pay.uk

# Annual Report and Financial Statements

# 2022

# Contents list



**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.

## Our purpose

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

## 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 (ICS) and also operate the Current Account Switch Service (CASS), 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. 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 operate 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

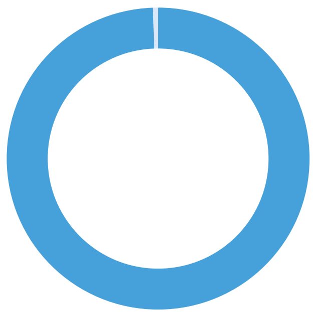
- Targets: We met or exceeded all our targets around the operation of the national payment system infrastructure.
- Faster Payment System (FPS): In February 2022, the FPS transaction limit was increased from £250,000 to £1 million.
- Bacs: In June 2022 we completed a project to implement a replacement Bacs Payment Services Website (PSW), the biggest change to the Bacs Service since 2006.
- Current Account Switch Service (CASS): Pay.UK observed 376,107 switches between October and December 2022; the highest quarterly figure since the launch of the CASS in 2013.
- Strategy: In 2022 we worked to create a set of strategic priorities to drive the business forward and to underpin the delivery of our strategy. See pages 18 - 19 for more information.
- Confirmation of Payee (CoP): The service has been recognised as a leading development by industry, having won accolades at the Card and Payments Awards, including the Fintech Award in 2022.
- New Payments Architecture (NPA): This is the biggest system change that the UK payments system will see in a generation. The NPA is a new payments system that will replace the UK's existing infrastructure and give people new and better ways to pay. We have completed the high-level design of the NPA and received proposals from potential vendors. Our scope for day one of the NPA has been defined and we are engaging with our customers on all aspects of this change. See pages 30 - 31 for more information.

## Highlights

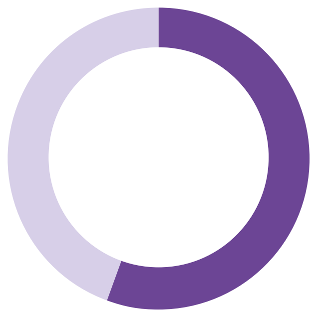
**4.7bn**
Direct Debits processed (2021: 4.6 bn)

**£4.0tn**
Paid by Direct Credit (2021: £3.8 tn)

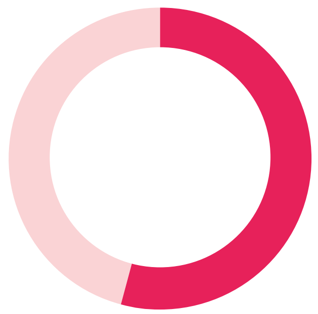
**3.2tn**
Transferred by the FPS (2021: 2.6 tn)



**99.9%**
2022
For Bacs and FPS average uptime across our systems (2021: 99.9%)



**986,956**
2022
Current account switches (2021: 782,223)



**3.1bn**
2022
Single Immediate Payments were made (2021: 2.6 bn)

# Our payment systems

**At Pay.UK we provide the digital payments networks that the UK's financial institutions, and their customers, use to move money.**

Our three core systems, the Bacs Payment System (Bacs), the Faster Payment System (FPS) and the Image Clearing System (ICS), are flexible and innovative, yet simple and secure. They give our customers and end users choice in how they pay in a way that best suits their needs.

## Bacs Payment System

### Bacs is an electronic system used to make direct payments between accounts.

One of the most popular payment methods in the UK, Bacs payments typically fall into two types. The Bacs Direct Debit method allows organisations, with their consent, to take money from a payer's account to make regular payments for a wide range of outgoings, such as utility bills or phone bills. The Direct Credit method, meanwhile, allows a payer to transfer money directly to another account and is the preferred method for organisational payroll operations and other Business to Business transactions.

### 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
  - Regular payments

## Faster Payment System

### Faster payment enables payments to be made in near real time.

The electronic transfer allows quick and secure transactions to be made between UK bank accounts 24 hours a day with funds available to the recipient almost immediately.

### Max payment

**£1m**

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 the purpose of clearing and payment.

First introduced in 2019, the ICS has significantly reduced the clearing process times of cheques, allowing payees to access the new funds more readily.

### 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

> Our payment systems are central to the effective functioning of the UK economy. Our customers use our robust and resilient platform to move their money safely and securely.”

**Mark Hoban**
Chair

Through Bacs, Faster Payments and image clearing, we provide our customers and end users with flexibility, convenience and choice in how they make payments. Confidence in the effectiveness of payments platforms underpins a modern, digitally-enabled society. At Pay.UK we are proud of our contribution to that sense of confidence.

In 2022, we continued to deliver our services in a context of significant geopolitical and macroeconomic developments. As we emerged from the grip of the pandemic, our economy was adversely impacted by the consequences of Russia’s invasion of Ukraine. This has contributed to the high levels of inflation we now face and has sparked a cost of living crisis.

Alongside the economic and political challenges, the payments ecosystem is rapidly changing. We see increasing digitisation of the payments value chain with innovation driving choice and increased efficiencies. This leads to a more complex and demanding ecosystem. It creates greater risks, but also opportunities for every part of the ecosystem, including Pay.UK.

Our primary response is as a Payment System Operator (PSO), where we play a crucial role in the UK economy. As a PSO, we prioritise safety, security, and resilience and we identify and manage systemic risks through our underlying business processes and functions. An example of this is fraud mitigation, where we have made a range of services available to our customers including expanding CoP to a wider group of Payment Services Providers (PSPs). This enables paying banks to provide receiving banks with enhanced fraud data to help them spot potential fraud early.

Delivering safe, secure and resilient payments as a PSO earns us the right to deliver on our aspirations as a platform leader to drive value for all our stakeholders and maximise participation in our products and services. We are the owners of the technology, rules and standards for our payments platform and so we have the mandate to lead its development.

The next stage of our journey is the delivery of the NPA. During 2022, we made substantial progress on this. Following a decision by the PSR to de-risk the programme, we restarted the competitive tender to procure a new central infrastructure which, in the first instance, will enable us to replace the FPS. This will be a next generation payments platform which will facilitate the adoption of ISO 20022 – the global messaging standard. In the coming months we will announce the successful vendor for this programme alongside the commercial arrangements that will fund its build and operations.

NPA is a means to an end. It will provide a robust and resilient platform which will deliver further choice, competition and innovation in payments. For example, later this year we will consult on the replacement of Bacs, whilst retaining the two existing payment types: Direct Credit and Direct Debit.

During 2022, the Board and the Executive team have been defining and refining our strategy. We have built our strategy, and a roadmap for its implementation, around five strategic priorities. These are PSO performance, platform leadership, product innovation, next generation infrastructure and organisational excellence. We are on the journey to embed these in 2023.

In the last year we have brought to life our platform leadership role in a number of ways. We have launched new initiatives in fraud detection and prevention. We have progressed this alongside our ongoing discussion with the PSR and others on fraud reimbursement approaches. We are in discussions with our regulators on our standards-setting role across the wider payments ecosystem and will partner with others across the ecosystem building an account to account proposition to provide end users with a real alternative when making payments to retailers.

The delivery of our strategy through our roadmap will depend on our people and processes. We have strengthened our capacity and capability, tools and processes over the course of the year and will continue with this investment.

In 2022, we saw further evolution of the Board. Owing to new roles and enhanced responsibilities, Jean-Yves Rotté-Geoffroy who joined the Board in 2018 and John Mountain, who joined us earlier in the year, retired from the Board. I would like to thank them for their valuable contribution to Pay.UK. We were joined by Diane Côté in 2022 and, at the start of 2023, by Helen Crooks and Ajay Vij. I extend my warm welcome to our new Directors; they bring a wealth of experience across risk, data and technology and ensures that we continue to have a diversity of skills, experience and backgrounds, which further enhance value to Pay.UK. I am very grateful to all my Board colleagues for their support and commitment over the past year.

As David talks about in his CEO report, which follows, we have welcome additions to our Executive team. David Morris joined us as CTO and Lisa Mellor as CRO further strengthening the Executive team to support delivery of our strategy. Matthew Hunt, who made a significant contribution as both a member of the Executive team and as a Board member, left Pay.UK in August 2022.

We have completed the implementation of the recommendations from the PwC external assurance into our governance arrangements and will continue to strengthen and embed these as we move forward.

In tandem with the leadership changes, we have better aligned the capacity and capability of colleagues so that we have the right skills in the right places to achieve success. We closed 2022 with a colleague engagement survey, the results of which showed an improvement in both response rates and overall engagement. This has been achieved in a year where engagement levels are falling across the UK owing to the difficult economic conditions and against the backdrop of our own organisational change, so this is all the more encouraging. I am grateful to David and colleagues from across the business for their hard work and dedication in what has been a challenging year. They have built firm foundations for the year ahead.

Our engagement with our stakeholders is also important to underline, both for their support over the last year and the engagement that we will have in the year ahead. Much of our work on the NPA, fraud solutions and the everyday operation of our payment systems has needed that partnership and collaborative effort. We have much to accomplish in 2023 and working with our stakeholders will be a big part of that. With our focused colleagues and a collaborative industry, we can achieve great things and deliver our vision of being **the smartest way to move money, now and in the future**.

**Mark Hoban**
Chair

31 May 2023

Read more about our STRATEGY on pages 15 to 20

Read more about our GOVERNANCE on pages 55 to 87

# Strategic report





# Chief Executive Officer's report

"In 2022 we delivered on our commitments as a PSO and a systemic risk manager. We have developed our strategic roadmap and with the organisational changes implemented, we are ready to deliver our significant priorities in the year ahead."

**David Pitt**
Chief Executive Officer

## Introduction

In my first report as CEO last year, I talked about the responsibility and privilege I felt in joining Pay.UK at such an important time of change. It is a sentiment I feel just as powerfully one year on.

Since then, the world of payments has continued to evolve. We have seen the further digitalisation of payments brought about by changing consumer behaviour and growing confidence in technology. The market has responded energetically by developing new products, propositions and services, driving further innovation and competition.

The geopolitical and macroeconomic developments were not quite so predictable. Their impacts have been far-reaching for many of us, but we are ready for the challenges and opportunities that this brings as we move into our platform leadership role. This means taking our own technology, rules and standards as a platform and building on it to optimise value for a growing payments ecosystem. It turns the dial on our role into being proactive rather than responsive to a changing ecosystem. Our work on fraud detection and prevention is a great example of this.

We want to do the right thing for the payments ecosystem as a whole and it is important that we remain trusted and relevant. We must be clear on what we should take charge on and where our role should be to enable the payments ecosystem to deliver competitively. Here we turn to our strategy and our strategic roadmap; this is firmly underpinned by our systemic risk management role which takes precedence over all else.

To deliver on our strategy, we have ensured that we have the right capacity and capability across our organisation. We have aligned our colleagues, tools and processes to deliver this effectively. We have developed our focus on the projects that will make the most difference, the things that will ultimately enable us to deliver against our purpose and our vision for the future.

Our collaboration with the industry remains vital. We worked extensively with the market in 2022, on our current payment operations and the NPA. Our stakeholders' perspectives have informed our progress and I am grateful for this engagement.

# Chief Executive Officer's report
continued

Read more about our STRATEGY on pages 15 to 20

## Strategy

It has been important for us to bring our purpose and our vision to life so that we can be clear on what it means for everyone.

We are implementing our strategy through a roadmap which we created in 2022, built around our five strategic priorities. We will focus our delivery on these throughout 2023, so our stakeholders understand what they can expect from us and how we can work together to deliver our strategy.

We are already making progress on activities that underpin our strategy and leverage our unique role as a platform leader: we have actively engaged with our regulators and the industry in the fight against fraud; we are in discussions around our future role in Open Banking (OB); and we are working with the industry to develop a proposition to use our platform for online and in-store retail transactions as an alternative to card payments. We also aligned our capability and capacity to enable us to deliver the strategy through an organisational design across the whole company.

## New payments architecture

Our next generation payments platform, the NPA, has been one of our main priorities during 2022. There are many benefits that the NPA will bring to support the delivery of our strategic priorities. These include the increased long-term resilience (key to our PSO and systemic risk manager roles), unlocking transformational data benefits (through the implementation of ISO 20022) and stimulating market innovation through reducing barriers to entry and developing overlays (both supporting our platform leadership role).

In 2022 we made great progress with the competitive tender process to select a preferred vendor for the NPA. We progressed the overall programme in line with our plan and delivered all the milestones to the agreed dates and on budget. Following effective regulatory engagement, we were able to issue our final Request for Proposal (RFP) to our potential vendors and in 2023, we concluded our evaluation process – we will report on this in more detail in our 2023 Annual Report.

We have also focused on customer commitment and conducted extensive engagement with the industry to understand collective and specific opportunities and challenge. We engaged with our customers on the NPA commercial and funding principles, and on design, testing and technical specifications so that they can start to build their technical readiness for the NPA. We look forward to working with our customers and the industry as a whole as we move beyond the final vendor selection in 2023 to testing and delivery.

## Payment operations

As part of the national infrastructure our priority is to manage the payments platform and maintain robust and resilient operations. We delivered operational availability at more than 99.9% and processed 10.8 billion retail payments (2021: 10.1 billion) to a value of just under £8.8 trillion (£2021: 7.9 trillion). This represented a volume rise of 6.9% and a value rise of 11.4% from 2021. We saw our greatest growth in FPS with transaction numbers up 15% to 3.9 billion payments worth around £3.2 trillion, exceeding the growth that we saw in the preceding year. We welcomed four new customers to FPS, with four also joining Bacs. This takes the number of directly connected customers to 42 for FPS, 31 for Bacs and 20 for ICS.

Throughout 2022, we maintained a solid financial position. Our revenue increased by 2% to £154.5m as transaction volumes grew in the Faster Payments and Bacs systems with volumes continuing to fall in cheque processing.

Our central role is as a systemic risk manager. We are accountable for the end-to-end risk management of the UK's interbank retail payment systems, and for the delivery (and future operation) of the NPA. Our approach to systemic risk management encompasses the way we set policy, rules and standards, the way we interact with customers, our oversight of the central infrastructure, and the approach we take to managing risk across the wider market. We revised our focus to identifying, assessing, managing and monitoring the payments ecosystem risks, and have developed a simpler, clearer and more consistent risk management framework. In addition, we have invested further in capacity and capability throughout 2022, to ensure our payment systems remain robust and resilient.

To meet the anticipated Bank of England policy requirements, we have enhanced our Third-Party Management Framework (TPMF) and have applied this framework to an improved oversight and monitoring process of Vocalink, the infrastructure provider that runs the payments infrastructure on our behalf. We also continue to work closely with Vocalink on maturing our Operational Resilience programme and business continuity approach. This work will continue throughout 2023.

## Regulatory engagement

Our relationship with both our primary regulators has been a priority through the year and this has enabled us to deliver much of the progress on the NPA, and driven much of the discussion on the fight against fraud.

FMID oversees our robust and resilient operation of Bacs and Faster Payments as part of its wider remit to improve the stability of payment systems and the wider financial system. The PSR promotes 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 has been vital that we engage with both FMID and the PSR in an open and transparent way so that we can support the delivery of their respective objectives and they can support ours. I extend my continued thanks for the engagement we have and the support that they give us.

## Fraud

We know that fraud continues to be a big issue for the payments industry and, of course, for consumers and businesses that fall victim to payment-related scams. On the back of our work in 2021, we continued our collaborative dialogue with regulators and the industry on how our collective efforts can mitigate the impact of fraud, giving evidence before the House of Lords Fraud Act 2006 and Digital Fraud Committee. We engaged with the PSR on its proposals on Authorised Push Payment (APP) fraud reimbursement and also appeared before the Treasury Sub-Committee on Financial Services Regulations. As we await the PSR's final report on the result of its consultation on reimbursement, we are beginning the work on the design and implementation requirements for any interim model put in place.

In doing this, it is important that we look at fraud detection, prevention and reimbursement as part of the same solution. We are keen to help our customers – banks and other payment providers – to detect and prevent fraud before it reaches our payment systems, and to equip them with the best tools to achieve this. This includes effective use and sharing of data. We have worked on delivering a programme of fraud prevention and detection tools and in 2023 we will be launching a Proof of Concept (POC) for a fraud prevention overlay service.

Throughout 2022, we continued to expand our strategic service CoP. This name-checking service for UK-based payments, is designed to help reduce misdirected payments and certain types of fraud. CoP continues to play a positive role in the fight against APP fraud and received industry endorsements and awards in 2022. The PSR announced in October 2022 its plans to direct around 400 PSPs to implement CoP in the next two years, which will extend its reach further and so protect an even greater number of consumers and businesses. We are working with the industry to implement the PSR's direction.

## Organisation and people

Our colleagues remain at the heart of our business. I am always humbled by the commitment and dedication that they bring to our organisation. We have invested in our colleagues and launched a number of people and inclusion strategies across the year, including talent development, a new learning and development system and a new wellbeing hub.

As we emerge from the grip of the pandemic, many are facing the challenges of the cost of living increases. Following consultation across the whole business we were quick to respond to these challenges, introducing both financial and non-financial support packages. Each of these measures was warmly received.

It was very reassuring that our most recent colleague engagement scores were very positive.

Read more about our NEW PAYMENTS ARCHITECTURE on pages 30 to 31

# Chief Executive Officer's report
continued

Read more about our PEOPLE, COMMUNITY AND ENVIRONMENT on pages 48 to 53

We achieved a 89% response rate, an increase of 6% and above the industry average. Our overall engagement score increased to 82%, up 3% from the previous survey, and for the first time 3% over the general norm. I was personally heartened that we were able to achieve these high scores, particularly against a backdrop of the organisational changes that we were making to align ourselves with our future state, and the uncertainty that this brought.

We are an inclusive place to work. In 2022, we launched our Inclusion Strategy, which delivered a number of commitments set out in our inclusion roadmap. We fulfilled our colleague commitment to sign the Race at Work Charter and are now creating our first race and ethnicity action plan.

We were also delighted to have been awarded a silver accreditation by the Corporate Social Responsibility (CSR) Accreditation Panel. We baselined our CSR performance against environment, workplace, community and philanthropy pillars. This provides us with a firm footing on which to develop our CSR strategy and action plans, which we are taking forward in 2023.

We have a number of changes in our leadership, as Mark Hoban has mentioned, and I'd like to add my thanks to the Board, both outgoing and new members, for their valuable inputs and support. At the Executive level, I would like to extend my thanks to my outgoing Executive Committee members, Heather Butler, Matthew Hunt, Helen Hunter-Jones and Tim Everest for their contributions. At the same time I welcome new members David Morris, Chief Technology Officer, and Lisa Mellor, Chief Risk Officer, into the organisation. They bring great credentials to my leadership team, which is now well-equipped to drive our strategy forward in 2023 and beyond.

## Looking ahead

Pay.UK made significant progress in 2022. We delivered our commitments as a PSO and systemic risk manager. We developed our strategic roadmap and are implementing delivery against our strategic priorities in 2023 with many key activities already underway. We structured our organisation with the right capacity and capability to deliver our future state. Our colleagues are engaged and have the right levels of expertise . I look forward to continued development in 2023.

Of course, we have some significant priorities to deliver in the coming year. Reaching a decision on the successful vendor for the NPA and ensuring that we secure customer commitment, and support from our regulators and the industry, will be vital. Achieving these will enable our vision of being the smartest way to move money, now and in the future. We are also making advances on the detection and prevention of fraud, as well as understanding the role we will play in the reimbursement regime.

I want to thank all our customers, regulators, colleagues and those in the wider industry who have supported us over the last year. We all appreciate your contribution and look forward to a continued dialogue in 2023.

**David Pitt**
Chief Executive Officer

31 May 2023

# Our market context

Payment options across the value chain continue to evolve to meet the needs of individuals, businesses and organisations. The selection and use of new and existing products, from cheques and cash to digital currencies based on distributed ledgers, continue to be driven by the urgency of current and future use cases, evolving technology capability and wider socio-economic trends.

