2022
Company Registration No: 10872449

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Company statement of financial position

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Fixed Assets			
Tangible Assets	10	**215**	95
Investments	11	**–**	–
Current assets			
Debtors	12	**28,859**	26,269
Cash at Bank		**54,944**	46,531
		83,803	72,800
Creditors: amounts falling due within one year	13	**(36,176)**	(32,509)
Net current assets		**47,627**	40,291
Total assets less current liabilities		**47,842**	40,386
Creditors: amounts falling due after more than one year	14	**(2,046)**	(5,560)
Total assets less total liabilities		**45,796**	34,826
Equity			
Called up share capital	15	**–**	–
Profit and loss account	16	**45,796**	34,826
Capital Reserve	16	**–**	–
Total Equity		**45,796**	34,826

The Company has elected to take the election in Section 408 of the Act, in order not to present the Company's Statement of Comprehensive Income. The Company's profit for the year was £10,970k (2020: £31,213k).

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

David Pitt
Chief Executive Officer

27th May 2022

Company Registration No: 10872449

Consolidated statement of changes in equity

As at 31 December 2021

	Profit and Loss Account £'000	Capital Reserve £'000	Called up Share Capital £'000	Total equity £'000
Balance as at 1 January 2020	4,152	4,477	–	8,629
Profit for the financial year	25,269	–	–	25,269
Actuarial profit on pension scheme (net of tax)	2,351	–	–	2,351
Change in asset limit other than interest	3,732	–	–	3,732
Balance as at 31 December 2020	**35,504**	**4,477**	**–**	**39,981**
Profit for the financial year	**11,554**	**–**	**–**	**11,554**
Balance as at 31 December 2021	**47,058**	**4,477**	**–**	**51,535**

Company statement of changes in equity

As at 31 December 2021

	Profit and Loss Account £'000	Capital Reserve £'000	Called up Share Capital £'000	Total equity £'000
Balance as at 1 January 2020	**3,613**	**–**	**–**	**3,613**
Total comprehensive income for the year	31,213	–	–	31,213
Balance as at 31 December 2020	**34,826**	**–**	**–**	**34,826**
Total comprehensive income for the year	**10,970**	**–**	**–**	**10,970**
Balance as at 31 December 2021	**45,796**	**–**	**–**	**45,796**

Consolidated statement of cash flows

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Cash generated from operating activities	17	**25,308**	21,063
Interest Paid		**–**	–
Taxation Paid		**(1,667)**	(7,046)
Net cash inflow from operating activities		**23,641**	14,017
Investing activities			
Interest Received		**8**	87
Purchase of fixed assets		**(251)**	(152)
Net cash inflow from investing activities		**(243)**	(65)
Financing activities			
Repayment of advance		**(10,801)**	–
Net cash (outflow) from financing activities		**(10,801)**	–
Net increase in cash and cash equivalents		**12,597**	13,952
Cash and cash equivalents at the beginning of the year		**73,605**	59,653
Cash and cash equivalents at the end of the year		**86,202**	73,605

Notes to the financial statements

1. General information

Pay.UK Limited ('the Company') is a company limited by guarantee, incorporated in United Kingdom under the Companies Act. Its registered office is 2 Thomas More Square, London E1W 1YN.

2. Accounting policies

2.1 Basis of preparation of financial statements

The Group's financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006. The Group's functional and presentational currency is the pound sterling.

The preparation of Group financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies (see note 3).

Basis of consolidation

The Group's financial statements consolidate the financial statements of Pay.UK Limited and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for Pay.UK Limited as permitted by section 408 of the Companies Act 2006.

Subsidiaries are consolidated from the date of their establishment or acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

The following principal accounting policies have been applied.

2.2 Going concern

The Board has reviewed the Company's expenditure requirements and expected cash flows in the light of its financial strategy of setting a per payment tariff at a level that recovers its costs.

In the light of these funding arrangements, and having reviewed the funding model for 2022 and expected cash flows, the Directors have formed a judgement that, at the time of approving the financial statements, there is a reasonable expectation that the Company has adequate resources, and is expected to continue in operational existence for a period of at least 12 months from the date of issue of the financial statements. Accordingly, they have adopted the going concern basis in preparing the report and accounts. This conclusion has been reached on the basis that:

- The Group has a 2022 budget in place agreed by the Board and shared with its funding customers. This includes the ability to review the price per item in the event that volumes are lower than budget, and a monthly forecasting process to review both costs and income;
- As part of the price setting for 2022, we considered the ongoing impacts of Covid-19 ;
- The capital was reviewed in line with the requirements of the general business and credit risks within the CPMI-IOSCO Principles for Financial Market Infrastructures. This, along with cash assets from prior year underspend, support the Group in the unlikely event of a delay in receipt of income and its cash flow;
- The completion of risk assessments and stress testing on the future financial performance of the Group. This included the identification of early-warning indicators and the availability of recovery options to the Group;
- The majority of the Group income is volume based and these remain consistent and in line with expectations during and following the year end. Income is invoiced on a monthly basis and this continues to be collected post year end, via Direct Debit collection, with no significant issues; and
- 2023 budgets are being prepared with customer pricing approved by the Board in May 2022. In addition the five year strategy through to 2026 has been approved by the Board.

Notes to the financial statements
continued

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes.

Payment systems

The Group has operational responsibility for the payment systems behind the clearing and settlement of automated payments (Bacs and Faster Payments) and Cheques. Revenue is based on a transactional volumes basis.

Managed services

The Group also provides several managed services, including Paym, the Current Account Switching Service and the Cash ISA transfer service. UTSP offers a service to support connectivity to financial infrastructure and charges an initial fee and an ongoing monthly fee for this service.

The Group provides administrative services to third-party organisations.

The Group recognises revenue on the provision of services in the reporting period in which the services are rendered. Where payments for services are made in advance of the service being performed, the Company defers this income and matches it in the period when the service is performed and the Company's obligations have been extinguished.

Other operating income

Former shareholders in the UKPA subsidiary have provided funds to the Group to allow the defined benefit pension plan to move to a pension scheme buy-in. These revenues are recognised as other operating income where these funds are used to finance the pension buy-in that took place in 2020. Further funds were provided in 2021 to complete the pension buy-out in 2021.

Interest income

Interest income is recognised when the right to receive payment is established.

2.4 Tangible fixed assets

Tangible fixed assets are stated at historical cost, less accumulated depreciation and any accumulated impairment losses. Historical costs include the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Leasehold property	Straight line over the remainder of the lease, or the asset's useful economic life if less
Fixtures and fittings	10% – 20% straight line
Computer equipment	20% – 33% straight line

2.5 Operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

The Group has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the profit and loss account over the period to the first review date on which the rent is adjusted to market rates.

2.6 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.7 Cash

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

In the Statement of Cash Flows, cash is shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

2.8 Financial instruments

Financial assets

Basic financial assets, including trade debtors and other receivables, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of future receipts discounted at a market rate of interest.

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

2.9 Employee benefits

The Group provides a range of benefits to employees, including discretionary and ad-hoc bonus arrangements, paid holiday arrangements and stakeholder pension plans.

Short-term benefits

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received. A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Statement of Financial Position date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Statement of Financial Position date.

Annual bonus plan

The Group operates a discretionary annual bonus plan for all employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Stakeholder pension plan

The Group operates a defined contribution stakeholder pension plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid, the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

Defined benefit pension plan

The Group operated a defined benefit fund through UK Payments Administration (UKPA) Limited during the year. A full pension buy-out was completed in 2021 and the defined benefit scheme wound up.

UK Payments Administration Limited historically participated in the British Bankers' Association (BBA) Pension Scheme for UKPA former employees, a multi-employer defined benefit scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised for the prior year in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date. Following the pension buy-in, assets were represented by an insurance policy exactly matching the liability. Following the pension buy-out in 2021, all assets and liabilities under the scheme were transferred to the insurance company and the obligation discharged to the members.