The macroeconomic challenges over the last few years have continued, with ongoing impact on the payments landscape, and we look at some of these here:

## Our focus

We continue to focus on ensuring that we can anticipate the needs of our customers and end users, through our Deep Insights programme. This helps us identify, and react accordingly to any key changes in our industry and beyond, that will have a significant future impact. These include what is happening now - such as the development of OB and creating tools to detect and prevent fraud - and what is happening in the future - such as CBDC and providing a viable alternative to cards for retail transactions.

## New payments architecture

Our most important strategic investment continues to be in our next generation payments platform – the NPA. This advanced network will be a smarter way to move money and allow us to maintain our position as leader in interbank retail payments. See page 30 for more information.

## Account to account retail payments and open banking

The payments industry has been exploring the potential to offer Account-to-Account (A2A) payments, as an alternative payment method for retail transactions, in shops and online, with the potential to be facilitated by OB. In an increasingly digital payment space, A2A could offer enhanced security, speed and simplicity for end users. The Joint Regulatory Oversight Committee (JROC) launched a strategic working group to explore this in 2022 and published its report in 2023, highlighting alignment with the NPA.

## Cross-border innovation and network aggregation

The area of cross-border payments has continued to deliver innovation, as SWIFT responds to challenges and the G20 pressures the payments industry on costs, speed and transparency. In the UK, 16% of consumers have made at least one international payment in the last year. Also, 25% of all UK SMEs have made an international payment in the last 12 months, with the number increasing with organisation size, up to 41% for medium-sized businesses. A plethora of alternative messaging, foreign exchange, liquidity and atomic settlement models are appearing, with PSOs, big tech platforms and global banks and fintechs all enabling new ways to reconfigure cross-border payment networks and secure a share of their rapidly increasing global value. We are cognisant of the need to facilitate improvements for our customers and end users which reflect the UK's importance in world trade. We have an active workstream to explore an optimal cross-border gateway approach focusing on our most important trade corridors.

Global recovery after the pandemic has been heavily impacted by the Russian invasion of Ukraine, with inflation spiking worldwide. With UK inflation reaching a 15-year high, consumers and businesses have struggled with the cost of living, particularly impacting the less well-off and financially vulnerable. People and organisations are using a wide variety of approaches to manage, including cancelling unwanted subscriptions and switching their current accounts to gain a better deal – with 376,107 taking place during Q4 2022, the highest quarterly figure on record.

## Fraud

Authorised Push Payment (APP) fraud affected over 200,000 victims in 2022. Tackling these types of fraud is a top priority for us and the wider payments industry. We have welcomed HM Treasury's (HMT) steps to enable the PSR to define a mandatory reimbursement requirement to ensure victims of APP scams are not left out of pocket, and the PSR's subsequent consultation. We also contributed to the PSR's consultation on the way APP scam data will be collected and published by the industry. We have continued to work with the industry to develop tools to effectively detect and prevent APP fraud, which had a value of £485.2m in 2022 - a 17% reduction on the previous year.

## Centring the needs of end users

As payment patterns and behaviours change and new solutions and capabilities develop, the needs of end users remain central to everything we do. We require a detailed understanding of what drives consumers' and businesses' payment needs in order to ensure that end users, and their interests, are adequately understood and represented. We have begun to develop a baseline, proprietary set of consumer and organisational payment usage behavioural data which can underpin the development of end user personas. This knowledge base is being powered by twice-yearly tracker surveys of the payment behaviours and needs of nationally representative samples of UK consumers and SME businesses. The first waves of these surveys have established benchmark scores which enable changes to be tracked over time, and these behavioural insights help us identify market detriments where we can champion the voice of end users, and where regulatory and government support can help prioritise solutions. We anticipate building end user personas this year as a key part of the journey.

## Evolving competitive strategies across the value chain

As payment industry players expand towards the front end of business enablement, integrated ecosystem applications, such as marketplaces and social media-powered 'anywhere apps' and 'super wallets', are extending their capability from checkouts into the processing space. Both approaches are being facilitated by payment aggregators seeking to simplify the integration process with one-stop-shop Payments as a Service (PaaS) platforms. The evolution of Twitter, Apple's 'Project Breakout' and the acquisition of major aggregators by private equity investors shows that payments are seen as a source of significant future growth.

Niches for specialisation continue to develop into business models to exploit the reach of each step in the payments value chain, in particular the use of network connectivity by major global cloud providers. PSOs are harnessing the power of cross-border payments and interoperability to meet this challenge, with organisations like India's National Payments Corporation of India (NPCI), the USA's, The Clearing House (TCH) and the EU's Euro Banking Association (EBA Clearing) leading the charge to build network aggregator alliances. For this strategy to be successful, interbank payments will have to compete at the retail checkout on equal terms with cards.

## Central Bank Digital Currency

Organisations such as the Bank for International Settlements (BIS) have called for central banks to "foster innovation while safeguarding stability and security"[1], by introducing a digital version of sovereign currency alongside traditional fiat currency. This comes on the back of HMT and the Bank of England's CBDC taskforce, launched in 2021. Central banks around the world are carrying out CBDC proofs of concept, regional pilots and, as in the UK (announced in December 2022), trialling wallets. We continue to monitor closely the prospect of a digital pound and how it might impact our payment systems and services.

1 further information may be found on the BIS website.

# Our business model

## Evolving payments

We exist in a fast-paced and constantly evolving industry. Customer demand, socio-economic trends and technological advancements have driven innovation within the payments space, giving rise to a plethora of new ways to pay. End users have benefited immeasurably from modern digital payment methods. However, increasing demands for even faster, more convenient and more secure ways to pay that can mitigate current and future payment issues, such as fraud, are shaping our trajectory as a market leader in the payment space.

We continue to focus on ensuring that we can anticipate the needs of our customers and end users, through our deep insight programme. This helps us identify, and react accordingly to, any key changes, in our industry and beyond, that will have a significant future impact. These include what's happening now – like the development of OB and creating tools to detect and prevent fraud – and what's happening in the future – like Central Bank Digital Currency (CBDC), and providing a viable alternative to cards for retail transactions.


## Our role

We launched as Pay.UK in 2018, bringing together the three national retail payment systems - Bacs, FPS and ICS - into a single, consolidated, not-for-profit operation.

Our primary role is to ensure that payments – salaries, benefits, bills and online banking payments – flow safely and without interruption by providing world-class systems that are robust, resilient and collaborative.

Part of our unique role as a platform leader is to drive competition and innovation in the market. This means our products and services are constantly becoming more refined, secure and efficient, ensuring that we can continue the safe flow of payments both now and in the future.

The important national infrastructure we operate plays a crucial role in the UK economy, processing 29.5 million payments a day in 2022. It is vital that we maintain the stability of our payment systems and we have an important responsibility to identify and take action to remove or reduce systemic risks.

Building on our obligations as a PSO, we focus intently on delivering value for end users and customers, today and in the future. We are developing a next generation payments platform – the NPA – that is robust, resilient and scalable. This is a fundamentally new payment system that will replace the UK's existing infrastructure and give people new and better ways to pay.

It is a single, real-time platform, encompassing Faster Payments in the first instance. For UK businesses and consumers, it will make daily transactions faster, smarter and safer. For banks, building societies and other PSPs, it will reduce costs, generate important data benefits, and help in the fight against fraud. It will also enable innovation that will drive competition, create jobs and deliver economic benefits to the UK.

# Our strategy

## Our foundation for the future 2021–2026

We launched our five-year strategy, our foundation for the future, in 2021. During the course of 2022 we worked to create a set of strategic priorities to drive us forward and underpin the delivery of our strategy. We began developing a roadmap of activity across each of the five priorities to inform our direction and decision-making.

### Our purpose

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

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. To do this effectively, we also have a part to play in driving competition and innovation in payments, including through the development and implementation of the NPA.

### Our vision

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

We operate in an increasingly demanding environment. Staying static is not an option. Our platform is evolving to meet the needs of our end users, our customers and our regulators. Underpinned by safe and secure operations, we will deliver smarter and more cost-effective payment solutions for end users and customers, now and in the future.

The purpose, vision and goals are the core elements of what we want to achieve, with the KPIs being the principal measurement tool

**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

**Goals**
- Drive enduring resilience
- Deliver value
- Strengthen safety and security
- Enhance access and innovation
- Increase customer satisfaction
- Inspire our colleagues

**Strategic KPIs**
- System up time and incidents targets
- Industry cost reduction and income targets
- Percentage fraud trends
- Net promoter scores
- Colleague engagement scores

# Our strategy
continued

Read more about our KEY PERFORMANCE INDICATORS on pages 20 and 21

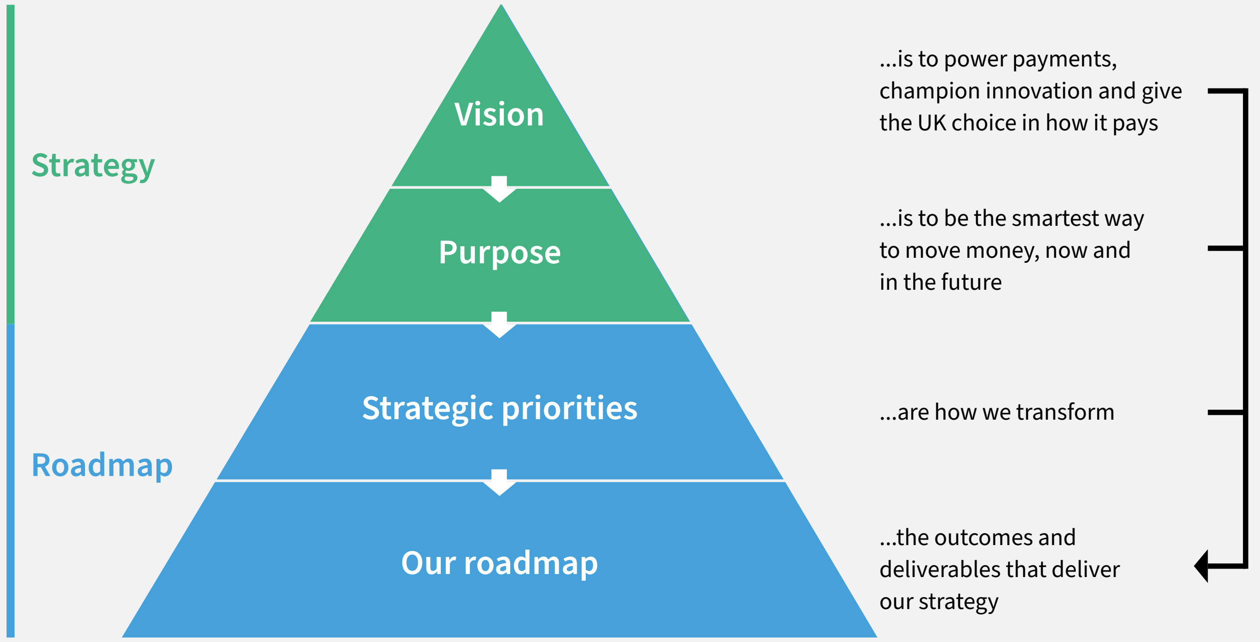
## The next step – our strategic roadmap

Our strategic roadmap has a crucial role in delivering and embedding our strategy. It enables us to be clear about what we prioritise in order to deliver our outcomes - our strategic priorities. Our KPIs are the principal way in which we measure our performance against the goals we have set ourselves, as these link directly to our strategic pillars.

The way in which these performance measures link to our goals and strategic priorities can be seen on pages 20 to 21.

pay.uk

### Strategy to roadmap




We need a balanced approach. Remaining a strong platform leader and driving the evolution of the payments ecosystem, which will enable us to retain and enhance our role as a PSO.

Read more about our BUSINESS MODEL on page 14


# Our strategy
continued

Read more about our KEY PERFORMANCE INDICATORS on pages 20 and 21

## Our strategic priorities

### PSO performance

Our primary responsibility is to operate our payment systems and services robustly, securely and reliably, and we want our customers and end users (and everyone else) to have confidence in us to do this.

A key part of ensuring the resilience of our services is managing systemic risk in a world where new risks are constantly emerging and our ecosystem is becoming more complex.

**Outcomes:**

Delivering against this priority means that we continue to enhance the resilience of our payment systems, and proactively manage systemic risk.

**Strategic KPI**

1 3

### Platform leadership

We need to balance our core role as a PSO with our role as a platform leader to support and enhance our position in the ecosystem and ensure we remain relevant.

We take an active role in coordinating the market by maximising access and facilitating innovation on our systems. We continue to actively lead discussion on industry-wide topics, such as fraud, and develop payment solutions for the benefit of end users.

**Outcomes:**

We drive participation in our systems and take a leading role in coordinating the industry on key issues, creating the conditions for innovation on our platform in doing so.

**Strategic KPI**

2 4 5

Key

| | |
|---|---|
| 1 Drive enduring resilience | 4 Enhance access and innovation |
| 2 Deliver value | 5 Increase customer satisfaction |
| 3 Strengthen safety and security | 6 Inspire our colleagues |

### Product innovation

We will drive the development and delivery of products and services alongside the wider payments industry, taking an active role where necessary. Examples of this are the services we are developing to detect and prevent fraud and using the unique data we hold to add value to our products and services.

**Outcomes:**

We deliver products designed to meet the needs of our end users.

**Strategic KPI**

4

### Next generation infrastructure

Our next generation infrastructure comprises the NPA, underpinned by rules and standards, data, and a commercial model. Together, these will allow us to continue to maintain a robust, resilient and scalable platform.

The NPA will also enable greater innovation and competition on our platform, leveraging the unique place we occupy in the payments ecosystem.

**Outcomes:**

These components are all crucial enablers of our strategy.

**Strategic KPI**

1 2 4

### Organisational excellence

Each of these strategic priorities, and the ongoing evolution of payments in the UK, will need the right capabilities: people, processes and technology to take it forward. We will continue to build skills for the future and invest in new capability including risk, fraud and technology.

**Outcomes:**

Organisational excellence is another crucial enabler of our strategy.

**Strategic KPI**

2 6

## Looking ahead

We are now mapping our roadmap activity for 2023 onwards to deliver our strategic priorities. We are also working to ensure alignment with, and delivery of, the Bank of England objective of robust and resilient operations and the PSR's focus on enhancing competition and innovation.

# Key performance indicators

2022 was the first full year of our new strategy, which was approved by the Board in September 2021. We focused on transforming our business to align with our new vision, purpose and strategic ambitions, which included realigning our Key Performance Indicators (KPIs) to our new strategic goals and our annual company targets. These new KPIs are outlined below.

Throughout 2022 we continued to demonstrate positive results in our enduring role as a PSO, despite the economic challenges and disruption felt across the payments industry as a result of the lasting impacts of Covid-19. As always, our priority was to maintain and enhance the robustness and resilience of our core systems, with Bacs and FPS both maintaining over 99.9% uptime throughout 2022.

We made significant progress in repositioning our organisation to effectively deliver our new strategic ambitions, particularly as a platform leader in the payments industry. We continued our pivotal role in coordinating the fight against fraudsters targeting our payment systems, and will continue to prioritise this effort into 2023. The progress made on our NPA programme continued to be a key success measure for us, and we will continue to build on this in 2023 with our sights on customer commitment and vendor selection.

Our progress was also clearly demonstrated through improvements both internally in our colleague engagement results and externally through our positive customer satisfaction scores, details of which are shown below.

## Our strategic KPIs

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

Strategic Priorities

- PSO performance
- Platform leadership
- Product Innovation
- Next generation infrastructure
- Organisational excellence performance

### 1 Drive enduring resilience

**Maintaining the robustness and resilience of our core payment systems for the UK economy**

**What we measure:**

- The performance and uptime of our payment systems.
- How we track and manage incidents.

**How we performed:**

- FPS maintained 100% uptime throughout 2022. Bacs remained at 100% except for January, March and May, but never dropped below 99.2%. ICS saw slight dips below 100% uptime in the months of May and September, but never dropped below 99.4% uptime.
- We saw nothing above a minor incident throughout the year and all were addressed and resolved in a timely manner with no negative impact to end users.
- We continued to develop our strong relationship with our regulators.

**Link to Strategy:**

### 2 Deliver value

**Driving growth to increase value for our customers**

**What we measure:**

- The total volumes across our platforms.
- The effectiveness of our budget control.

**How we performed:**

- We continued to see year-on-year growth on both Bacs and FPS: Bacs saw a 3% growth, whilst FPS saw a 15% growth.
- As forecast, we continued to see a decline in the volumes of ICS by -14% .
- In terms of our budget control in 2022, overall we have a positive surplus variance to budget.

**Link to Strategy:**

### 3 Strengthen safety and security

**Identifying and mitigating systemic risk across our platform and help reduce fraud**

**What we measure:**

- Fraud rates we see across our platform.
- The development of our risk management and culture.

**How we performed:**

- In 2022, we started to monitor and track fraud across our platforms. We worked in collaboration with our regulators and the industry to move forward initiatives to prevent fraud across our platforms through our dedicated fraud programme. The counter fraud initiatives that were initiated in 2022, and that we will continue to build on into 2023, include the implementation of CoP to all PSPs in the UK, enhanced fraud data, and reimbursement framework for APP scams.

**Link to Strategy:**

### 4 Enhance access and innovation

**Responding to the changing industry around us and making our systems and services available to a wider group of customers**

**What we measure:**

- The number of new customers across our services.
- Progress of the delivery of NPA to plan and budget.

**How we performed:**

- We once again delivered against our onboarding plan in 2022. FPS grew to 42 customers (2021: 38). By the end of 2022 Bacs had 31 customers (2021: 27) and ICS had 20 customers (2021: 20).
- The programme achieved all of its key delivery milestones for 2022. An extended RFP response period was granted to both vendors, in order that they were able to complete a high quality, compliant final RFP response.
- The programme delivered an underspend on budget which was predominately driven by resource efficiencies and changes to the supply mix of the programme.

**Link to Strategy:**

### 5 Increase customer satisfaction

**Proactively responding to the evolving needs of our customers**

**What we measure:**

- What customers think of us and our services.

**How we performed:**

- We measured our customer satisfaction (C-Sat) through an annual customer survey which was carried out by an independent research agency, which generated a score based on the responses to four key questions. In 2022 the baseline score for our C-Sat was calculated at +21. We seek to improve on that in future years.
- This reflected a positive sentiment from our customers and has given us a strong baseline from which we will look to improve on next year.
- We continued to engage widely with the industry throughout 2022 with our various forums and Committees, including the Customer Engagement Forum (CEF) and the End User Advisory Council (EUAC).
- We have put in place new end user surveys to help better understand the user needs to inform our future decision-making.

**Link to Strategy:**

### 6 Inspire our colleagues

**Building and developing our colleague engagement**

**What we measure:**

- How engaged our colleagues feel.
- Progress of colleague-focused initiatives.

**How we performed:**

- We completed two colleague engagement surveys in 2022. We saw our engagement score rise from 79% in February 2022 to 82% in October 2022 (just shy of the financial services average of 84%).
- A colleague-led action plan to improve engagement proved successful and delivered initiatives and a step change in key areas such as recognition, values and behaviours.

**Link to Strategy:**

# Our performance

## Introduction

Throughout 2022 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% (2021: 99.9%).

We saw transaction volumes increase to 10.8 billion (2021: 10.1 billion) with a total value of these showing a year-on-year increase, from £7.9 trillion in 2021 to £8.8 trillion in 2022.

FPS set new volume and value records. In 2022, we processed 3.9 billion transactions, a 15% increase on 2021, with a value of £3.2 trillion (2021: £2.6 trillion).

In its 55nd year, there was another new record for Direct Debit, with 4.7 billion transactions processed by the Bacs Payment System (2021: 4.6 billion transactions), a year-on-year increase of 2%. In total, Bacs Debit and Credit processed 6.7 billion transactions, worth £5.3 trillion.

ICS processed 136 million items in 2022 (2021: 158 million items), including 131 million cheques (2021: 153 million cheques). The continued decrease in cheque usage has, to an extent, been driven by end users migrating to alternative automated payment systems.