Notes to the financial statements
continued

2.9 Employee benefits (continued)

In the prior year the defined benefit obligation was calculated using the projected unit credit method. The present value was determined by discounting the estimated future payments using market yields on high-quality corporate bonds that were denominated in sterling and that had terms approximating the estimated period of the future payments ('discount rate').

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were charged or credited to other comprehensive income. These amounts, together with the return on plan assets, less amounts included in net interest, were disclosed as 'Actuarial Gains/(Losses) on net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

a. the increase in pension benefit liability arising from employee service during the period; and
b. the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost was calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost was recognised in profit or loss as 'interest expense'.

Termination benefits

The Company is committed, by legislation and/or contractual obligations, to make payments to employees when the Company terminates their employment. Such payments are termination benefits. Because termination benefits do not provide the Company with future economic benefits, the Company recognises these as an expense in the profit and loss account immediately. The Company will only recognise termination benefits as a liability and an expense when the Company is demonstrably committed either:

a. To terminate the employment of an employee or group of employees before the normal retirement date; or
b. To provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The Company measures termination benefits at a best estimate of the expenditure that would be required to settle the obligation at the balance sheet date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer. When termination benefits are due more than twelve months after the balance sheet date, the Company will measure these benefits at their discounted present value applying an appropriate discount rate.

Additional incentives

From 2022, the Company will commence operation of a Long-Term Incentive Plan (LTIP) for one employee. An expense will be recognised in the profit and loss account when the Company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

2.10 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax

Tax is recognised in the income statement, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised, if material, on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Deferred tax assets and liabilities are not discounted.

2.11 Provisions and contingencies

Provisions

Provisions for liabilities are recognised when the Group, or a Company, has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

2.11 Provisions and contingencies (continued)

Provisions for assets are only recognised when the flow of future economic benefits to the Company is virtually certain.

Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outlay of resources or that the amount cannot be reliably measured at the reporting date, or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

2.12 Related party transactions

The Company has taken the exemption under Section 33.1A of FRS102 not to disclose related party transactions with wholly owned members of its Group.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical judgements in applying the entity's accounting policies

a.i) Defined benefit pension scheme policy

UK Payments Administration Limited historically participated in the British Bankers' Association Pension Scheme, a multi-employer scheme. The Company accounts for this scheme as a defined benefit plan. The Directors have exercised their judgement, through information provided by the actuary, and have now concluded that they are able to obtain sufficient evidence regarding the Company's share of scheme assets and liabilities such that it is appropriate to use defined benefit accounting in accordance with the provisions of section 28 of FRS102. Following the pension buy-out, this related to the prior year only.

a.ii) Transitional rules pertaining to leases

The Group has taken advantage of the exemption in respect of lease incentives for leases in existence at the date of transition to FRS 102 (see note 2.5).

a iii) Bacs and Faster Payments transactional income

Bacs and Faster Payments transactional over recovery income from 2021 has not been deferred to balance sheet as no explicit commitment was given to the customers to return funds.

b. Critical accounting estimates and assumptions

b.i) Pension scheme and assumptions

Defined benefit pension scheme

The Group had an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations, the underlying split of the multi-employer scheme and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation on the balance sheet from reports produced by independent actuaries. The assumptions reflect historical experience and current trends. See note 18 for the disclosures relating to the defined benefit pension scheme.

b.ii) Taxation

When required, the Group establishes provisions based on reasonable estimates for possible consequences of audit by the tax authorities.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 2.10.

b.iii) Useful economic life of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual value of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the property, plant and equipment, and note 2.4 for the useful economic lives for each class of assets.

b.iv) Impairment of debtors

The Group makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 12 for the net carrying amount of the debtors.

Notes to the financial statements
continued

4. Revenue

All turnover arising from the rendering of services to the payments industry during the year has arisen from UK-based activities.

5. Operating profit

The Group operating profit is stated after charging:

	2021 £'000	2020 £'000
Fees payable to the Group's Auditor for the audit of the Group's annual accounts	**142**	144
Fees payable to the Group's Auditor for tax compliance fees	**26**	68
Depreciation	**291**	209
Operating lease rentals – land and buildings	**2,020**	2,050
– plant and machinery	**23**	21

Included within Auditor's remuneration for audit services above is £50k (2020: £50k) payable to the Auditor of the subsidiary entities.

6. Staff costs

Group and Company	2021 £'000	2020 £'000
Employee costs during the year were:		
Wages and salaries	**24,584**	18,533
Social security costs	**2,967**	2,210
Cost of defined contribution pension scheme	**2,554**	2,090
	30,105	22,833
Average number of employees:		
Administrative	**310**	268

7. Directors' remuneration

	2021 £'000	2020 £'000
Directors' Emoluments	**1,293**	1,399
Company contribution for defined contribution pension scheme	**4**	18
	1,297	1,417
Highest paid Director	**401**	346

The Directors are of the opinion that there are no key management personnel who are not Directors of the Company.

8. Interest income

Group	2021 £'000	2020 £'000
Bank Interest Income	**8**	86
	8	86

9. Taxation

Group

Analysis of tax charge for the period	2021 £'000	2020 £'000
Corporation tax		
Current tax on profits for the year	**2,683**	7,307
Adjustments in respect of prior periods	**11**	(254)
Total current tax	**2,694**	7,053
Deferred tax		
Origination and reversal of timing differences	**29**	19
Adjustments in respect of prior periods	**(13)**	(2)
Effect of tax rate change on opening balance	**(9)**	(3)
Total deferred tax	**7**	14
Taxation on profits on ordinary activities	**2,701**	7,067

Provision for deferred tax

	2021 £'000	2020 £'000
Short-term timing differences	**(6)**	(13)
Total current tax	**(6)**	(13)
Deferred tax		
Provision at start of period	**(13)**	(6)
Deferred tax charge in the profit and loss account for the period	**7**	(7)
Provision at end of period	**(6)**	(13)

Notes to the financial statements
continued

9. Taxation (continued)

Factors affecting the tax charge for the current year

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK 19% (2020: 19%). The differences are explained below:

Group	2021 £'000	2020 £'000
Profit on ordinary activities before taxation	**14,255**	32,336
Tax on profit on ordinary activities at standard corporation tax rate of 19% (2020: 19%)	**2,708**	6,144
Effects of:		
Losses eliminated	**15**	–
Group relief (claimed)	**(26)**	–
Expenses not deductible for tax purposes	**1**	–
Fixed asset differences	**(7)**	5
Adjustment in respect of pension scheme	**–**	1,155
Adjustments to tax charge in respect of previous periods	**11**	(253)
Adjust closing deferred tax to average rate of 19%	**(1)**	(13)
Adjustment to tax charge in respect of previous periods – deferred tax	**(17)**	(22)
Changes in unrecognised deferred tax	**17**	30
Other difference	**–**	21
Current tax charge for the year	**2,701**	7,067

The Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax had previously been calculated at this rate. However, in the March 2020 Budget, it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

10. Tangible fixed assets

Group	Leasehold property £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2020	2,070	1,549	2107	5,726
Additions	–	3	248	251
Disposals	–		–	–
At 31 December 2021	**2,070**	**1,552**	**2,355**	**5,977**
Depreciation				
At 1 January 2020	(1,873)	(1,435)	(1,915)	(5,223)
Charge for the year	(32)	(41)	(218)	(291)
Disposals	–	–	–	–
At 31 December 2021	**(1,905)**	**(1,476)**	**(2,133)**	**(5,514)**
Net book value				
At 31 December 2021	**165**	**76**	**222**	**463**
At 31 December 2020	197	114	192	503

Company	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2021	7	131	138
Additions	3	248	251
At 31 December 2021	**10**	**379**	**389**
Depreciation			
At 1 January 2021	(4)	(39)	(43)
Charge for the year	(3)	(128)	(131)
At 31 December 2021	**(7)**	**(167)**	**(174)**
Net book value			
At 31 December 2021	**3**	**212**	**215**
At 31 December 2020	3	92	95

Notes to the financial statements
continued

11. Investments

Group

UK Payments Administration Limited and Lynchwood Nominees Limited, (on behalf of the BBA), each hold 5 shares in the BBA Pension Trustee.