We welcomed four new customers to FPS in 2022, with four also joining Bacs, taking our total number for each system to 42 for FPS, 31 for Bacs and 20 for ICS. Throughout 2022 we have worked closely with our regulator, the Bank of England, in adapting and supporting plans for our prospective customers whilst the Bank develops, tests and launches its own RTGS2 programme. Pay.UK has adapted to various changes to plans whilst observing the wider impacts throughout Europe with delays to both SWIFT ISO 20022 and the European Central Bank (ECB) programme releases which had a further knock-on effect within the UK landscape.

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 payment ecosystem.

The assurance programme planned out 368 activities with our customers, 258 were completed and closed off with 110 activities still open due to ongoing discussion with our customers. These are expected to close out by the end of April 2023.

## Key highlights

### Faster payment scheme transaction limit increase

In February 2022, the FSP transaction limit was increased from £250,000 to £1 million. On the first day of the increase 121 payments over £250,000 were processed with 16 of these being for £1 million.

During March 2022 we hit our first milestone when the value of payments sent over £250,000 broke the £1 billion mark, the first time this had been observed since we increased the FPS transaction limit to £1 million. Since go-live in February (to end 2022) over 387,000 payments were processed between £250,000 and £1 million totalling £19.8 billion.

As at the end of December 2022, 25 of our 42 live FPS customers utilised the new limit, 20 have used it for Single Immediate Payments, Standing Orders and Forward Dated Payments, whilst the remaining customers utilised the Return function only.

The increase in the transaction limit reflects demand from corporate customers, helps to provide greater choice in the market for those organisations wishing to make higher-value payments, and meets our objective of encouraging innovation and facilitating competition.

### Bacs payment services website launch

The Bacs PSW is an operational portal used by every user of the Bacs service, including us, our customers, Vocalink and Bacs Service Users and Bureaux. It is also used as the interface to the Bank Reference Data service.

In June 2022 we completed a project to implement a replacement PSW, the biggest change to the Bacs Service since 2006. The project delivered a refreshed interface with improved functionality and navigation. The refreshed site introduced modern navigation, accessibility and build standards, made PSW compatible with all common browsers, as well as introducing compatibility with webSigner our customers' strategic replacement for eSigner.

The implementation was the conclusion of a multi-year project, which was completed with no disruption for its tens of thousands of users and supports our continued focus on ensuring robust and resilient processing of our interbank payment operations.

### Current account switch service campaign

As the UK's financial climate continued to shift, Pay.UK observed 376,107 switches between October and December 2022; the highest quarterly figure since the launch of CASS in 2013. Monthly switching volumes peaked in November at 157,376, the highest ever recorded and when compared to the same period in 2021, a volume increase of 73%.

The high totals at the end of 2022 align with a number of strong incentives and offers from current account providers at the time, signalling a healthy and competitive switching environment for consumers and businesses alike.

In the second half of 2022 CASS ran an advertising campaign to raise awareness of the service. The campaign reached 95% of all UK adults and also 96% of those classed as financially vulnerable.

Across 2022 the service achieved its awareness and satisfaction targets, with results for the final quarter reaching 76% and 93%, respectively. The latest data also highlighted that 91% of CASS end users would recommend the process.

## Payment systems and services

### Bacs

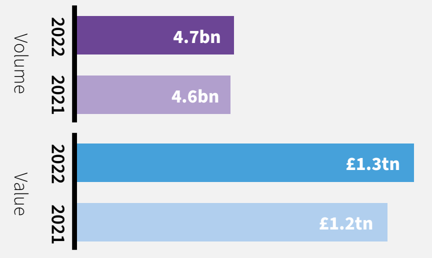
Automated payment methods Direct Credit and Direct Debit are at the centre of the Bacs Payment System along with managed services for the Cash ISA Transfer Service and CASS.

Direct Debit continues to grow in volume terms, adding 110,000 transactions in 2022 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 to TV licences, mortgage payments and the buoyant mobile market. Transaction values across the year also grew by 8% over 2022.

Direct Credit saw the number of payroll payments increase by 1.4% compared with 2021, whilst there was a 5.4% year-on-year increase in Universal Credits and an 31.7% rise in other government payments. Overall, though, the volume of state benefits fell by 7.8% along with a dip in Business to Business payments, down by 2% against the previous year. As the Covid-19 pandemic extended into 2022, we continued to work closely with the Bacs Payments Customer 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 to include acceptance of scanned paper Direct Debit Instructions (DDIs). In addition to this, we continued to work proactively to promote the benefits of the Automated Direct Debit Instruction Service (AUDDIS) to service users, with 2022 continuing a year-on-year increase in the number of organisations making the migration. Two virtual events for service users and PSPs were arranged providing a range of supporting educational information.

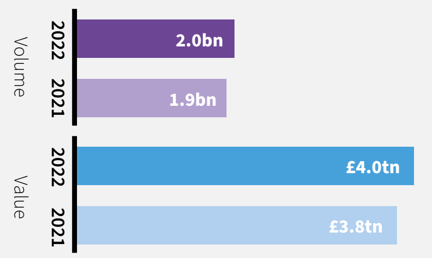
### Volume of direct debits

This graph shows the volume and value increase of direct debits in 2022




### Volume of direct credits

This graph shows the volume and value increase of direct credits in 2022



# Our performance
continued

## Faster Payment System

Following the successful implementation of the FPS transaction limit increase to £1million in February 2022 there has been a gradual monthly increase in volume.

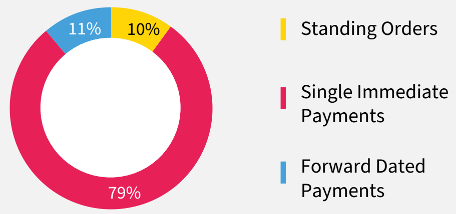
Standing Order volumes overall have remained static since 2021 at around 33 million each month. Forward Dated Payments, have increased by 13% from last year to 446 million (2021: 395 million).

We also saw strong growth in the Single Immediate Payments (typically those made via online and mobile banking channels) which increased by 19% from 2021, with 3.1 billion payments made in 2022 (2021: 2.6 billion).

By end of 2022, FPS had 42 directly connected customers (2021: 38 directly connected customers). We welcomed four new joiners to the service in 2022 (2021: five new joiners) – Goldman Sachs and The Bank of London ('TBOL') in Q1, Banking Circle in September and finally Deutsche Bank in November. With more joiners planned for 2023 we continue to work closely with the Bank of England's RT2 schedule for 2023 to ensure the best outcomes for our prospective customers looking to join.

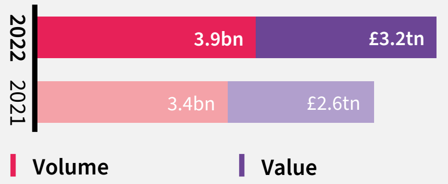
### Faster payments in 2022

This graph shows the breakdown of payment types: Forward Dated Payments, Standing Orders and Single Immediate Payments




### Value and volume of faster payments

This graph shows the total volume and value increase of Faster Payments in 2022




## Image Clearing System

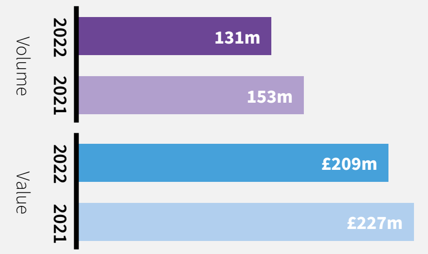
Cheque usage has stabilised since the initial decline related to the effects of the Covid-19 pandemic and subsequent lockdowns. From 2021 to 2022, the decline in cheque volumes was on average 14% lower, volumes for 2022 were tracking very close to forecast predictions demonstrating stability in usage. The overall transaction volumes in 2022 amounted to 136 million of which the Request to Pay (cheque) volumes came in at 131 million (2021: 153 million).

We have 10 customers who now offer mobile channel (Remote Deposit Capture); the value threshold for mobile deposits is at our customers' discretion there is no scheme limit. We have noted a slight reduction in over the counter collection.

ICS customers have requested that Pay.UK undertake a strategic review of the cheque solution with a view to driving down cost, factoring in the known year-on-year decline in cheques, whilst ensuring that the cheque remains a viable payment instrument for as long as there is an end user requirement. This strategic piece of work has commenced and potential options for the future of ICS have been shared with customers.

At the end of 2022, the ICS remained at 20 Settlement customers, with potential new customers looking to join in 2023–2024.

### ICS



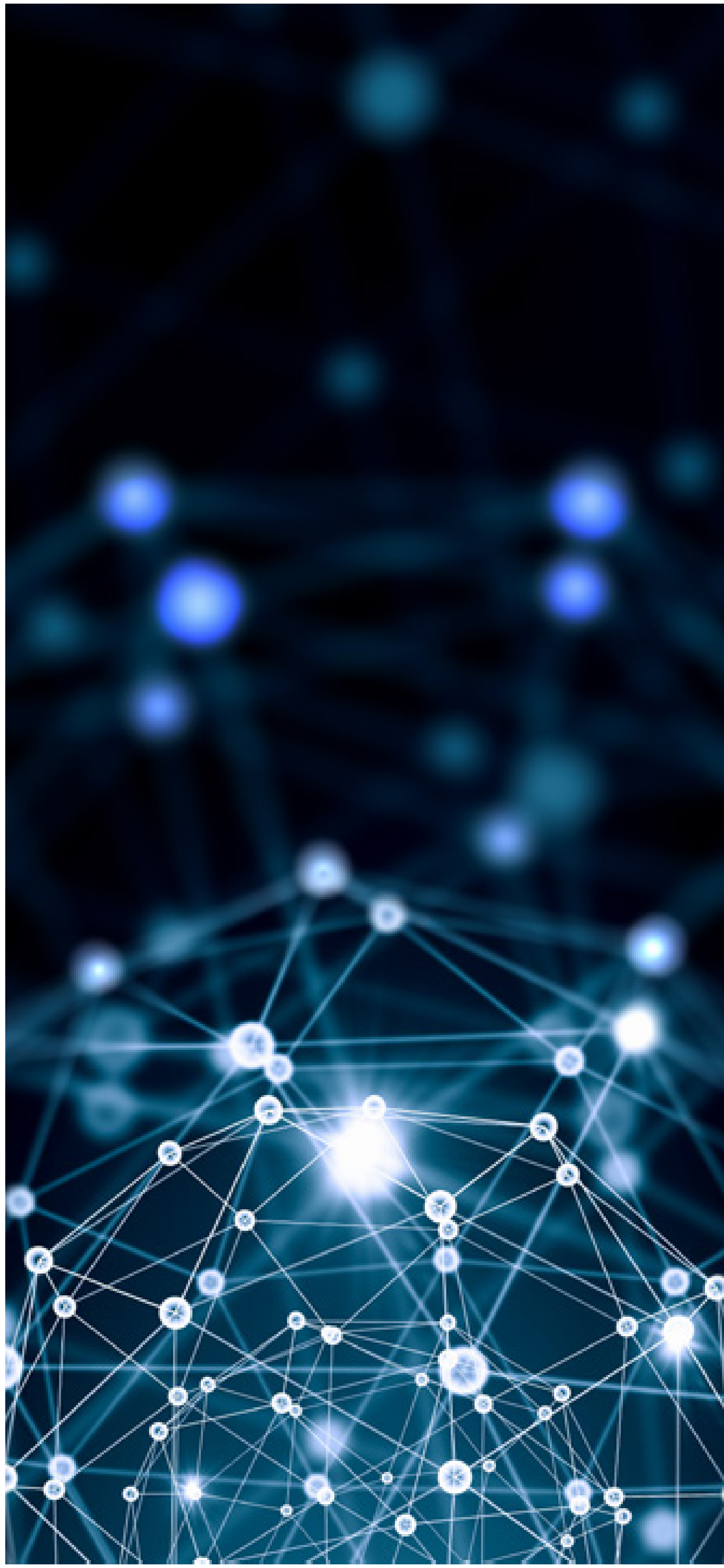

## Current account switch service

47 participating brands (2021: 49 participating brands) use the service, covering 99% of the market (2021: 99%). Consumers and businesses switched over 986,000 current accounts in 2022 (2021: over 782,000), taking the total number of switches to 8.8 million since CASS launched in September 2013. The service has also successfully redirected more than 130 million payments since inception.

CASS has achieved its customer satisfaction and awareness KPIs in 2022 as well as the seven-day switch completion rate. Overall customer satisfaction[1] with CASS in 2022 was 91% (2021: 92%) with overall customer awareness[2] of the service for the year reported as 76% (2021: 76%), and 98.6% of all switches[3] were completed within seven days (2021: 99.8%). These outcomes are higher than CASS' KPI target of 90%, 75% and 99% respectively. The service ran two large-scale advertising campaigns in 2022, with both campaigns exceeding the 90%+ reach target (2021: 90%+)[4].

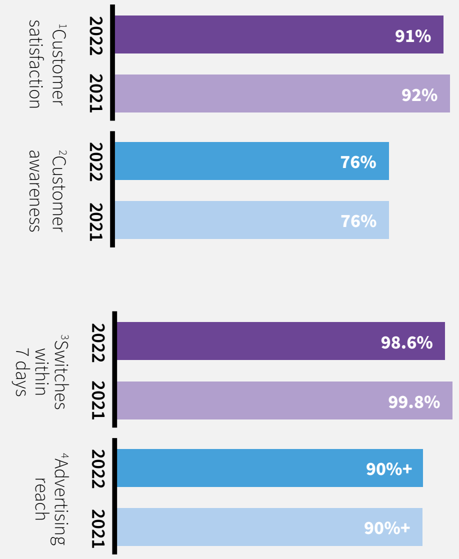
CASS also achieved designation by the PSR for the sixth consecutive year as the alternative switching service. It continues to deliver against the CMA undertakings set in 2016 and is supervised by HMT. Switching numbers continued to rise in 2022 with November setting a service record with 157,376 switches. In 2022, the marketing approach focused on driving awareness of the service amongst all adults, with tailored messaging designed to reach specific groups such as 18-24s, small medium sized enterprises and the financially vulnerable.

**376,107**
**current account switches in Q4 2022 – the highest on record**

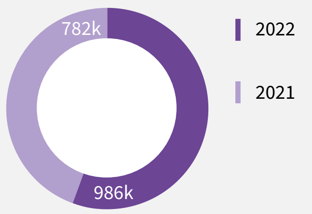


# Our performance
continued

## CASS




### Number of switches




## 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.

77 participating brands (2021: 77 brands) use the electronic Cash ISA transfer service, covering 93% of ISA transfer volume across the industry (2021: 93%). Consumers transferred over 555,000 ISAs in 2022 (2021: 330,000), taking the total number of transfers to just over six 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 six days (2021: 5.5 days).

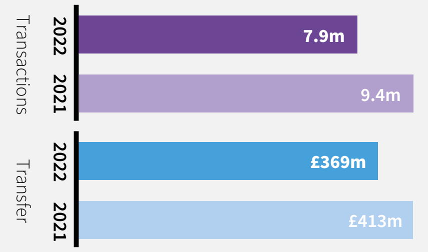
## Paym

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.

Payment volumes through Paym have diminished over the past three years as fewer people signed up to use the service. In September 2022, Pay.UK and 15 of the UK's banks and building societies announced their decision that Paym would close permanently to customers on 7 March 2023. This collective decision reflects the rapid evolution in payments technology and services in recent years.

2022 was the last full year for the Paym service operationally, with £369 million transferred (2021: £413 million). Although payment volumes continue to decrease year on year to 7.9 million transactions in 2022 (2021: 9.4 million transactions), the cumulative value sent across the Paym service since its launch amounts to £2.7 billion (2021: £2.3 billion). The number of registered users now totals nearly 5.8 million (2021: 5.7 million).

### Paym




## Universal trust service provider limited (public key infrastructure trust service)

Universal Trust Service Provider (UTSP) had a 12.2% year-on-year increase in certificate users in 2022 and continued to provide certificates to Pay.UK overlay services, such as RtP. Since it was introduced, UTSP has helped more than 25 customers securely access the central infrastructure, with more expected to join in 2023.

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 FPS and the Bacs Payment System.

### UTSP


## Confirmation of payee

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

The CoP service continues to receive positive feedback from customers and the payments industry, enabling improvements in prevention and detection of accidental or malicious redirection of payments. The service has deservedly been recognised as a leading development by industry, having won accolades at the Card & Payments Awards, and the Fintech Awards in 2022.

An extended capability was implemented in 2021 leading to more than 60 organisations providing CoP to their customers by the end of 2022. We have worked closely with PSR to support their Special Direction to close down the Phase 1 technical environment and complete the delivery of Secondary Reference Data (SRD) which further extends access to CoP for smaller PSPs.

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# Our performance
continued

The PSR also announced in October 2022 the finalisation of plans to formally direct around 400 PSPs to implement CoP in the next two years. All account holding PSPs can join the service, which will create a ubiquitous capability and protection for all end users. We are making the necessary changes to the CoP rules, standards and technical enhancements to allow new technical solution providers to participate and support the two cohorts of firms as per the PSR direction – group one being 32 organisations that will need to implement the service by 31 October 2023, and group two being 362 organisations to implement the service by 31 October 2024. We are also considering operational and technical improvements to the current processes for the whole stakeholder community.

It is important to remember that CoP was never intended to be the silver bullet to tackling APP fraud. However, in the short period since the service was launched, it has become a utility service that customers expect to see when making a payment to an account they have never previously paid before, with over 1.6 million requests being made every day. The number of participating firms that have joined the service since its launch in 2020, and those preparing to join, without a PSR direction is a testament to the value of the service.

CoP


## Request to pay

The rules and standards for the RtP framework were launched in 2020, in close collaboration with the industry. RtP 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 commonly 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 RtP ecosystem and we continue to work in consultation with consumers, banks, fintechs and utility companies on changes to the proposition that will help its uptake. We are encouraged by the increased industry press coverage of the merits of RtP especially on the back of the Pay.UK research which recognised the benefits it can provide to financially vulnerable customers.

## 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 (ERMF), with Vocalink also reporting to us its own recorded risks relating to the services with which it provides us.

Our Procurement and Operations teams 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 we operate a Third-Party Management Framework (TPMF) which is used to manage risk and optimise value within our supply chain. The TPMF is underpinned by a Procurement Policy and robust processes and procedures covering both procurement and ongoing commercial management of suppliers. In 2023 this framework expanded to align with the Supervisory Statement from the Bank of England on Financial Market Infrastructure (FMI) outsourcing and third-party risk management.

# New payments architecture

## What is the new payments architecture?

The NPA is at the centre of our strategic vision to be the smartest way to move money, now and in the future. It will unlock substantial benefits to our customers, to end users, and to the UK economy.

The NPA programme is creating the next generation payment platform for the UK. Central to our strategic vision to be the smartest way to move money, now and in the future, it will build on existing capabilities and unlock substantial benefits for our customers, end users and the UK economy. It will increase choice, boost security and reduce costs, and generate new market opportunities for the financial services sector by enabling the industry to more easily create new payment products and services.

## Our six strategic objectives

With support and input from our customers - through the Strategic Participant Group (SPG) - we defined six strategic objectives for the NPA programme to measure success and to guide the ultimate design of the platform and its products, propositions and services.

Central to our vision of the NPA is the ability to adapt to future need. We will achieve this through the component-based design which allows for expansion at a future date without the need to change the core.

### 1 Robust, resilient, and scalable

New technology can further enhance the resilience we already deliver and help manage systemic risk across a changing ecosystem. The evolution of the payments market, especially the rising volumes and frequency of smaller value payments, means we are focusing on solutions that offer greater and more cost effective scalability.

### 2 Adoption of the ISO 20022 messaging standard

Moving to a globally recognised messaging standard for payments will bring major benefits; allowing more data fields to be included in payments, providing valuable additional data functionality to our customers and enabling new services to be developed for end user benefit.

### 3 Real-time capability, enabling flexibility and choice

Development of a 'real-time payment capability' to enable real-time consumer-to-business payments but maintaining flexibility and choice for those users who require alternatives.

### 4 Lower barriers to entry

The next generation payments platform will deliver more connectivity options for customers, an automated and single settlement account model, and an on-demand testing environment. The platform will not only reduce barriers to entry, but also make enhancements and future developments quicker and simpler.

### 5 Safe and secure environment

We will replace our current identity management solution and provide enhanced connectivity options. We will also ensure the new platform is equipped to support customers in combating fraud and financial crime.

### 6 Efficiencies will benefit customers and end users

The next-generation platform will enable operational efficiencies and cost-savings which will be passed on to customers and end users.

## Achievements in 2022

We started 2022 with momentum, following the Board's approval of the design concept for the NPA at the end of 2021. As we embarked on the process to procure a vendor to build the NPA, we completed our customer impact assessment and issued a RfP to vendors. Progressing into Q2, we received commercial and technical responses to the RfP, and launched the first phase of the gap fit process to ensure alignment with the design.

We built on our strategic approach to engaging industry and undertook a comprehensive review of our engagement programme to maximise the benefits of collaboration. To keep customers and stakeholders updated on the developments of the programme, we developed additional channels of engagement. This complemented existing engagement at both working and strategic levels, such as the SPG and NPA working groups. We launched our 'Getting To Know' series, which saw subject matter experts host sessions with industry on different areas of the NPA.

More information on how we have engaged the industry is available within the 'stakeholder engagement' section on pages 33 - 35.

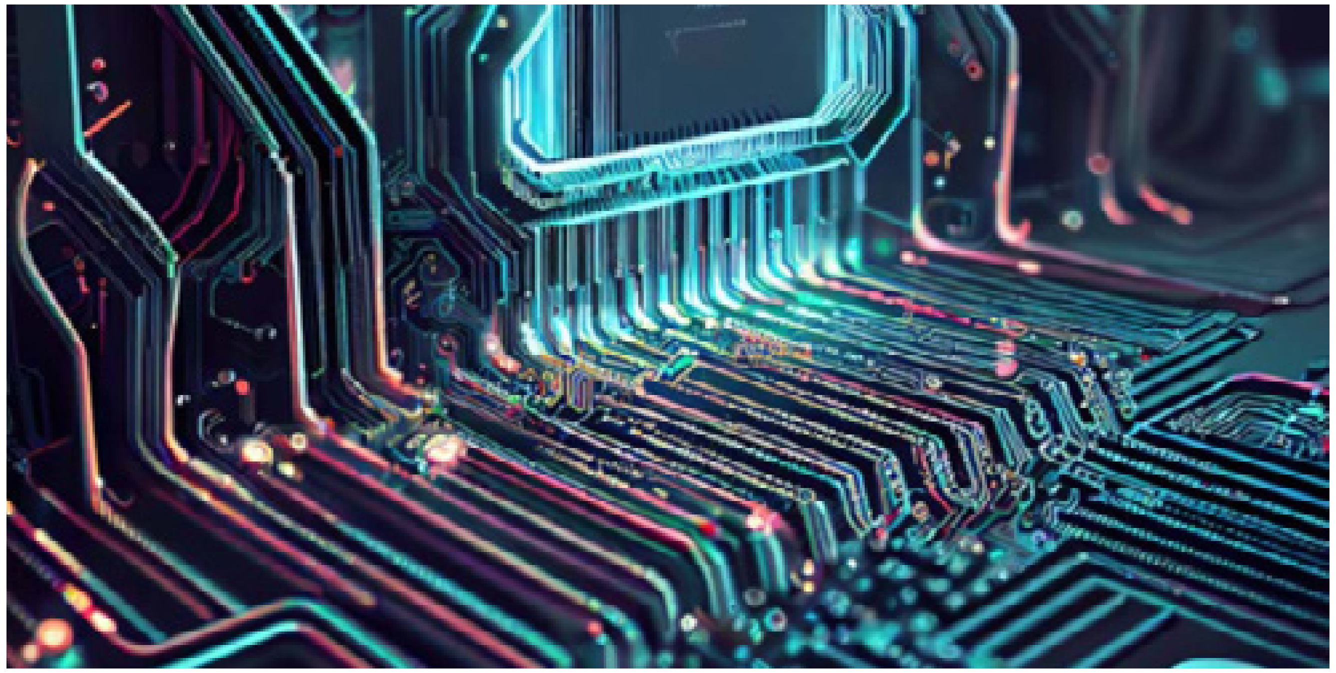
In the second half of the year, we made significant progress in our work with customers. This included completing the customer commitment framework, creating our customer legal framework document and continuing the gap fit process.

After issuing the final RfP, towards the end of the year we released the second draft of the NPA Industry Migration Plan and completed product factsheets. Our work progressed as pace as we submitted the revised scope for non-objection, as agreed by our Board, to the PSR, along with the regulatory, business development and procurement. Finally, we witnessed a key milestone in the NPA journey when, in December, we received the vendor responses to the RfP which allowed us to begin the process of evaluation.

## Activity into 2023

In 2023 we received regulatory non-objection for the revised scope and concluded our robust procurement process. Following regulatory assurance and non-objection, we plan to appoint a vendor, secure the commitment of customers and sign a contract to fund the NPA.

We will collaborate and respond to the needs of the industry by continuing to grow and lead our industry groups. We will work closely with our customers and other key stakeholders ensuring we communicate clear information and updates on NPA progress at the right time.



# Finance review

Read more about our VIABILITY STATEMENT on page 46

> Risk capital has been increased following our annual assessment, with additional retained earnings, enabling further investment in the NPA programme, as it reaches a critical stage."
>
> **Michael Ellis**
> Chief Financial Officer

Revenue grew by 2% to £154.5 million in 2022 (2021: £152.0 million) as transaction volumes grew in the Faster Payments (15.2%) and Bacs (2.5%) systems allowing us to reduce the cost per transaction in our core services for customers and end users. Net assets grew 2% to £52.4 million (2021: £51.6 million) and cash balances by 6% to £91.0 million (2021: £86.2 million), supporting the resilience needed to operate as a trusted PSO in a changing ecosystem and continued investment in delivering the NPA programme which underpins delivery of our strategy.

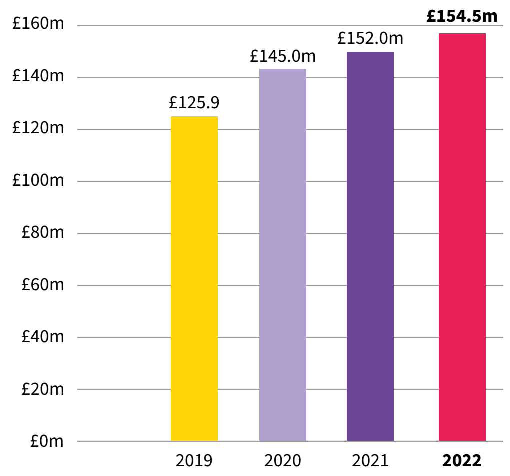
Revenue is principally from per-transaction charges for the payment systems we operate with small additional revenue streams from ancillary services. Prices are set annually in advance to ensure the costs to operate our services are recovered and funding secured to ensure service resilience and invest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

Costs rose by 12% to £153.9 million (2021: £138.0 million). This increase was principally driven by increased investment in the NPA programme, marketing costs to support increased activity for the CASS and investment in people to support execution of our strategy. Costs from our central infrastructure provider, Vocalink, also increased as volumes grew.

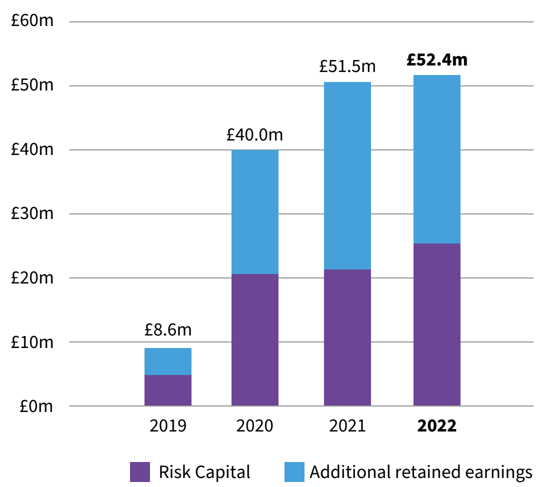
Retained earnings grew to £48.0 million (2021: £47.1 million), helping to ensure that investment in existing services and NPA can be further increased in 2023. Financial resilience continues to meet the requirements of the CPMI-IOSCO principles for Financial Market Infrastructures as set out in our viability statement on page 46 Risk Capital has been increased following our annual assessment, with additional retained earnings enabling further investment in the NPA programme as it reaches a critical stage.

We have discussed funding options for the NPA programme with our customers, focusing on finance for the build phase. We continue to work with customers, funders and central infrastructure vendors to determine the best solution for all stakeholders delivering value to the industry and end users. Maintaining the financial resilience of Pay.UK is central to these considerations.

## Revenue 2019 to 2022




## Capital growth 2019 to 2022




# Stakeholder engagement

Engagement is a key pillar of our strategy. To ensure that we are collaborating with our different stakeholder groups and getting the most out of those relationships, we began a comprehensive review of our engagement programme.

During the second half of 2022 we set up the new Pay.UK Industry Engagement team and brought in a Head of Industry Engagement, to drive alignment across the business. It serves to ensure that we are effectively engaging with our broad spectrum of stakeholders while remaining focused on fulfilling our strategic goals.

This ranges 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.

## Councils, groups and forums

In 2022, we kicked off a piece of work to ensure we are getting the most from our Board Advisory Councils, working groups and service committees, and are making effective use of the expertise of our members and the sectors they represent.

We are now moving to a model that ensures we have representation across the breadth and diversity of our ecosystem and are in the process of finalising the new Industry Advisory Council (IAC), replacing the Participant Advisory Council (PAC). This renewed focus has allowed us to strengthen our existing relationships and build out new areas of engagement, as well as further developing our NPA programme engagement approach with the wider community. This includes our ongoing work with bodies, such as UK Finance (UKF), which supports us in socialising the progress of the NPA.

## End user advisory council

In 2022 we refocused the function of our EUAC. This group gives us invaluable insight from the perspective of the people and businesses that use our services. The Council supported our work on APP scams, our response to the PSR'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. We also sought the opinion and expertise of the EUAC on the development of our strategy, our house views on key payment themes and the development of our corporate culture.

For more information please read EUAC's 2022 Annual Report - https://www.wearepay.uk/end-user-advisory-council.

## Customer engagement forum

Our Customer Engagement Forum (CEF), previously the Participant Engagement Forum (PEF), allows us to engage openly with our direct customers, and benefit from their opinions and expertise on a variety of issues. Throughout 2022, 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. It has also been vital to support our work on exploring our holistic industry approach to fraud prevention.

## Industry advisory council

The purpose of the IAC is to provide the Executive team and Board with guidance and advice on how to best support the delivery of our strategy, ensuring that the views of industry are reflected in our decision-making processes and investments, both for our current and next generation platforms. This group will be set up in 2023 and will include representatives from PSPs, Payment Initiation Service Providers (PiSPs), integrators, aggregators, and a much wider group than previous engagements. This is designed to both broaden our thinking and extend our reach to new potential future customers.

## Guarantors/annual general meeting

Pay.UK is a company limited by guarantee. We have 41 Guarantor members including banks, fintechs and PSPs. We engage with the majority of our Guarantor members during the year across all forums and across all levels of our organisations.

The Annual General Meeting (AGM) provides an opportunity for our Guarantors to meet with the

# Stakeholder engagement
continued

Read more about our STRATEGY on pages 15 to 19

Board, as a collective body, and to hear about the work of the Company, and to ask questions directly of the Directors and management.

Our 2022 AGM was held as a hybrid meeting, which was the first time in three years a physical format was available, with 25 Guarantors in attendance.

Information about the 2023 AGM may be found on page 33.

## Our standards authority

In 2022 our Standards Authority continued to engage with the payments industry and the wider ecosystem to ensure the development of standards remains open and inclusive, and balances the interests of our broad range of stakeholders.

We built on the significant progress made in 2021 in developing a first-phase Enhanced Fraud Data Standard to define and structure how key fraud information can help identify and resolve suspicious transactions earlier in the payment process. Working collaboratively with industry specialists, organisations and UKF, in February 2022 we successfully completed phase one of this work that determined several key pieces of data that could be used by economic crime specialists of PSPs to identify suspect payments.

With the inputs and support of UKF's members, we sustained similar momentum and progressed to complete phase two. This phase, which defines the structure and usage of a selection of specific data fields which are identified as key by economic crime specialists, is now set to undergo a wider industry consultation.

We also continued to work with HMRC, customers and accountancy software providers on our long-standing project to make bulk salary payments easier for small-to-medium enterprises. We proved that standardised data exchanges using a common API for Faster Payments could prove useful to this end and we will subsequently publish an API specification that enables these providers to standardise their bulk payment submissions.

## Compliance with PSR General Direction 4

It is key to our fulfilment of the Payment Systems Regulators' General Direction 4 (GD4) that Pay.UK makes transparent decisions and considers user interests in the decision-making process. As such the 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 into account in setting our strategy and in making decisions.
- Communicate our strategy and decisions to service users.
- Publish a report on our engagement with services users once a year.

We regularly consult with our stakeholders at both strategic and operational levels, and our relationships with our stakeholders help us make decisions and set objectives. We have engaged formally and informally with our stakeholders, including the wider payments ecosystem over the past year, reviewing and strengthening existing relationships as well as reaching out to new stakeholders and broadening our audience.

Collaboration and engagement through our Board Advisory Councils, working groups and operational committees helps us evolve our products and services. In 2022 we consulted the payments industry and our varied stakeholder groups on many topics, including the NPA, Standards, Fraud and RtP. We provide a range of channels for open dialogue (such as committees, working groups, advisory councils and forums), giving our stakeholders the opportunity to input and challenge us on the work we do. This targeted engagement continues to ensure that our work benefits from our stakeholders' expertise.

We published our General Direction 4 Annual Compliance report in October 2022, which is available on our website at https://www.wearepay.uk/.

## New payments architecture customer 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. As we are reaching some key milestones and deliverables of the programme, it is more crucial than ever that our engagement on the NPA within our organisation is streamlined and succinct. We have been leveraging our existing forums and also set up some new groups to support customers with their technical requirements, implementation queries, business impact and readiness assessments. Our focus is to secure customer commitment to usage of the NPA.

## Strategic participant group

The SPG has been very effective in 2022, with both the consensus and the range of views provided. The 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 the NPA programme to end users, buy into building the capability, programme funding and innovating on the platform once live. It still remains key to communicating a clear view on behalf of the customers and making recommendations to the Board on all aspects of the NPA delivery.

## End user industry group

In 2022 we repurposed the End User Industry Group (EUIG) to host a number of workshops with the FPS customers to work through some key topics for the NPA programme and the industry.

There were four workshops held from September 2022 to December 2022 which were well attended. These workshops were designed to focus on key elements of the NPA, through the lens of the end user. We covered the product set, happy and unhappy paths, the mandatory elements of our ISO 20022 standards and re-examined end user detriments and what the NPA could do to solve these. We worked collaboratively as an industry to come up with next steps to deliver an improved outcome for the end users of the service.

## Commercial industry group

The Commercial Industry Group (CIG) provides a forum for commercial subject matter experts to use their expertise and knowledge to review and challenge the key financial aspects of the NPA: pricing, funding and contracts, putting forward recommendations to the SPG to provide challenge and support progress against our plan.

## Execution and operational readiness group

The purpose of the NPA Execution and Operational Readiness Group is to provide a forum to review and challenge the operational and readiness aspects of the programme. This group put forward views and recommendations to SPG and supports Pay.UK to deliver workable and sensible solutions and plans that the industry can get behind. This group will become even more important as we move into the next phase of the NPA programme in 2023.

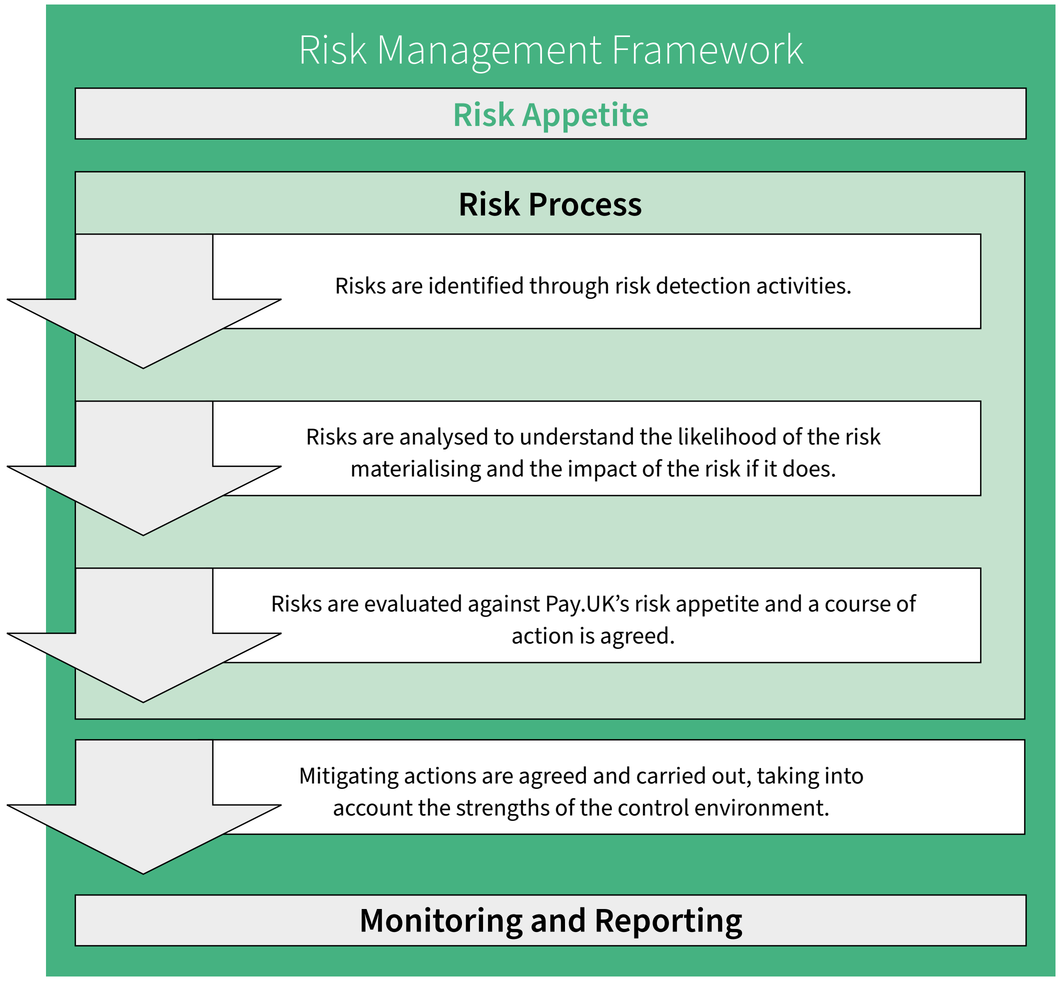
# Risk and compliance

## Our risk management framework

We operate systemically important payment systems that are central to the UK payments ecosystem. As a provider of payment services that have systemic importance to the UK economy, our approach to risk management is necessarily a systemic one and has become the common thread that runs through our policy development, our rules and standards setting, and the ongoing management of our payment systems and managed services. This approach encompasses the way we set policy, rules and standards, the way we interact with customers, our oversight of the central infrastructure, and the approach we take to managing risk. We manage risks both to the central infrastructure and in the broader ecosystem of our customers, as disruption in both of these spheres could disrupt the ability of end users to make and receive payments, with a potential impact on UK financial stability.

We have continued to evolve our ERMF, including our approach to systemic risk management and invested heavily in expanding our risk management capacity and capability across the first and second lines of defence. This helped enhance collaboration across the business and improved our reporting to senior committees for more informed decision-making.