Company	Investment in subsidiary companies £'000
Cost	
At 1 January 2021	–
Additions in the year	–
At 31 December 2021	**–**

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Date of acquisition	Country of incorporation	Class of shares	Holding	Principal activity
Bacs Payment Schemes Limited	1 May 2018	England and Wales	Limited by Guarantee	100%	Switching Services
Cheque and Credit Clearing Company Limited	1 July 2018	England and Wales	Ordinary	100%	Inactive
Faster Payments Scheme Limited	1 May 2018	England and Wales	Limited by Guarantee	100%	Inactive
Mobile Payments Service Company Limited (indirect subsidiary through Faster Payments Scheme Limited)	1 May 2018	England and Wales	Limited by Guarantee	100%	Payments Services
UK Payments Administration Limited	1 July 2018	England and Wales	Ordinary	100%	Shared Services
UTSP Limited (indirect subsidiary through Faster Payments Scheme Limited)	1 May 2018	England and Wales	Ordinary	100%	Public Key Infrastructure Service

The registered office of all subsidiaries above is 2 Thomas More Square, London E1W 1YN.

The aggregate of the share capital and reserves as at 31 December 2021 and of the profit or loss for the year ended on that date for the subsidiary undertakings was as follows:

	Aggregate of share capital and reserves £'000	Profit £'000
Bacs Payment Schemes Limited	1,944	–
Cheque and Credit Clearing Company Limited	–	–
Faster Payments Scheme Limited	2,533	–
Mobile Payments Service Company Limited	–	–
UK Payments Administration Limited	–	–
UTSP Limited	1,262	584
	5,739	584

12. Debtors: amounts falling due within one year

Group	2021 £'000	2020 £'000
Trade Debtors	**498**	562
Other Debtors	**2,525**	18
Deferred Tax	**6**	13
VAT	**133**	–
Prepayments and accrued income	**17,814**	14,946
	20,976	15,539

Company	2021 £'000	2020 £'000
Trade Debtors	**371**	445
Amounts owed by subsidiaries	**9,167**	11,997
Other debtors	**2,524**	17
Deferred Tax	**6**	10
VAT	**877**	290
Prepayments and accrued income	**15,914**	13,510
	28,859	26,269

Other debtors (Group and Company) includes £2,046k (2020: £nil) falling due after more than one year. This relates to receivables due from customers and has an equal and opposite offset in creditors due in more than one year.

13. Creditors: amounts falling due within one year

Group	2021 £'000	2020 £'000
Trade creditors	**1,992**	6,169
Corporation Tax	**2,151**	1,111
Social security and other taxes	**906**	713
VAT	**–**	123
Other creditors	**825**	17
Accruals and deferred income	**48,186**	35,973
	54,060	44,106

Company	2021 £'000	2020 £'000
Trade creditors	**369**	3,461
Amounts due to subsidiaries	**1,276**	3,133
Corporation Tax	**2,009**	1,241
Social security and other taxes	**906**	713
Other creditors	**825**	17
Accruals and deferred income	**30,791**	23,944
	36,176	32,509

Notes to the financial statements
continued

14. Creditors: amounts falling due in more than one year

Group	2021 £'000	2020 £'000
Advances from customers	–	5,560
Contract Incentive	2,046	–
	2,046	5,560

Company	2021 £'000	2020 £'000
Advances from customers	–	5,560
Contract Incentive	2,046	–
	2,046	5,560

During 2018, the Company received £13.9m of advance payments from customers for future services for Faster Payments, Bacs Direct Debit and Direct Credit, and cheque clearing services. These advances were fully repaid at the end of 2021. The 2021 creditor relates to a contract incentive and has an equal and opposite offset in debtors due in more than one year.