To achieve our strategic objectives, we operate a clearly defined risk management process to identify, assess and respond to the risks faced by our business. These processes are in line with industry standards and are executed with collaboration and challenge across the three lines of defence.



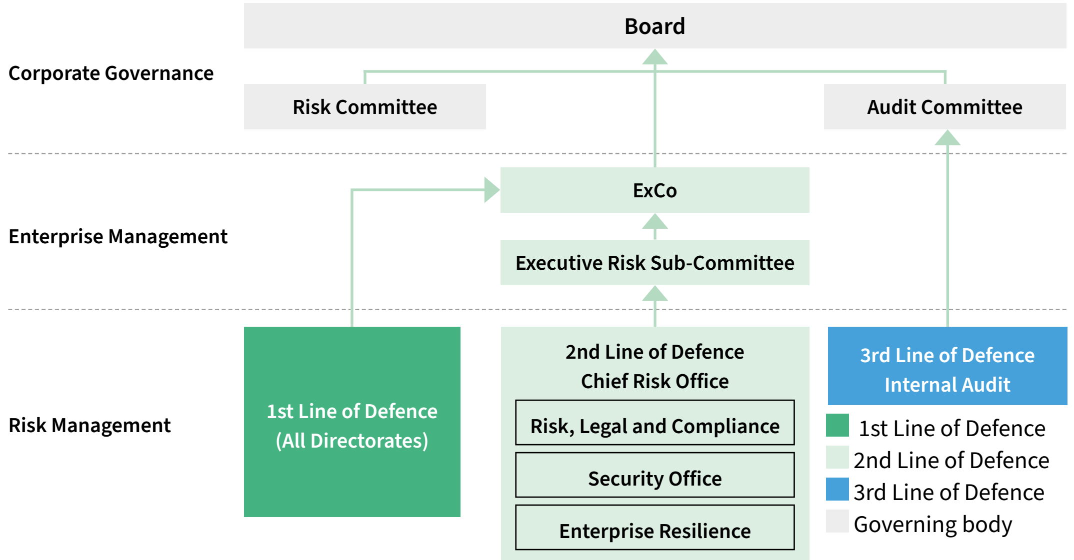

## Risk culture

The Board is committed to maintaining a culture where risk is managed effectively throughout the risk management process. We expect the conduct of our colleagues to meet the highest standards of integrity with behaviours and attitudes embedded in our risk governance and to facilitate accountability, transparency, awareness and management of our risks. Our risk governance process reinforces and facilitates appropriate ownership, escalation and management of existing risks and reacting to any newly identified risks.

Read more about our GOVERNANCE FRAMEWORK on pages 60 to 62

## Risk governance

We operate a three lines of defence model, supported by the firm's overall corporate governance arrangements, which establish a clear organisational structure and allocation of responsibilities for risk management as shown below.




## Risk appetite

The Board sets our overarching risk appetite across our risk categories, taking into consideration the enterprise-wide analysis of current and potential future risk exposures. Qualitative risk appetite statements and associated quantitative metrics are in place to reflect our role as a systemic risk manager and we assess the level of risk against the risk appetite to ensure we focus our mitigation efforts appropriately. The Board and Risk Committee review the principal risks on an ongoing basis, as does the Executive Risk Sub-Committee. Through our risk management process, any risks outside of risk appetite are prioritised for mitigation.

## Our risk appetite statements

As the recognised PSO responsible for the robust and resilient running of the UK interbank retail payment systems, we actively scan the ecosystem for new and emerging risks and take care to minimise systemic risk to the payment ecosystem. Our priority is to make sure that service levels are continuously maintained and the same applies to any future service provision and operational performance of any new platforms, solutions or architecture.

We maintain additional capital to support product innovation, income generating, value creating or cost saving initiatives for the benefit of our stakeholders such that value delivered to stakeholders is maximised over the product development cycle. In pursuit of strategic objectives set for our organisation, we have in place robust and effective governance and operational controls to enable us to manage the strategic risks that impact our ability to deliver these objectives. We will not accept any material breach of a regulatory requirement, legislation and/or contractual obligation. We also 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 system operator. We do not undertake anything that could be perceived by stakeholders to be inappropriate, unethical or inconsistent with our values.

# Risk and compliance
continued

## Risk profile (Principal Risks)

### 1.Payment system availability and integrity

Our payment systems have inherent availability and integrity risks. These risks reside across our payment systems, such as concentrations, critical third-parties and our customers, and beyond that to end users of our systems. New payment technologies can mitigate existing risks and introduce new ones.

**Oversight:**
Board and Executive Leadership

**Change from 2021**
No change

**Link to strategic goals**
- Drive enduring resilience
- Strengthen safety and security

**Potential impacts**
- Systemic failure in our payment systems could result in unplanned outages and / or data integrity incidents, ultimately leading to payment processing disruption and the potential for systemic impact to end users, the UK financial sector and wider economy.

**Mitigating actions**
- We understand our span of control across the payment systems and identify and manage risks across the payments ecosystem.
- We set standards to control systemic risk and to ensure services operate within tolerances defined within the relevant rulebooks.
- We work closely with critical third parties, such as Vocalink, customers and other stakeholders in the payment system to manage and oversee systemic risks including monitoring of concentration risk.
- We define Recovery Time Objectives (RTO), conduct resilience testing and have enhanced our change management processes.

### 2. Understanding and meeting regulatory expectations

As the operator of the UK's three interbank retail payment systems, we are regulated by FMID and the PSR and are required to meet both regulators' expectations. FMID's role is to protect and enhance financial stability in the UK. The PSR's role is to ensure the UK benefits from world-leading payment systems by encouraging innovation and competition.

**Oversight:**
Board and Executive Leadership

**Change from 2021**
Reduced Risk

**Link to strategic goals**
- Drive enduring resilience
- Strengthen safety and security
- Enhance access and innovation

**Potential impacts**
- Failure to meet regulatory expectations and comply with relevant requirements will erode the confidence of our regulators in Pay.UK.
- A lack of confidence will lead to increased regulatory scrutiny, disruption from external investigations/reviews and strategic changes for Pay.UK.

**Mitigating actions**
- We have a dedicated regulatory team who are responsible for monitoring and assessing regulatory developments / confidence, reporting regularly to the Executive Committee and Board.
- We have pro-active and transparent dialogue with our regulators at working and senior levels. 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 broader ecosystem and aim to act quickly to respond to developments.
- We are developing a strategic roadmap that we can use to manage regulators' expectations.

### Risk Change from 2021 Key

Increased Risk  Reduced Risk  No change

### 3. Market competition risk

If our products and services do not keep up with changing consumer needs, over time our payment systems may become less attractive compared to alternatives.

**Oversight:**
Board and Executive Leadership

**Change from 2021**
NEW

**Link to strategic goals**
- Deliver value
- Enhance access and innovation
- Increase customer satisfaction

**Potential impacts**
- Threat to volumes arising from alternative payments systems and new entrants.
- Lower adoption of Pay.UK products and services.
- Key products become unattractive due to shifting customer demands resulting in higher pricing for remaining customers.

**Mitigating actions**
- We are investing in new and innovative solutions to meet changing customer and end user demand.
- We are working to reduce end user fraud, which will help to maintain confidence in our existing and future products and services.
- We have a deep insights programme through which we monitor our competition landscape.
- The NPA will deliver our new platform that supports new products and enables industry innovation.

### 4. End user fraud

Failure to implement strong controls to prevent end user fraud on our platform as the sophistication of fraud attempts increases may result in a loss of confidence in our products and Pay.UK overall.

**Oversight:**
Board and Executive Leadership

**Change from 2021**
NEW

**Link to strategic goals**
- Strengthen safety and security
- Deliver value
- Increase customer satisfaction

**Potential impacts**
- Increasing levels of end user fraud.
- Loss of confidence in Pay.UK from all our stakeholders, including customers and regulators.
- Lower adoption of Pay.UK products and services and loss of existing customers.

**Mitigating actions**
- We formed a dedicated Fraud Team.
- We designed the Fraud Prevention Overlay POC and shared it with our customers.
- We completed with UKF the Enhanced Fraud Data POC, for which results showed a 20% better fraud identification rate. We developed the initial standard and data model, we defined the solution and we won the work to deliver the production version in 2023.
- For APP reimbursement, we moved from the consultation phase to a plan for solution implementation and process phase, which will be delivered by the end of 2023.
- We designed the CoP, vendor and supplier model and agreed the model with our customers, leading to a delivery plan for 2023.

# Risk and compliance
continued

## 5. Security

Information and data security are key components of keeping Pay.UK, its customers and supply chain safe from cyber-threats and data loss.

**Oversight:**
Board and Executive Leadership

**Change from 2021**: No change

**Link to strategic goals**
- Strengthen safety and security

**Potential impacts**
- Loss of availability, integrity, confidentiality of data from the exploitation of vulnerabilities.
- Hostile actors target the financial services sector to either lever financial gain or disrupt central infrastructure.
- Regulatory sanctions and loss of confidence in Pay.UK as a PSO.

**Mitigating actions**
- Pay.UK mitigates risk through our information and cyber security management system.
- We provide oversight and assurance of our critical third parties to ensure information assets are appropriately protected in line with risk appetite.
- We ensure our operations are secure and that customers confirm compliance with security aspects of the payment systems' codes of conduct.

## 6. People and culture

We are unable to attract, hire and retain best-in-class talent, capability and experience which undermines our capability to deliver our strategy and adequately fulfil our regulated responsibilities.

**Oversight:**
Board and Executive Leadership

**Change from 2021**: No change

**Link to strategic goals**
- Inspire our colleagues

**Potential impacts**
- Poor culture, levels of engagement, wellbeing and uncompetitive remuneration may result in recruitment and resourcing issues.
- Lack of resources, particularly SMEs, may impact our ability to deliver against our strategic objectives and regulatory obligations.

**Mitigating actions**
- 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 retention strategies.
- Through our Inclusion Strategy, we are intentionally attracting and identifying talent and creating opportunities for under-represented groups.
- We have developed and implemented a strong Employee Value Proposition (EVP).

## Risk Change from 2021 Key

Increased Risk · Reduced Risk · No change



## 7. NPA programme delivery

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.

**Oversight:**
Board and Executive Leadership

**Change from 2021**: Increased Risk

**Link to strategic goals**
- Deliver value
- Enhance access and innovation
- Increase customer satisfaction

**Potential impacts**
- Like all complex IT programmes, the NPA programme has the potential for cost overruns, delays and reduced uptake.
- Loss of confidence from stakeholders (including customers and regulators) arising from failure of the NPA programme to deliver the expected benefits.
- Failure to deliver the NPA programme could undermine our ability to compete in the market and lead to long-term end user detriment.

**Mitigating actions**
- A robust NPA governance structure and Integrated Programme Plan (scope, schedule, resourcing and budget).
- Customer Commitment Strategy and framework.
- Sourcing Strategy, Evaluation Strategy, procurement approach and RFP.
- Stakeholder engagement forums such as the SPG, the three SPG sub-groups (Commercial, End User and Propositions) and other customer engagement industry forums.

## 8. Payment system rules management

Our payment system rules and standards which govern the use of our payment rails may no longer remain fit for purpose or customers might not adhere to our rules resulting in introduction of systemic risk to the payments ecosystem.

**Oversight:**
Board and Executive Leadership

**Change from 2021**: No change

**Link to strategic goals**
- Drive enduring resilience
- Strengthen safety and security

**Potential impacts**
- If payment system rules are not fit for purpose it could cause disruption in the payment systems availability, security and integrity.
- If customers do not adhere to our rules, codes and procedures it may result in material customer breaches negatively impacting the safe functioning of our payment systems.

**Mitigating actions**
- We have controls in place where prolonged rule breaches will result in an escalating series of measures, ultimately resulting in suspending a customer in order to protect the wider system.
- Regular risk-based assurance of our customers' systems and processes ensures we have visibility of any non-compliance.

## Risk Change from 2021 Key

Increased Risk · Reduced Risk · No change

# Risk and compliance
continued

## 9. Financial resilience

| | Potential impacts | Mitigating actions |
|---|---|---|
| We may have poor financial control, funding issues or an inappropriate funding model leading to unexpected costs, including impacts of inflation 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.<br>**Oversight:**<br>Board and Executive Leadership<br>**Change from 2021**<br>**Link to strategic goals**<br>• Drive enduring resilience<br>• Drive value | • We are unable to maintain the minimum capital requirements as a result of unexpected costs and/or reduced revenue.<br>• We may need to use our capital reserves in support of our liquidity and have to reclaim this from our customers. | • We currently hold a capital reserve of £31 million, this is comprised of £25 million in risk capital and £6 million of additional retained earnings. These amounts are reviewed annually.<br>• Financial controls to detect liquidity and funding issues.<br>• Stress-tested recovery plan with mitigations and triggers.<br>• Our customers fund Pay.UK and its systems on a not-for-profit basis. |

## Emerging risks

We seek to identify emerging risks to Pay.UK with particular focus on systemic risks to our payment systems, for those within our direct control and those beyond. We remain vigilant against new and emerging risks that may impact our business, and utilise deep insights reviews and stress testing to assess the risk landscape. In 2022, we revised our emerging risk process and introduced a dedicated New and Emerging Risk Forum with cross functional representation. Enterprise-wide emerging risks are assessed for systemic impact, validated and reported to the Executive Risk Sub-Committee for review, prioritisation and approval.

The discussion and review of emerging risks includes 'horizon scanning' activities around potential uncertainties that are not sufficiently defined or developed to enable an informed assessment to be made on their potential impact to Pay.UK, and whether they pose a threat or opportunity. Some examples of emerging risk themes from 2022 include new or changes in technology used within our payment systems, geo-political changes, and customer outsourcing.

## 2023 risk management plan

Our work will continue to evolve in 2023 with a particular focus on strengthening our risk management practices at both enterprise and directorate level, while closely aligning initiatives and improvements to our strategic priorities. There will also be increased focus on environmental, social and governance risk.

# 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 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 including:

- The likely consequence of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and the environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly between members of the Company.

In this section you will find examples of how we have considered our stakeholders when making decisions during the year. The considerations of our stakeholder groups are integral to our decision-making.

## 1 End users and customers:

- **Board considerations**: 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, including our end users and customers.

  A refresh of our Corporate Strategy was undertaken during 2021, which was approved by the Board in September 2021. This set out a revised roadmap for the business to 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 strategy can be found on the Pay.UK website: https://www.wearepay.uk/.

  The Board approved the revised external engagement framework in March 2022, which proposed changes to rationalise and improve member representation on its external engagement forums. As part of this framework, it was agreed that the PAC would be disbanded and replaced by the IAC which would have broader representation from the industry. More recently, EUAC welcomed six new members, widening and deepening the expertise of the council. Please see our 'Stakeholder engagement' section on page 33 - 35.
- **Purpose and vision**: Pay.UK's purpose and vision are as follows:
  - **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.
- **Risk management**: Our approach to risk management balances the need to manage inherent threats whilst 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 34.

# Section 172 statement

continued

- **Engagement**: We evidence the way we work with the payments ecosystem and wider stakeholders in the 'Stakeholder engagement' and 'NPA' sections of this report 33 to 35 and 30 to 31, respectively.
- **Annual general meeting**: As a company limited by guarantee, Pay.UK has Guarantors rather than shareholders. There are currently 41 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.

  The 2022 AGM was well attended by our Guarantors and a series of resolutions were proposed. These included the reappointment of a number of Pay.UK's Directors, the reappointment of BDO LLP as external auditor of the Company until the conclusion of the 2023 AGM and authorising the Directors to determine the auditor's remuneration.

  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, including the AGM.
- **Annual report and financial statements**: Whilst Pay.UK has a statutory obligation to provide certain information in the Annual Report, we also look to enhance the sharing of information throughout the year through the content made available on our website.

## 2 Regulators:

- **Board considerations**: 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.

  We maintained our compliance with PSR General Direction 4, which focuses on stakeholder engagement. Our service user engagement helped inform the Board's decision-making through regular updates, particularly with regard to change initiatives including the NPA.

## 3 Suppliers:

- **Board considerations**: 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.
- **Risk management:** 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.
- **Engagement**: In 2022 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. The TPMF for supplier management was approved during 2021 and implemented across the whole supply chain during 2022, building upon existing processes and capability. Further information may be found on page 29.

## 4 Colleagues:

- **Board considerations**: Throughout 2022, one of the Directors' top priorities remained 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.

  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 cost of living crisis.
- **Values:** 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. Our values continue to be reflected in the performance objectives that are set for all colleagues as part of the annual review process.
- **Internal engagement**: We continued to engage with our colleagues through a number of channels throughout the year, including our All Colleague Calls, 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 cost of living crisis. The Board was kept aware of, and was fully supportive of, engagement with colleagues, including steps to ensure their wellbeing during the ongoing cost of living challenges.
- **Equality, diversity and inclusion:** The Board sees diversity and inclusion as an area of strategic importance, as part of an ongoing action to drive diversity to the layers below the Board. Board members have supported this by attending our Inclusion Committee.

  The Board receives regular qualitative and quantitative updates on employee matters. The Chief People and Culture Officer, who attends Nomination Committee meetings, provides Committee members with analysis received through colleague engagement surveys and diversity and inclusion updates e.g. the Gender Pay Gap report. This provides Board members with oversight of the effects our colleague engagement has on our performance, and the continued strength of our culture.

  Further information on the activities undertaken can be seen in the 'People, community and environment' section (pages 48 – 53).
- **Cost of living support**: In response to the increasing cost of living, Pay.UK introduced a number of measures to support its staff including a temporary reduction in days working from the office, an annual leave buy-back scheme, an early bonus payment to those eligible, emergency hardship loans to help colleagues and families with emergency costs and purchases, the provision of fruit and cereal in the office, corporate rates for travel and accommodation, and weekly wellbeing check-ins with the People team.

  Pay.UK also provided a one-off payment made to those colleagues on salaries of less than £40,000 per annum to support them during the cost of living crisis.

## 5 Community and environment:

- **Board considerations:** 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 (FLF). 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 48 to 53.

Read more about our PEOPLE, COMMUNITY AND ENVIRONMENT on pages 48 to 53

# Viability statement

Read more about our FINANCE REVIEW on page 32

We have prepared these financial statements and accounts on a going concern basis (page 97).

The Board has assessed our current viability, and confirms that the Directors have a reasonable expectation that the Company will be able to continue in operation and meet our liabilities as they fall due over the three-year period to December 2025.

We have selected this timeframe on the basis that:

- It is within the strategic planning horizon being adopted by the Company.
- Pay.UK 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 Directors are satisfied that this period is sufficient to enable a reasonable assessment of the viability of the Company to be made.

## Analysis

The Group has a strong liquidity position, with £91.0 million of cash available as at 31 December 2022 (2021:£86.2 million).

Our Minimum Capital Requirement is determined with reference to CPMI-IOSCO Principles. Under our annual review we must hold six months operating expenses, in the form of high-quality liquid assets, to absorb significant financial shocks whilst continuing to deliver critical payment services uninterrupted. Therefore, our business is managed so that we hold sufficient regulatory capital to meet this requirement at all times. Our regulatory capital/risk capital for 2022 is £25m (2021: £21m), this has been increased to £26m in March 2023.

As part of our assessment of our viability, we used financial models to project cash flows and monitor risk capital 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 increases in our tariffs, 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.

In making this statement the Directors considered our ability to withstand four severe but plausible downside scenarios covering the impact on our financial resources, the delivery of our key projects and other operations, The risks identified materially impact specific areas of vulnerability, mainly our risk capital.

As part of our assessment, we identified other areas of risk, as explained in our principal risks and uncertainties on pages 36 - 42. However, we do not consider these materially significant to our financial position.

Based on our modelling, with appropriate mitigating actions for our severe but plausible scenarios, Pay.UK is forecast to have sufficient liquidity to continue trading and meet its capital and liquidity obligations.

On the basis of this assessment of the principal risks facing the Company and on the assumption that they are managed or mitigated in the ways disclosed, 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 31 December 2025.

## Scenarios

Our base-case scenario assumes that Pay.UK meets the planned expenditures throughout the period of assessment.

A key part of our base case is the delivery of the NPA project, for which the planned outlay will be financed through a combination of loan facility, in year pricing for our services and our reserves.

We are forecasting that cash at bank will fall from December 2022 levels of £91.0m by the end of 2025, mainly due to planned utilisation of existing reserves.

In addition to the base case scenario above, we have considered the following four alternative scenarios:

**Scenario 1: NPA Stakeholder Action**

Linked to principal risk: No.7

NPA faces challenges raised by customers and other stakeholders resulting in delays in securing customer commitment, funding and consequently vendor contract signature.

**Impact:** *Reduction in profits of £8m and cash at bank by £9m. This will be mitigated by recovery of the cost through our pricing in the current or following financial year.*

**Scenario 2: Military Conflict Between China and Taiwan**

Linked to principal risks: No.1 and No.5

Major Chinese IT hardware and software companies sanctioned, with technology companies around the world impacted via the supply chains.

**Impact:** *Reduction in profits of £12m and cash at bank by £11m. This will be mitigated by recovery of the cost through our pricing in the current or following financial year.*

**Scenario 3: Cost of Living Crisis**

Linked to principal risks: No.6 and No.9

High levels of inflation and higher interest rates contribute to a period of low growth with real household income weakening, resulting in reduced traffic going through Pay.UK's rails.

**Impact:** *Reduction in profits of £9m and cash at bank by £12m. This will be mitigated by recovery of the cost through our pricing in the current or following financial year.*

**Scenario 4: Central Infrastructure – misconfiguration of Vocalink's internal systems**

Linked to principal risks: No.1, No.5 and No.8

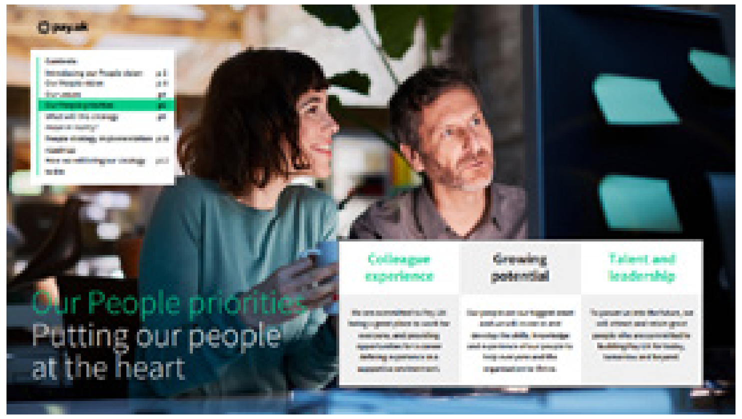
Due to an information technology incident (e.g. misconfiguration, incorrect or unsuccessful deployment or high user error), the payments service system's availability is affected, leading to unavailability of payment services.

**Impact**: *Reduction in profits of £2m and cash at bank by £3m. This will be mitigated by recovery of the cost through our pricing in the current or following financial year.*

For each of the risks identified above, we believe that our business is resilient if they were to be crystallised individually or in aggregate. Further details of these risks and mitigating actions are included within the 'Risk and Compliance' section on pages 36 - 42.

# People, community and environment







## People

In 2022 we launched both our People and Inclusion strategies, which align to our corporate goal of Inspiring our colleagues. During the first year of implementation we have made steady progress against our priorities of 'colleague experience', 'growing potential' and 'talent and leadership' with positive outcomes demonstrated in our colleague engagement scores.

Throughout the year we launched a number of events and initiatives to communicate and embed our People and Inclusion Strategies and continued to see high levels of engagement and contribution from our colleagues.

2022 has been particularly challenging for our workforce in terms of cost of living increases just as we emerged from the pandemic. Through extensive consultation with our colleagues we implemented a number of financial and non-financial initiatives. These packages of support have been extremely well received.

Colleague health and wellbeing continues to be a significant area of focus for us and in 2022 we launched a new Wellbeing Hub providing fitness, nutrition, finance and metal health support. We also focused on an awareness campaign for menopause in the workplace, developing guidelines, providing training and establishing a menopause support group. This places us within only 30% of employers who have taken such action.

Talent development also continued to be a key focus and in 2022 we launched a programme to build out skills and capabilities for both now and the future by aligning these with our strategic priorities. This resulted in key organisational changes to our Board, Executive and across Risk and Technology functions.

We also launched a new Learning Management System (LMS) in the same year which provides over 6,000 courses over 21 different formats enabling colleagues to flexibly manage their professional and personal development. This tool also enabled us to create our own bespoke learning content to support colleague onboarding and education around Pay.UK's strategy and role in managing systemic risk.

## Our values

How we work with each other and our customers

### We are Respectful

We respect each other's points of view, to deliver our purpose together.

### We are Transparent

Decision-making is transparent and we trust those accountable to deliver.

### We give Constructive Challenge

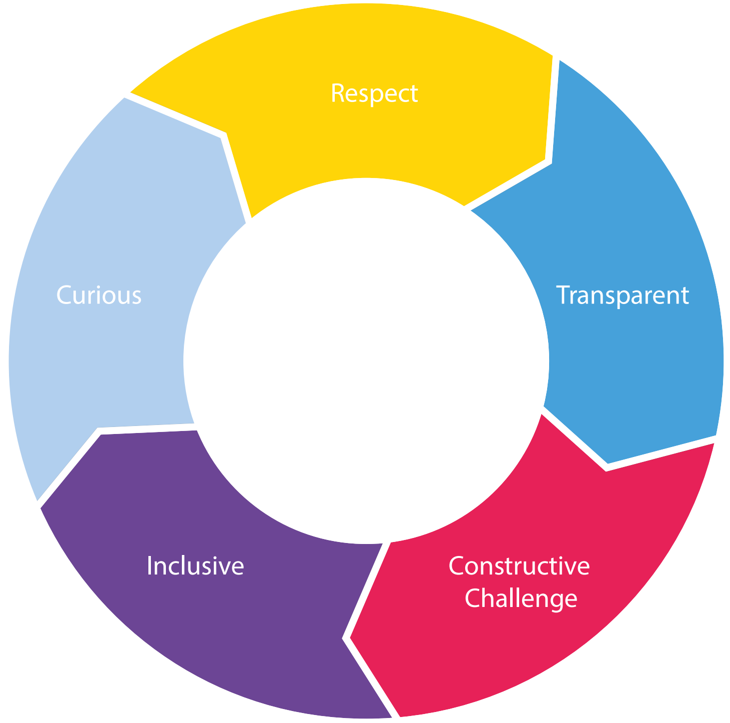
We are professional and respectful as we give and receive constructive challenge to overcome problems.

### We are Inclusive

We look out for each other and are inclusive of everyone's views, needs and circumstances.

### We are Curious

We take pride in who we are, whilst being curious as we shape the future.




## Employee engagement

Throughout 2022 Pay.UK has delivered a significant amount of organisational change to transform our business to align with our future state. We therefore took the decision to initiate two colleague surveys in the spring and autumn to ensure engagement levels remained high.

Both surveys established an upward trend in terms of response rates and engagement levels. Our October 2022 survey achieved an 89% response rate, which is above the industry average and showed a 6% increase, indicating that our colleagues have a voice and have confidence that action will be taken.

Our overall engagement score increased to 82% (2021: 79%), meaning that for the first time we were 3% above the general norm and just 2% below the financial services norm.

The following initiatives were key contributors in supporting an increase across both colleague engagement responses and overall colleague engagement scores:

- Launched a 360-feedback tool linked to Pay.UK values.
- Developed a new and inclusive Talent Framework for Pay.UK.
- Delivered regular colleague engagement surveys throughout the year.
- Implemented a Pay.UK recruitment system enabling 70% direct recruitment.
- Launched our first diversity and inclusion data collection campaign.
- Implemented an Ethics hotline.
- Developed our first Pay.UK EVP – led by colleagues.
- Re-launched the Pay.UK external careers page, showcasing colleague experience.
- Implemented our first CSR framework and achieved a Silver CSR-A accreditation.
- Launched a new Company Intranet – providing a more interactive tool for colleagues.
- Implemented a new recognition tool via Exchange linked to our culture and values.
- Delivered our first colleague recognition award event, celebrating individual and team successes.
- Reconfigured our London office space in response to a colleague survey (Leesman Index).

# People, community and environment
continued

Our focus now is to maintain our engagement levels whilst focusing on those areas where we fall below industry norms. We have established an ACE (Action on Colleague Engagement) group of colleagues who are instrumental in developing and supporting our engagement action plans.

## Diversity

In 2022 we launched our Inclusion Strategy which accelerated our diversity and inclusion agenda, delivering on our commitments laid out on our diversity and inclusion roadmap. This included the launch of our equality data collection initiative, which provides a deeper understanding of the demographics within our organisation and better informs targeted approaches to our diversity and inclusion agenda and action plans.

We ran a number of targeted awareness events using The Financial Services Skills Council (FSSC) Inclusion Measurement Guide to monitor and track our progress. This included an Active Bystander programme, designed to empower colleagues to speak up, and speak out when seeing or experiencing poor behaviour not aligned with our values. The programme was a success with a 93% participation rate. Given this success we will continue offering this programme in 2023.

In 2022 we fulfilled our colleague commitment to signing the Race at Work Charter and established our Race and Ethnicity working group. Together we will create our first Race and Ethnicity action plan, which will be launched in 2023.

Furthermore, since establishing our Inclusion Committee in 2021, our Inclusion and Culture champion network has now been developed to ensure inclusion is embedded into the fabric of how Pay.UK operates. In Q4 2022 we refreshed our Inclusion Committee members to ensure we had balanced representation and greater diversity of thought. Our plan for 2023 is to enable each Committee member to facilitate a project in support of Pay.UK's Inclusion Strategy.

We have a number of projects set for 2023 with a particular focus on Gender Equality, Race and Disability alongside all other protected characteristics. Our approach will be through awareness and education campaigns using our dedicated internal diversity and inclusion intranet hub for all colleagues.

The following initiatives were completed in 2022 as part of our Inclusion Strategy:

- Roll-out of Active Bystander Training – achieving a 93% completion rate.
- 'In My Shoes' culture training delivered to Executive team and the Inclusion Committee which will be rolled out Company-wide in 2023.
- Diwali celebrations – a colleague-led awareness and cultural event.
- Led a menopause awareness campaign supported by guidelines and support group.
- Launched our Inclusion Intranet site promoting inclusion across Pay.UK.
- Implemented the FSSC Inclusion Measurement Guide to monitor our activity and outcomes.
- Launched our 2022 cultural calendar celebrating diverse festivals and events.
- Launched our first diversity and inclusion data collection campaign achieving an initial 50% return rate.
- Signed our commitment to the Race at Work Charter.
- Established our first Race and Ethnicity working group.
- Established a library of e-Learning promoting diversity and inclusion.

Although we are relatively immature in our inclusion journey, as an organisation we are starting to see positive outcomes including the results from a diversity pulse survey undertaken mid-2022, and which was based on FSSC inclusion measurement.

We are particularly proud of our colleague engagement survey in which colleagues were asked to describe the culture of Pay.UK and for 2022 the word most used was 'Inclusive'.

## Gender pay gap

We published our first Gender Pay Gap report in 2022, based on a snapshot from April 2021 when, for the first time as one organisation, our headcount met the reporting threshold. This report established that we benchmarked favourably across most sectors, but still needed to improve our position.

Our second report was developed in 2022 and established an increase in both our pay and bonus gaps. We were disappointed by this result. However, with each year we develop a better understanding of our gender pay position and understand the longer-term nature in addressing structural inequalities. We remain committed to developing short and longer-term action plans to address our gaps.

Both the 2021 and 2022 report may be found on the Pay.UK website at https://www.wearepay.uk/.

## Corporate social responsibility

Pay.UK is an organisation with social purpose at its heart. Through our Bacs, FPS and ICS systems we provide important UK infrastructure that enables individuals and organisations to transfer money to others whenever they need to, quickly, safely and cheaply. Our vision is to be the smartest way to move money, now and in the future. But smart doesn't just mean digital or cutting edge, it means powering payments and championing innovation in an increasingly responsible way to give the UK a choice in how it pays. We are all passionate people who want to ensure we drive Pay.UK to provide the most responsible way to move money, whilst fulfilling our commitments to people and the planet.

We first began our CSR journey in January 2022 by establishing a working group of colleagues who were passionate about CSR, and who wanted to volunteer their time to support this initiative. Overall, 16 colleagues were involved in this working group, 11 of who undertook formal CSR training.

The Group determined that a CSR framework was needed in order to organise our approach and activities and we therefore partnered with CSR-A, a UK CSR accreditation body.

From spring 2022 Pay.UK embarked on an accreditation process which gave us an opportunity to baseline our performance in regard to social responsibility, measured against four pillars, namely, **Environment, Workplace, Community** and **Philanthropy**. Being independently, objectively assessed on our performance will provide us with a baseline to drive forward initiatives to address any performance gaps and the consideration of our future improvement programme. The accreditation also enabled us to align to UN Sustainable Goals. In autumn we were awarded with a Silver Accreditation through CSR-A, a result we are proud of and which also gives us a strong foundation on which to build.

Our team is dedicated to the assessment of our current progress against the CSR-A four social responsibility pillars, driving forward initiatives to address any performance gaps and the consideration of our future improvement programme. In 2023 we will be working with CSR-A to carry out materiality assessments and develop our CSR Strategy and action plans.

Colleagues fundraising for First Love Foundation.

# People, community and environment
continued

## Community and philanthropy

Pay.UK continued to support local charities in Tower Hamlets including the FLF and Whitechapel Mission and in 2022 donated over £16,000 through colleague events and sponsorship.

In the spring the Executive team raised money for FLF through an 80s fancy dress event. Following this, in the summer, a team of Pay.UK runners also completed the Asics London 10K raising circa £9K for FLF.

Our three-year partnership with FLF also enabled active charity support through our special annual leave 'Giving Back' days which enabled colleagues to support an office move and summer and Christmas campaigns without taking annual leave. This benefit also enabled other colleagues to take time off to support their local charities and communities across the UK.

In addition, in 2022, Pay.UK participated in the Lord Mayor's Future Leaders initiative and sponsored colleagues to deliver a project to tackle socio-economic equality. We also provided paid industrial placement to a number of students, as well as partnering with Edinburgh University to provide Company-sponsored projects to final year dissertation students.

Going forward into 2023 we will continue to work with CSR-A to review our community and philanthropy approach to enable greater engagement and support in our local communities. We also aim to commence initiatives around schools' outreach and work placements to support the talent of the future.

## Environmental


We have been measuring our environmental impacts since 2020 and the CSR-A accreditation process has enabled a more thorough assessment and gap analysis regarding our environmental performance and impacts.

We also recognise that environmental impact extends into our supply chain and we continue to monitor our largest suppliers in this respect, including our biggest supplier Vocalink, a Mastercard company, that has well developed CSR policies and practice. Furthermore, we seek to solidify this approach as we progress with delivering our next-generation payment platform, the NPA, where both design and procurement processes have included a focus on sustainability.

We continue to assess 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'.

Our performance for 2022 shows we have further reduced our Scope 2 emissions despite more colleagues returning to the office post pandemic. This attributed to our continued hybrid working approach as well as our continued focus on operational efficiencies.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Scope | kWh | $tCO_2e$ | kWh | $tCO_2e$ |
| Electricity (Scope 2, indirect energy emissions from generation of purchased energy) | **303,471** | **64.1** | 346,501 | 80.1 |
| Transport (Scope 3, business travel in employee-owned vehicles) | **6,713** | **1.7** | 0 | 0 |
| Total | **310,184** | **65.8** | 346,501 | 80.1 |
| Intensity ratio (gross total /Average FTE) | **901.7** | **0.1913** | 1117.7 | 0.25834 |

In 2022 our annual energy consumption was 310,184kWh. We generated total emissions of 65,709kg $CO_2e$ in the calendar year 2022, which is 17.98% lower than 2021. The 2022 consumption is comprised of imported grid electricity for Pay.UK operations at 2 Thomas More Square and business travel in employee owned vehicles.

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 monthly meter readings for calendar year 2022 for three floors of Pay.UK accommodation at 2 Thomas More Square.

In 2021 there was no business travel activity due to the Covid-19 pandemic. With the easing of Covid-19 restrictions in 2022 business travel activity increased, although we implemented a hybrid working model which supports a reduction in unnecessary travel. We also promoted environmentally efficient technology and policies including an enhanced Cycle to Work scheme.

We are committed to developing policies and strategies that contribute to lower emissions, reduce energy consumption, 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 2023; optimising our office and home working environments as we do so.

Other notable environmental improvements introduced included:

- ICS reducing the number of paper cheques transported in the UK since 2019 by 173 million.
- Purchasing recycled paper, introducing a clean desk policy to discourage paper consumption, using fair trade suppliers and also make use of biodegradable vegware for catering to reduce single plastic use.
- Frequently using local catering suppliers and independents if possible and encouraging our employees to do the same.
- The Thomas More Square estate operates a zero waste to landfill policy. This is supported by having pre-sorted bins throughout the office to separate recyclable material and general waste. We are also fully compliant with Waste Electrical and Electronic Equipment (WEEE) regulations and have contracted to have electronic waste recycled.

Further information about our progress across all aspects of CSR can be found in our 2022 Social Impact report which supports our Silver CSR-A accreditation.

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

**David Pitt**
Chief Executive Officer

31 May 2023

# Governance







# Chair's introduction to governance

"The governance framework across the organisation has been further embedded during the year. This has supported improved reporting and strategic discussions at all levels."

**Mark Hoban**
Chair

On behalf of the Board I am pleased to introduce the Corporate Governance report, covering the work of the Board and the Committees for the year.

The development of the governance framework across the Company during 2022 has ensured governance arrangements have become further embedded across the organisation. This more streamlined governance structure is working well and is facilitating effective input from everyone. The results of this work have provided enhanced standards of reporting and strategic discussion both within the business and at Board level.

This improvement in the quality of strategic discussions by the Board has supported the progress made in refining Pay.UK's strategy. However, further work is needed to bring this together and address fundamental questions around Pay.UK's broader role in the ecosystem.

There has also been a significant amount of work carried out during the year to finalise the enterprise risk framework and embed this within the wider business. This work has provided the Risk Committee, led by Diane Côté, the time to expand its review of the Company's wider role as a systemic payment infrastructure risk manager, spending more time discussing current and emerging risks.

As Directors stepped down from the Board, the Nomination Committee has taken the opportunity to review the skills and experience required to support the ongoing development of the business. This has also supported the change in some areas of focus, which has allowed the Board to step back and more effectively focus on the development and implementation of the Company's strategy. This has driven a positive cultural shift at both Board and Executive level.

A key area of the Board's focus has been the way in which we engage with our external stakeholders. Whilst there has been considerable improvement in our stakeholder engagement, it remains a challenge to balance the different needs of all stakeholders across a diverse ecosystem. There is more work to be done in this area, as the development of our Stakeholder Engagement Strategy is progressed.

The Board has agreed the factors by which it can measure the effectiveness of the Company's governance and the matrix by which the path to maturity can be assessed. The areas of strategy, stakeholder engagement, culture, the further development of strategic risk management and the embedding of governance throughout the organisation during 2023, will form the central themes by which the Board will be measuring progress.

The remainder of this report sets out in more detail the activities of the Board and its Committees, the key achievements and the priorities for the year ahead.

**Mark Hoban**
Chair

31 May 2023

# Board of Directors

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

N Re

## Mark Hoban

Chair

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, 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 Group plc, leading the business through major transformational change prior to its sale. He has also held senior roles at RSA Insurance, including CEO, Greater China.

Re N

## Anna Bradley

Senior Independent Director

Chair of End User Advisory Council

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 the Chair of the Solicitors Regulation Authority, and Chair of the Sottish Widows Independent Governance Committee.