15. Share capital

The Company was formed on 18 July 2017 as a private company limited by guarantee. At the date of this report there are 42 guarantors, whose guarantee in the event of winding up the Company was a sum not exceeding £1 each.

16. Capital reserve and accumulated profit

The capital reserves are capital contributions from previous members and customers. They, together with the accumulated profit, represent equity held by the Company to run normal business operations and cover general business and credit risks based on the CPMI-IOSCO Principles for Financial Market Infrastructures.

17. Notes to the statement of cash flows

Group	2021 £'000	2020 £'000
Cash flow from operating activities		
Profit for the financial year	11,554	25,217
Adjustments for		
Depreciation	291	209
Interest Received	(8)	(87)
Taxation	2,586	7,082
(Increase) in debtors	(5,763)	(1,201)
Increase/(decrease) in creditors	16,648	(16,291)
Defined Benefit cost recognised in statement of comprehensive income	–	9,830
Pension escrow payment	–	(3,696)
Net cash generated by operating activities	25,308	21,063

18. Pension commitments

Group

The British Bankers' Association and UK Payments Administration Limited ('the Employers') operated a funded defined benefit pension arrangement called the British Bankers' Association Pension Scheme ('the Scheme'). The Scheme provided benefits to some employees based on their completed pensionable service and their final pensionable pay. In 2020, the Employers completed a pension buy-in whereby the assets of the Scheme were replaced with an insurance policy which matched the liability under the scheme and fully hedged all investment and longevity risks in the pension scheme. The employers paid contributions of £6,664k (Pay.UK Ltd contribution £3,696k) to top up the Scheme's assets to purchase this policy, this is shown in other operating income 2020. This contribution along with remeasurements and changes in asset limits shown in other comprehensive income for the year has an equal and corresponding offset in other operating expenses of £9,831k. Additionally, a further £52k has been recognised as part of other operating income to reflect the deficit on the Scheme.

In 2021, a pension buy-out was completed and the scheme's liabilities transferred to the insurer and the Employer's obligation to the members was extinguished. The scheme was wound up in late December. The Scheme did not invest directly in property occupied by the Company or in financial securities issued by the Company.

In 2020, the calculations were updated to the accounting date by an independent qualified actuary in accordance with FRS102, allowing for contributions, benefit payments made, and changes in market conditions. The results based on assumptions used for FRS102, are as follows.

	2021 £'000	2020 £'000
Present value of defined benefit obligation	–	39,244
Fair value of scheme assets	–	(39,192)
Deficit	–	52
Net liability in statement of financial position	–	52

Expense recognised in profit or loss

	2021 £'000	2020 £'000
Interest (income)	–	(1)
Past service cost	260	31
Losses on settlements	–	9,800
Total expense recognised in profit or loss	260	9,830

Amounts recognised outside profit or loss

	2021 £'000	2020 £'000
Actuarial losses on defined benefit pension scheme	–	(2,351)
Change in asset limit other than interest	–	(3,731)
Amount to recognise outside profit or loss	–	(6,082)

Scheme assets

	2021 £'000	2020 £'000
Cash and Net Current (Liability)	–	(52)
Aviva buy-in	–	39,244
Total	–	39,192

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Notes to the financial statements
continued

18. Pension commitments (continued)

Movement in the net balance sheet position

	2021 £'000	2020 £'000
Expense charged to profit and loss	**52**	9,830
Amount recognised outside of profit and loss	**–**	(6,082)
Employer contributions	**(52)**	(3,696)
Closing net liabilities	**–**	52