R A

## Diane Côté

Independent Non-Executive Director

Appointed 12 January 2022

Diane joined the Pay.UK Board in January 2022. She is an Independent Non-Executive Director of Société Générale Group, ACT Commodities Group and X-Forces Enterprise. She also chairs La Nuova Musica and is a Trustee on the board of Shaw Trust. She qualified as a Chartered Professional Accountant (CPA-CA) with EY. Her career in financial services spans over 30 years during which she held senior positions in FTSE 100 companies such as Aviva plc, Standard Life plc and her last executive role was Chief Risk Officer for the London Stock Exchange Group where she also chaired its Foundation and its diversity and inclusion executive committee. During that period, Diane also chaired TheCityUK Cyber Security and Resilience Advisory Board and was a member of the ECB market infrastructure resilience advisory committee.

A Re

## Helen Crooks

Independent Non-Executive Director

Appointed 1 January 2023

Helen is an experienced data and digital leader. Her previous roles include Chief Data Officer at Ofgem and Lloyd's of London and executive roles at Tesco and Virgin Media. She featured in the DataIQ100 power Titan list from 2017-2020, being recognised with the DataIQ life-time achievement award in 2022. Helen also chairs the External Advisory Group for the UK Parliament Digital Transformation Programme and previously chaired the London Market Data Steering Board.

## 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 is currently Head of Payments Barclaycard Payments, where his strategic focus is supporting businesses of all sizes, from corporates to SMEs, to make and take payments. This includes Barclays' market-leading acquiring and commercial payments capabilities alongside value added services such as e-commerce and multicurrency solutions.

# Board of Directors
continued

A N Re

## Lesley Titcomb
Independent Non-Executive Director

Appointed 1 January 2021

Lesley is a Chartered Accountant and has a strong financial services, regulatory and policy background. She was Chief Executive of the Pensions Regulator and Chief Operating Officer of the Financial Conduct Authority. She is now a Director of the National Bank of Kuwait (International) plc, a Trustee of StepChange, the debt advice charity, and a Governor of the University of Hertfordshire and a trustee of the Parliament Choir.

## Lars Trunin
Non-Executive Director

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

Appointed 1 March 2021

Lars is Head of Product Europe & UK 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.

R

## Ajay Vij
Independent Non-Executive Director

Appointed 1 January 2023

Ajay specialises in digital transformation and scaling global technology services business with a strong focus on regulated industries. He is currently VP for Strategic Industries for Google Cloud EMEA and helps businesses transform by leveraging the power of cloud and data technologies, technology capability uplift and embedding an innovation-led culture. He has built his career with technology service integration firms, including at Infosys, IBM Global Business Services and Avanade.

A R

## Peter Wyman
Independent Non-Executive Director

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

Committee Chair

A Audit

N Nomination

R Risk

Re Remuneration

Formal reporting for the Audit, Nomination, Remuneration and Risk Committees can be found on pages 68 to 85.

## 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 |
|---|---|---|
| Matthew Hunt | 23 April 2018 | 1 August 2022 |
| John Mountain | 1 May 2022 | 31 December 2022 |
| Jean-Yves Rotté-Geoffroy | 7 March 2018 | 11 November 2022 |

# Governance framework

## Guarantors

### The role of guarantors

**The composition of the guarantor group**

Pay.UK is a Company limited by guarantee. There are currently 41 Guarantors, drawn from a broad range of banks, fintechs and PSPs. 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 (AGM) and engagement throughout the year is welcomed.

### Board of directors

**Purpose**

To provide entrepreneurial leadership and direction to the Company. The Board is collectively responsible for the long-term success of the Company.

**Key responsibilities**

- Provide entrepreneurial leadership for the Company within a framework of prudent and effective risk management.
- Ensure there is an effective system of internal controls, and that risks are properly assessed and managed in order to safeguard the business.
- Set the Company's strategic goals and monitors progress against them.
- Make sure that the necessary financial and human resources are in place for the Company to meet its objectives.
- Review business performance.
- Set the Company's purpose, values and standards and satisfy itself that these and its culture are aligned.
- Make sure that the Company's obligations to its Guarantors are understood and met.
- Demonstrate ethical leadership, displaying, and promoting throughout the Company, behaviour that is consistent with the culture and values it has defined for the organisation.
- Create a performance culture that drives value creation without exposing the Company to excessive risk of value destruction.
- Make well-informed and high-quality decisions based on a clear line of sight into the business.
- Think carefully about its governance arrangements and embrace evaluation of their effectiveness.
- Ensure compliance with laws, regulations and codes.
- Govern the relationships between the Company and its stakeholders to ensure responsibilities to stakeholders are met, through effective engagement.

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

## Key Board Committees

### 1. Audit Committee

**Purpose**

To oversee the integrity of Pay.UK's financial disclosures and the effectiveness of the internal control environment.

**Key responsibilities**

- Ensure the integrity and effectiveness of Pay.UK's internal audit, external audit and internal control environment.
- Monitor the integrity of the annual financial statements of the Company, including any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the Auditor.
- Review the content of the Annual Report and Financial Statements and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company's performance, business model and strategy.
- Keep under review the Company internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control management systems.
- Review the adequacy of policies, procedures and controls relating to whistleblowing, the detection of fraud and the prevention of bribery.

All Board Committees are required to report formally to the Board on its proceedings after each meeting on all matters within their duties and responsibilities, and make whatever recommendations to the Board they deem appropriate on any area within their remit where action or improvement is needed.

### 2. Nomination Committee

**Purpose**

To balance skills, experience and diversity to support the continued delivery of the Company's strategy.

**Key responsibilities**

- Regularly review the structure, size and composition, including skills, knowledge, experience and diversity of the Board, and make recommendations to the Board with regard to any changes.
- Identify and nominate candidates for the approval of the Board to fill Board vacancies as and when they arise.
- Ensure plans are in place for an orderly succession to Board and senior management positions, and oversee the development of a diverse pipeline for succession.
- Keep under review the leadership needs of the organisation, both Executive and Non-Executive.
- Have oversight of and monitor the People Strategy.
- Keep up to date and fully informed about strategic issues and commercial changes affecting the market in which it operates.
- Develop and implement procedures for the recruitment, induction and training of Committee members to be approved by the Board.
- Review the results of the Board performance evaluation process that relate to the composition of the Board and succession planning.

### 3. Remuneration Committee

**Purpose**

To promote an approach towards remuneration that is aligned to Pay.UK's purpose, values and long-term strategy and which rewards sustainable performance.

**Key responsibilities**

- Determine the policy for Directors' remuneration and set remuneration for the Company's Chair, Executive Directors and the Executive team.
- Ensure the design of remuneration policies and practices in adherence with relevant legal and regulatory requirements, and provisions and recommendations of the Code and associated guidance, 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.
- Review the ongoing appropriateness and relevance of the Company's remuneration policy.
- When determining Executive Director remuneration policy and practice consider the Code requirements for clarity, simplicity, risk mitigation, predictability, proportionality and alignment to culture.
- Determine the total remuneration package of each Executive Director, the Company Chair and senior managers, including bonuses and any other incentive payments.
- Recommend the remuneration of the Non-Executive Directors within the limits set in the Articles of Association.
- Review workforce remuneration and related policies.
- Have oversight of pay gaps based on gender, ethnicity and other protected classifications.
- Ensure that no Director or senior manager shall be involved in any decisions as to their own remuneration outcome.
- Appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary.

### 4. Risk Committee

**Purpose**

To ensure effective management and reporting against Pay.UK's overall risk profile.

**Key responsibilities**

- Oversee and advise the Board on the Company's current risk exposure, overall risk appetite tolerance and strategy, and the principal and emerging risks the Company is willing to take in order to achieve its long-term strategic objectives.
- Oversee and advise the Board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of occurrence or their impact.
- Oversee and advise the Board on the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken.
- Provide oversight and advice to the Board on the Company's role as systemic risk manager.
- Monitor and assess the performance of the Pay.UK risk function including approval of its annual work plan and monitoring of delivery against it.
- Oversee the development and ongoing appropriateness of Pay.UK's three lines of defence framework with respect to risk management, checking that it remains fit for purpose and is aligned with emerging risk techniques, introducing enhancements as necessary.
- Review and challenge as appropriate proposals from the Executive team on the overall risk profile, risk appetite and tolerance, and the status of new, evolving and reducing risks.
- Review regular reports from management, including event monitoring and analysis, incident handling management, established to enable risk identification and management.
- Promote a culture of risk awareness and risk responsibility within the Company.
- Consider the NPA risk profile to ensure risk mitigation activity is appropriate.
- Assess the adequacy of Pay.UK's Operational Resilience Framework periodically, in line with its audit approach but taking into consideration material changes to the Framework.
- Consider the risks that the Company may pose to other payment systems and other financial market infrastructures.
- Review the effectiveness of the systems of internal controls in place to manage key risks, including non-compliance risks.

# Corporate governance report

## The Board

### UK Corporate Governance Code

As a large Company limited by guarantee, Pay.UK is 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.

Further information regarding the development of the governance framework across the business may be found in the following report.

## 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 internal controls to ensure that Pay.UK is managed effectively in an environment that promotes and safeguards its future success.

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 CEO.

## Governance framework

A schedule of Board meetings is set in advance, to ensure the Board meets at regular intervals throughout the year.

The Board 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 68 to 85.

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 56 to 59 and may also be found on the Company's website.

The following Directors served during the year ended 31 December 2022:

| Board member | Appointed to the Board |
|---|---|
| Anna Bradley | October 2017 |
| Diane Côté | January 2022 |
| Mark Hoban | November 2020 |
| Matthew Hunt[1] | April 2018 |
| John Mountain[2] | May 2022 |
| Marc Pettican | May 2021 |
| David Pitt | July 2021 |
| Jean-Yves Rotté-Geoffroy[3] | March 2018 |
| Lesley Titcomb | January 2021 |
| Lars Trunin | March 2021 |
| Peter Wyman | October 2017 |

1 Matthew Hunt stepped down from the Board on 1 August 2022

2 John Mountain stepped down from the Board on 31 December 2022

3 Jean-Yves Rotté-Geoffroy stepped down from the Board on 11 November 2022

## Independence of non-executive directors

A number of Directors stepping down from the Board during the year resulted in the need to refresh the Board's composition. Through the work of the Nomination Committee, the Board widened the skills and experience mix of its members 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 76 to 78.

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 two Non-Executive Directors, Lars Trunin and Marc Pettican, who, through their industry roles, bring their own perspective of the ecosystem and represent small and large customers respectively. Both 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 aid 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 56 - 59

# Corporate governance report
continued

## Key responsibilities

| | |
|---|---|
| **Chair** | • Leading the Board in determining the strategy.<br>• Leadership of the Board, promoting open and constructive discussion with all Directors.<br>• The effectiveness of the Board.<br>• 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.<br>• Leading the Executive team.<br>• Developing the strategic goals, approved by the Board and leading Executive management in delivering these within the agreed risk appetite approved by the Board.<br>• Promoting the Company's values, purpose and culture. |
| **Senior Independent Director** | • Providing a sounding board for the Chair and supporting him in his leadership.<br>• 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.<br>• 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.<br>• Providing support and challenge to the executive management.<br>• Monitoring executive management's progress against agreed performance criteria. |
| **Executive management** | • Assisting the CEO in the running of the business.<br>• Implementing the strategic goals, operational plans, business processes and monitoring business performance.<br>• Overseeing the assessment and management of risk within the business and wider payments ecosystem. |

## Board attendance

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

| Board Member | Appointed to the Board | Eligible meetings | Meetings attended |
|---|---|---|---|
| Anna Bradley | 1 October 2017 | 7 | 7 |
| Diane Côté | 12 January 2022 | 7 | 7 |
| Mark Hoban | 1 November 2020 | 7 | 7 |
| Matthew Hunt[1] | 23 April 2018 | 5 | 5 |
| John Mountain[2] | 1 May 2022 | 4 | 4 |
| Marc Pettican | 24 May 2021 | 7 | 6 |
| David Pitt | 26 July 2021 | 7 | 7 |
| Jean-Yves Rotté-Geoffroy[3] | 7 March 2018 | 6 | 6 |
| Lesley Titcomb | 1 January 2021 | 7 | 7 |
| Lars Trunin | 1 March 2021 | 7 | 7 |
| Peter Wyman | 1 October 2017 | 7 | 7 |

1 Matthew Hunt stood down from the Board on 1 August 2022
2 John Mountain stood down from the Board on 31 December 2022
3 Jean-Yves Rotté-Geoffroy stood down from the Board on 11 November 2022

# Key activities and discussions in 2022

## Financial

- Approved the implementation of a Long Term Incentive Plan (LTIP) for the CEO in March 2022.
- Approved the 2021 Annual Report and Financial Statements in May 2022.
- The Company's Financial Recovery Plan was approved in May 2022.
- The Wind Down Plan was approved in September 2022.
- Approved the issue of the 2023 pricing to customers in September 2022.
- Approved the Capital and Liquidity Policy in September 2022.
- Approved the 2023 Budget in November 2022.
- Approved the Investment Policy in November 2022.

## Controls and governance

- Approved the closure of the PAC, the implementation of the IAC and the continuation of the SPG in March 2022. The Terms of References for the IAC and the EUAC were approved in March 2022.
- Approved the revised Delegation of Authority Policy in March 2022.
- Approved the Whistleblowing Policy in May 2022.
- Approved the Competition Law Policy in May 2022.
- Approved the Modern Slavery Statement and the Modern Slavery Policy in July 2022. Approved the Health and Safety Policy in September 2022.
- Approved the Terms of Reference for the Board, Remuneration, Nomination and Audit Committees in November 2022.
- Approved the Redaction Policy in November 2022.
- Agreed the completion of the programme of work set in developing the governance assurance framework and success factors maturity matrix in November 2022.

## Strategy

- Approved the publication of the platform leadership strategy document on the Company's website in January 2022.
- The Board discussed the proposed strategy and key priorities for the business throughout the year and held a strategy day on 30 September 2022.

## People and employee engagement

- The Board was updated on the results of the regular 'pulse' surveys, which the Company continued to run throughout 2022, to monitor colleague engagement and wellbeing.
- The Board approved the Inclusion Strategy in January 2022.
- As of January 2023 Lesley Titcomb has taken on the role of director responsible for the employee voice in the Boardroom.

## NPA

- Finalised and agreed the regulated RFP and authorised the Chair and CEO to finalise and issue it to the vendors following non-objection being received in March 2022.

## Sustainability

- The reduction in the use of the Company's offices at 2 Thomas More Square, as a result of hybrid working, was discussed. This allowed the business to examine the use of space, following which revised working patterns were introduced. This has ensured a more efficient and sustainable use of office space going forward.

## Regulatory

- The Bank of England (FMID) attended a Board meeting and provided feedback on the Company's Annual Risk Review in January 2022.
- Regular feedback in respect of the Chair's and other members of the Board meetings with the Bank of England and the PSR were provided throughout the year.
- Throughout the year, draft documentation, on a number of topics, was reviewed by the Board, prior to submission to the Bank of England or the PSR.

# Corporate governance report
continued

## Risk

- Approved the Accountability Framework and accepted the accountabilities that had been allocated to the Board in January 2022.
- Approved the Operational Resilience Self-Assessment and the Operational Resilience Framework in March 2022.
- Supported a proposal to introduce a fraud overlay and confirmed that a POC should be developed to test alternative vendors' solutions in March 2022.
- Approved the Risk Appetite Statements in September 2022.
- Approved the Risk Management Framework in November 2022.

## Other

- Approved an ICS contract extension with Vocalink in January 2022.
- Approved the proposed changes to CASS KPIs in January 2022.
- Approved a number of artefacts in July 2022 in relation to the use of cloud technology.
- Approved the proposal to close the Paym service in July 2022.
- Approved the Bank of England Cyber Stress Test report in September 2022.

## Board evaluation

To assist in the ongoing maturity of Pay.UK's governance arrangements, the Chair invited PwC to perform a follow-up review of the revised governance framework during the year.

The review concluded that since the previous review in 2021, there had been a marked shift in the governance arrangements of Pay.UK in response to the considerable time and effort that had been spent to address the observations raised. The improvements to the governance arrangements and the impact on governance effectiveness were recognised across the Board, the Executive team and the Head of Corporate Governance. Overall, PwC considered the current governance arrangements to be 'effective' considering market practice, legal and regulatory expectations. However, given the scale of the strategic challenges facing Pay.UK to operate in a rapidly developing payments ecosystem and to successfully deliver the New Payments Architecture, our governance must continue to evolve to meet these needs.

At its meeting in November 2022 the Board agreed the completion of the original programme of work, set out to develop the governance framework. However, in response to the follow-up report, a further schedule of work has been agreed for 2023, with regular updates to be brought to the Board during the year.

The results of the review highlighted where certain key areas required sustained work or further actions, to embed the maturity of our governance framework. It was acknowledged further focus was required in the development of the Company's strategy, external engagement, culture and the further development of governance throughout the organisation.

This work will make up part of the Board's priorities for the year ahead.

## Board oversight of operations (Vocalink)

As part of the Board's oversight of our key supplier, (Vocalink), the Board received reports from the Risk Committee at which members of their executive attend and provide updates on payments operations and to discuss any operational matters.

This Board and Risk Committee oversight is part of our Third Party Management Framework. Further information on this may be found on page 29.

## 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 (UK GAAP), including FRS 102 the Financial Reporting Standard applicable in the UK and the Republic of Ireland.

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 Group, the Parent Company and of the profit or loss of the Group 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;
- State whether applicable UK-adopted international accounting standards have been followed; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Parent 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.

Having considered the Annual Report and Financial Statements 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.

## Directors' confirmation

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and responsible and provides the information necessary for Guarantors to assess the Group's and Parent Company's position, performance, business model and strategy.

## Statement as to disclosure of information to the auditor

Each of the Directors, whose names and functions are listed in the Corporate Governance report in this Annual Report, confirms that, to the best of their knowledge:

- The Group and Parent Company financial statements, which have been prepared in accordance with United Kingdom GAAP (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company, and of the profit of the Group; and
- The Strategic report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- As far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- 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.

The Directors' Responsibility Statement, confirmation and statement as to disclosure of information to the auditor were approved by the Board of Directors and signed on its behalf by:

**Mark Hoban**
Chair

31 May 2023

# Audit Committee report

"The Committee's work focused on the effectiveness of Pay.UK's financial reporting and internal control framework, and for ensuring the integrity of the internal and external audit functions which provide independent assurance over the control environment."
**Peter Wyman**
Chair of the Audit Committee

On behalf of the Board, I am pleased to present an update on the work of the Audit Committee during the year. The Committee has continued to support the Board in development of the Group's internal control framework, as well as ensuring the integrity and quality of external financial reporting.

As the governance structure of the business was streamlined during 2022, so the Committee's work responded to its revised roles and responsibilities during the year and focused on achieving improvements across all areas of its remit. In doing so it successfully integrated all roles and responsibilities transferred from the Finance Committee, which was wound up in 2021.

In the oversight of the internal controls, the Committee supported the improvements made to the design and operational effectiveness of the internal control environment achieved through enhanced accountability and improved dialogue with management. The ongoing capture of themes identified from audit findings has also supported a culture and discipline for evidencing decisions taken, pro-actively managing risk records and clarity involving management's remediation actions to address issues.

The Committee provided feedback on internal audit reports which enabled a clearer linkage between the potential risks and the severity of control ratings from internal audits.

The Committee also supported improvements to the Internal Audit function, with a revised team structure and clearer roles and accountabilities. The updated structure and approach to internal audit has developed well in the year and forms a basis for the Internal Audit function's strategy to drive efficiency in their ways of working, deliver data driven assurance and further enhance insights for the business. The 2022 internal audit plan was structured to be focused on activity that is integral to achieving the strategic objectives, to focus on key controls and to provide audit, review and real-time support.

A key aspect of the Committee's work is to ensure the capital structure remains appropriate for the business. The Committee considered a revised Capital and Liquidity Policy, which represented a key component towards ensuring that Pay.UK operated a resilient capital and liquidity framework, with the capacity to absorb significant financial shocks, whilst continuing to deliver uninterrupted key payment systems. Following scrutiny by the Committee, it was pleased to recommend the revised policy to the Board.