Movement in present value of defined benefit obligation

	2021 £'000	2020 £'000
Opening defined benefit obligation	**39,244**	36,726
Interest on plan liabilities	**–**	758
Actuarial (gains)/losses due to:		
– Experience on benefit obligation	**–**	(852)
– Changes in financial assumptions	**–**	3,981
– Changes in demographic assumptions	**–**	(196)
Benefit payments	**–**	(1,204)
Past service costs	**–**	31
Pension buy-out	**(39,244)**	–
Closing defined benefit obligation	**–**	39,244

Movement in fair value of scheme assets

	2021 £'000	2020 £'000
Opening fair value of scheme assets	**39,192**	40,439
Interest on scheme assets	**–**	778
Actual return on scheme assets less interest on scheme assets	**–**	5,283
Contributions by the employer	**52**	3,696
Benefit payments	**–**	(1,204)
Curtailments and settlements	**–**	(9,800)
Pension buy-out	**(39,244)**	–
Closing fair value of scheme assets	**–**	39,192

Movement in the impact of the asset ceiling

	2021 £'000	2020 £'000
Effect of asset ceiling at the start of the period	**–**	3,713
Interest on asset limit	**–**	18
Change in asset limit other than interest	**–**	(3,731)
Effect of asset ceiling at the end of the period	**–**	–

Significant actuarial assumptions

The assumptions made in the following tables are only relevant to 2020 as the pension buy-out was completed in 2021 and the scheme was wound up at the end of year.

	2021	2020
Retail Price Inflation (% pa)	–	3.20%
Consumer Price Inflation (% pa)	–	RPI less 1% pre 2030 and RPI less 0.1% post 2030
Discount rate (% pa)	–	1.20%
Pension increase rate (% pa)	–	Various
Salary growth rate (% pa)	–	n/a
Life expectancy of male/female aged 60 at balance sheet date	–	28.1/30.2
Life expectancy of male/female aged 60 in 20 years' time	–	30/32.1
Weighted average duration	–	14

Sensitivity of obligations to alternative assumptions

	Increase 2021 £'000	Decrease 2020 £'000
Discount rate		
Effect on defined benefit obligation of a 0.1% change	–	600
Inflation		
Effect on defined benefit obligation of a 0.1% change	–	(200)
Life expectancy		
Effect on defined benefit obligation of a 1 year change	–	(1,300)

Notes to the financial statements
continued

19. Commitments under operating leases

Group

At 31 December 2020, the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2021 £'000	2020 £'000
Not later than 1 year	**1,637**	1,660
Later than 1 year and not later than 5 years	**2,642**	4,307
	4,279	5,967

The lease commitment on floors 1, 2 and 3 of 2 Thomas More Square is until 2024. However, rental payments are currently subject to a rent renegotiation, the outcome of which has not been included in this report as it is unknown and therefore unquantifiable.

At the date of this report, the Company had no other future minimum lease payments under non-cancellable operating leases.

20. Ultimate parent company

The Directors are of the opinion that there is no ultimate controlling party.

21. War in Ukraine

Pay.UK commenced active monitoring of the evolving geo-political situation in early January 2022.

Working closely within established relationships in Government and Regulatory bodies ensured we responded promptly to a number of advisories and new sanctions issued since January 2022. Pay.UK has also worked closely with key suppliers and customers to share advice and knowledge and assure that the payments operating systems are responding effectively to official requests and fast time legislative changes.

We have also assessed the financial impact of the changes in the economic conditions since the beginning of this crisis. As per our recent analysis and based on revised assumptions, there should be no material impact to our financial projections.

The Executive and Board continue to focus on the situation very closely, within a formalised structure utilising the full depth of our relationships across Government, Regulators and Industry Partners and assess the additional risks and security threats this crisis could entail for Pay.UK and its key provider of services and have already taken actions to reinforce its position.

This is considered to be a non-adjusting post balance sheet event and as such does not impact the financial position of the Group as at 31 December 2021 or the going concern assessment made by the Directors.

Pay.UK Limited

Company Registration No. 10872449
(A Company Limited by Guarantee)

Registered Office

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