The Committee was also pleased with the development of the work of the external audit and the progress made in enhancing reporting externally. Members continued to welcome the regular support and attendance of senior BDO audit staff, including the audit partner. The results of the external audit were well received and the Committee was pleased with the efficiencies achieved in the approval of the 2021 Annual Report and Financial Statements, within an enhanced timeframe. This allowed the publication of the Annual Report to be brought forward by several months and the AGM to be held earlier than in previous years.

The Committee collaborated with colleagues from the Risk Committee to reduce duplication of discussion on specific topics (refer to 'Joint meetings of the Audit Committee and the Risk Committee' section below). This joint forum has proved effective and these meetings have now been set into Committee members' schedules on an ongoing basis.

The continued improvement in the work and effectiveness of the Committee is always in mind and, as a result, a number of improvements to enhance the effectiveness of Committee meetings (refer to 'Committee effectiveness' section below) were implemented.

There were a number of Board changes made at the end of the year, which resulted in new members joining the Board in January 2023 and I am therefore pleased to welcome Helen Crooks to the Committee, who joined upon her appointment to the Board. Helen brings a wealth of experience to this role, with a particular focus on data and analytics.

This report sets out the activities of the Committee during 2022 and the Committee's priorities for the year ahead. In 2022, the Committee continued to focus on the core aspects of governance within the Group. Primarily this was the enhancement of the Company's internal controls frameworks, which included progress with establishing a new approach to internal audit.

## Committee membership and attendance

During the year, the Committee met six times, to cover the planned work of the Committee and any ad hoc topics requiring attention.

As previously noted, all Committee members are Independent Non-Executive Directors of Pay.UK. Peter Wyman was appointed Chair, with effect from 1 January 2022 and was joined by new members, Diane Côté and Lesley Titcomb. Helen Crooks joined the Committee in January 2023, upon joining the Board.

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 support discussions on the internal control environment and to contribute to discussions on risk management. The external auditors attend Committee meetings periodically, both as observers and to present their Annual Audit Plan and Report, and to discuss any significant matters identified.

Membership of the Committee, and their attendance during the year ended 31 December 2022, were as follows:

| Audit Committee member | Appointed to the Committee | Eligible meetings | Meetings attended |
|---|---|---|---|
| Peter Wyman | 1 January 2022 | 6 | 6 |
| Diane Côté | 1 January 2022 | 6 | 5 |
| Lesley Titcomb | 1 January 2022 | 6 | 6 |

Members did not have any personal interests 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.

# Audit Committee report
continued

## Role of the Committee

The Board has delegated responsibility to the Committee for oversight of the Group's financial reporting, to ensure that the external auditor is effective in its role and to ensure the integrity of Pay.UK's internal audit and external audit functions to provide independent assurance over the internal control framework.

The Committee operates under Terms of Reference that are reviewed and updated on an annual basis to ensure maximum effectiveness of the Committee. These Terms of Reference are approved by the Board.

Following the winding up of the Finance Committee towards the end of 2021, the Audit Committee took on additional responsibilities for oversight of Pay.UK's financial affairs and reporting to the Board on the Company's financial performance, financial strategy and forecasts, solvency, safeguarding of assets, and any significant financial policy.

The Terms of Reference follow the Code and the Chartered Governance Institute standard, whilst also incorporating some elements specific to Pay.UK, ensuring the Committee is appropriately aligned to support the work of the Board and the refreshed strategy.

## Activities of the Committee in 2022

### Financial reporting

- Reviewed the financial results for the year ended 31 December 2021.
- Recommended the final 2023 budget to the Board for approval.
- Reviewed the 2021 Annual report and Financial Statements and the Audit Committee Report in the Annual Report.
- Considered management's review of the Vocalink ISAE 3000 reports, with particular regard to revenue recognition.
- Provided oversight of Pay.UK's monthly management accounts.

### External audit

- Reviewed the effectiveness and independence of the Company's external Auditor, audit fees, scope, terms of engagement and audit plan, including threshold levels of materiality for the financial statements.
- Recommended for Board approval the re-appointment of BDO until the conclusion of the 2023 Pay.UK AGM.

### Internal audit

- Reviewed 12 internal audit reports, recommendations and remediation plans.
- Approved the 2022 internal audit KPIs.
- Considered the effectiveness of the internal control function.
- Provided feedback on the Internal Audit Charter, methodology and strategy.
- Approved the appointment of internal audit's External Quality Assessment (EQA) supplier Protiviti.

### Governance

- Reviewed the Committee's Terms of Reference.
- Considered the non-audit work carried out by BDO.
- Recommended the statement confirming the Annual Report and Financial Statements was fair, balanced, and understandable.
- Recommended, subject to Board approval, Pay.UK's Investment Strategy, investment policy and the Investment Committee's Terms of Reference.
- Recommended for Board approval the Whistleblowing Policy.
- Recommended for Board approval the Capital and Liquidity Policy.
- Discussed its annual performance relative to PwC follow up governance review report in November 2022 (refer to 'Committee effectiveness' section below).
- Together with the Risk Committee reviewed and recommended the Wind Down Plan for Board approval.

### Viability and going concern

Reviewed and confirmation given of the going concern statement and viability statement at the year end.

## Key responsibilities:

- Reviewing on an annual basis the financial resources available to Pay.UK and recommending the annual budget to the Board for approval.
- Monitoring the integrity of the annual financial statements of the Company, including any other formal statements relating to its financial performance, and advising the Board on whether, taken as a whole they are fair, balanced and understandable.
- Reviewing the content of the Annual Report and Financial Statements and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company's performance, business model and strategy.
- Ensuring the integrity and effectiveness of Pay.UK's internal audit and external audit functions and ensuring oversight of the internal control framework.
- Keeping under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control management systems.
- Reviewing the Company's policies and procedures relating to whistleblowing, fraud and anti-bribery.
- Reporting to the Board after each meeting on all matters within its duties and responsibilities.
- Ensuring that a periodic evaluation of the Committee's performance is carried out.

## 2022 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:

- Successfully integrated all roles and responsibilities from the Finance Committee, that was wound up in 2021.
- Supported the improved efficiencies achieved in the approval of the 2021 Annual Report and Financial Statements within a shorter timeframe.
- Increased accountability within the business by introducing a management's response to any internal audit report. Responsible accountable executives also invited to attend Committee meetings.
- Provided feedback on internal audit reports which enabled a clearer linkage between potential risks and the severity of control ratings from internal audits.
- Oversaw improvements to the design and operational effectiveness of the internal control environment.
- Collaborated with colleagues from the Risk Committee to reduce duplication of discussion on specific topics, by holding joint meetings (refer to 'Joint meetings of the Audit Committee and the Risk Committee' section below).
- Recommended for Board approval a new Capital and Liquidity Policy which represented a key component towards ensuring that Pay.UK operated a resilient capital and liquidity framework with the capacity to absorb significant financial shocks, whilst continuing to deliver the key payment systems uninterrupted.
- Supported improvements to the internal audit function via the ongoing capture of themes identified from audit findings.
- Introduced a number of improvements to enhance the effectiveness of Committee meetings (refer to 'Committee effectiveness' section below).

# Audit Committee report

continued

## Areas of focus in 2023

- Approval of the 2022 External Audit Plan.
- Approval of the 2023 Internal Audit Plan.
- Monitoring NPA programme funding.
- Together with the Risk Committee review and approval of the Financial Recovery Plan and the Wind Down Plan.
- Review the budget to be set for the following financial year and to monitor on a quarterly basis performance against budget.
- Together with the Risk Committee consider the design and operational effectiveness of the internal control environment.

## Committee effectiveness

An external governance effectiveness review was completed in 2022, and although this work did not include a specific review of the work of the Audit Committee, the Committee's structure, membership and documentation were taken into consideration. The results of the report were discussed, as part of the November Committee, which accepted the observations and recommendations.

The results of the report are discussed in more detail in the Corporate Governance report on page 66.

The Committee agreed with the report, that the improvements made to the work of the Committee had ensured the Committee was well planned and was working effectively. These improvements had been achieved through improved reporting which had facilitated enhanced discussion in the key areas of the Committee's work. The introduction of post meeting surveys had provided immediate feedback in relation to the quality of the papers, the quality of discussion and the facilitation of the meeting. Any areas for improvement were identified and were able to be rectified in advance of the next meeting.

## 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, the effectiveness of BDO's execution of the external audit plan. It also discussed all significant matters identified in BDO's 2021 final audit report, including the key accounting judgements taken by management and management's responses to any audit findings.

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 2023 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 2022 audit is £171,510 (2021: £142,000). Details of the fees paid to BDO for the year ending 31 December 2022 may be found in Note 5 of the Financial Statements on page 103.

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, 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.

Going forward, a more structured approach to this review has been planned, with a questionnaire-based survey being implemented, to provide an additional level of insight into the effectiveness of the external audit. The results of which will be reported in the 2023 Annual Report.

## 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.

The internal audit team 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.

# Audit Committee report

continued

## Financial reporting and significant judgements

The Committee is responsible for monitoring the integrity of the financial statements including significant accounting policies and key areas of audit judgements. In undertaking this review the following accounting policies and judgements were discussed and debated with management and the external auditors.

| | Audit Committee review | Conclusions |
|---|---|---|
| Basis of Preparation of the Financial Statements | The Group's financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council ('FRC') and the Companies Act 2006. | We continue to adopt FRS 102 given the limited financial complexity within the financial statements of Pay.UK.<br><br>The Audit Committee considered that with FRC issuance of Financial Reporting Exposure Draft 82 ('FRED 82') in December 2022, this is expected to narrow the gap between full IFRS and FRS 102 and so, there is little benefit of adopting full IFRS compared to the increased cost of conversion. |
| Going Concern | The Group used the most recent projections and other qualitative considerations in evaluating whether the going concern basis of preparation continue to be appropriate.<br><br>The assessment included detailed review of the Group's liquidity and regulatory capital positions over the period which we consider to be reasonable and sustainable. The period also aligns to both FRC and FRS 102 requirements.<br><br>The review was combined with the viability assessment as detailed on page 46. The assessment takes into consideration several pessimistic scenarios that could possibly occur over the period.<br><br>Our going concern assessment has been through a thorough process involving detailed review by management, the Audit Committee, and the Board, in line with our governance process.<br><br>Further, the process and related assumptions used were reviewed and challenged by our external auditors, BDO. | The Audit Committee considered and recommended to the Board that the going concern basis of accounting be adopted and the disclosures prepared by management form part of Note 2.2 to the consolidated financial statements. |
| Revenue Recognition | The Audit Committee considered papers presented by management covering matters related to the appropriateness of the revenue recognition for each major income stream.<br><br>The Audit Committee was also provided with the results of the Vocalink ISAE 3000 service auditors' reports and reviewed how management addressed any exceptions that were identified.<br><br>Couple with this we gained a detailed understanding of the level of scrutiny and challenge that is in place to ensure the completeness and accuracy of the volumes that are used to derive the revenue that is recorded within the financial statements. | The Audit Committee reviewed the key accounting policies, the results of the service auditor report as well as management's assessment of these reports and considered the conclusions reasonable. |

## Joint meetings of the Audit Committee and the Risk Committee

During 2022 it was agreed to schedule joint meetings of the Audit Committee and the Risk Committee, at specific times in the year. The rationale being to avoid potential duplication of reporting and discussion of items discussed at Board Committees, covered in some way by both Committees and to ensure clear outcomes and approvals, where necessary.

The first of these joint meetings was held in September 2022, with at least two joint meetings being scheduled per year, on an ongoing basis. The meetings are co-chaired by the Chair of the Audit Committee and the Chair of the Risk Committee respectively.

## 2022 annual report and financial statements

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, and recommended that the Board approved, the Annual Report and Financial Statements on the basis that taken as a whole these were fair, balanced and understandable, and provided the information necessary for Guarantors and all stakeholders to assess the Company's performance, business model and strategy.

# Nomination Committee report

> "The Committee worked to compliment the existing skills, knowledge and experience of the Board, enhancing these with fresh perspectives and a greater diversity of backgrounds, through the appointment of new independent directors."
>
> **Mark Hoban**
> Chair of the Nomination Committee

During 2022 the Committee continued to lead the process for Board appointments, overseeing Director nomination and ensuring that plans are in place for orderly Board and senior management succession.

## Committee membership

The members of the Committee during the year ended 31 December 2022 were as follows:

| Audit Committee member | Appointed to the Committee | Eligible meetings | Meetings attended |
|---|---|---|---|
| Mark Hoban | November 2020 | 5 | 5 |
| Anna Bradley | May 2019 | 5 | 5 |
| Peter Wyman[1] | June 2018 | 5 | 5 |

1 Peter Wyman stood down from the Committee on 31 December 2022

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.

## Role of the Committee

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

The Committee is responsible for ensuring that the composition and structure of the Board remains effective, balanced and suited to the Company's strategic priorities. The skills map created in 2021 as part of the governance review, was refreshed in 2022 and used by the Committee to inform the requirements for the recruitment and 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 2023.

## Activities of the Committee in 2022

In 2022, the Committee oversaw further changes to the composition of the Board.

During the year, the Committee recommended the appointment of John Mountain, as a (Non-Executive Director) NED, to the Board. John joined the Board in May 2022 bringing first-hand payments industry experience to Pay.UK. In 2022, Matthew Hunt, Jean-Yves Rotté-Geoffroy and John Mountain all stepped down from the Board to further their executive careers outside of Pay.UK. They have all made valuable contributions to the development of the Company and to the Board during their tenure.

In light of these changes, the Committee worked to complement the skills and experience on the Board with the recruitment of two INEDs, Helen Crooks and Ajay Vij. Helen and Ajay joined the Board in January 2023, bringing considerable data and analytics, and technology outsourcing knowledge and experience. These appointments bring deep knowledge, fresh perspectives and a greater level of diversity to the Board.

When making Board appointments, the Committee reviews and approves an outline brief and role specification, and having considered the requirements of both the Board and the Company, appoints a search agent for the assignment. The specification and the search are discussed with the search agent, who then prepares an initial longlist of candidates. The Committee defines a shortlist and holds interviews. Ultimately, the Committee makes a recommendation to the Board for its consideration.

The recruitment process is rigorous and transparent and is supported by the Chief People and Culture Officer. Industry NED appointments are supported externally by Acertitude and the appointments of INEDs by Odgers, a specialist search agent. Odgers was engaged to facilitate the search and has no other connections with the Company.

The Committee advised on changes to the senior Executive management and considered a number of senior management appointments.

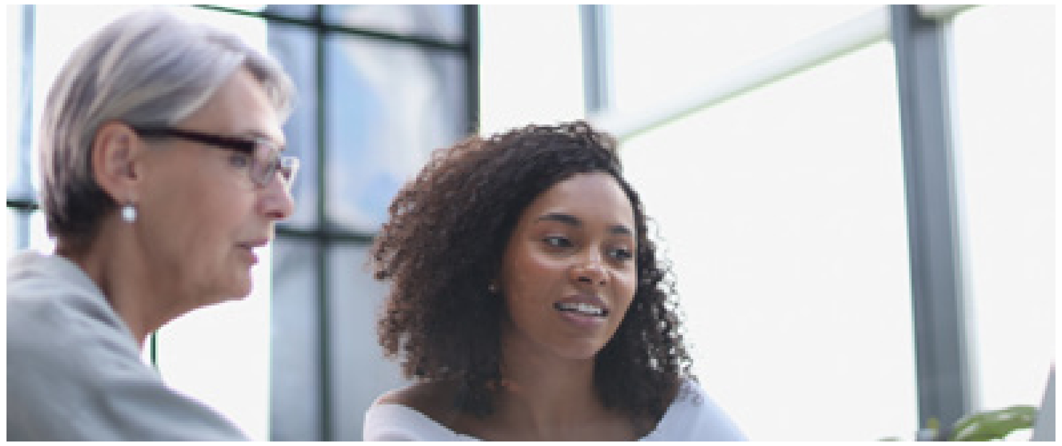
To complete its work, the Committee met five times during the year, both formally and on other occasions to participate in ad-hoc discussions and candidate selection interviews.

In April, the Committee reviewed the refreshed skills and capabilities assessment. This review supported the recruitment work of the Committee and its review of Committee memberships.

In light of the changes in Board membership the Committee reviewed and refreshed the membership of the Board Committees. This took into consideration succession planning, the near-term future requirements of the Company and the need to ensure that individual INEDs were not over-burdened.

The Committee reviewed the time commitment required from both INEDs and NEDs and agreed that the time expectations would remain as currently stated.

The Committee regularly received updates on the developing diversity and inclusion agenda providing challenge and direction. It supported the initiative to collect equality data to give a better understanding of our internal demographics.



All the Committee's candidate recommendations to the Board were approved.

### 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.

### 2022 key achievements:

- Appointed additional INEDs with the recruitment of Helen Crooks and Ajay Vij in January 2023.
- Complemented the skills and industry experience of the NEDs, with the recruitment of John Mountain who joined the Board in May 2022.

### Areas of focus in 2023:

- 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.
- Appoint the industry co-chair of the IAC.

# Nomination Committee report
continued

## Committee effectiveness

A Board evaluation was carried out by PwC covering the work of the Board during the year, the results of which were presented to the Board in November 2022. As part of this work PwC looked at the documentation of the Committee including its Terms of Reference, minutes and agendas. A performance evaluation discussion was included on the agenda of the Committee in November 2022 supported by the output of the Board evaluation and the Committee concluded that it was operating effectively.

## Performance evaluation

Anna Bradley, SID, led the annual appraisal of the Chair's performance. Anna gathered feedback from all Board members and having discussed this feedback with the Chair, confirmed Mark Hoban continues to effectively fulfil his role and recommended his reappointment for a further three-year term to the Board as a whole.

## Diversity

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 diversity of skill, experience and perspective. The Committee has continued to develop the wider cultural diversity of the Board, through its work in refreshing the independent membership during the year.

## Policy

The Committee received updates on the launch and embedding of the Diversity and Inclusion policy that it had approved in January 2022, and also on the work of the Inclusion Committee and its support groups including the Menopause Support Group.

# Risk Committee report

"Developing the firm foundations that were put in place in 2022, the Committee's focus going forward will be to ensure Pay.UK has the appropriate view of risks across the payments ecosystem to support the high level of resilience expected."

**Diane Côté**
Chair of the Risk Committee

Reporting on the work of the Committee during 2022, I take this opportunity to thank Jean-Yves Rotté-Geoffroy and Lesley Titcomb, who both stepped down from the Committee at the end of the year, for their work in supporting me in the continuing development of the Committee's focus on the key strategic risks facing the business.

I am delighted Ajay Vij has joined the Committee, following his appointment to the Board, in January 2023. He brings current experience in the digital transformation area across global technology services in the financial services sector.

During the year, the Committee focused its work on ensuring strong foundations were in place, to support and promote a focus on key risks, both current and emerging. Part of this work included a revision of the Enterprise Risk Management Framework (ERMF) including its Risk Appetite Statements, its risk taxonomy and Risk Assessment Matrix (RAM). Further information on these may be found in the Risk and Compliance section on pages 36 - 42.

The Committee also deepened its focus on Pay.UK's effective identification and management of the risks inherent in the payments ecosystem, and oversees the effectiveness of the controls that have been implemented to mitigate those risks. In doing so, members spend dedicated time, outside regular Committee meetings, in gaining a better understanding of operational resilience and the implementation and integration of the new ERMF.

During the year joint meetings of the Audit and Risk Committee were established to reduce duplication of discussion on specific topics, and to allow for more focused discussion. This joint forum has proved effective and these meetings have now been set into Committee members' schedules on an ongoing basis.

The effectiveness of the Committee's work is also a topic for annual review, which this year was carried out by PwC, as a wider part of a Board evaluation. It was pleasing to hear the work of the Committee was considered to be effective and the recommendation was for the Committee to sustain its efforts in consideration of current and emerging risk identification.

As the firm foundations have been put in place, the focus going forward will be to ensure that Pay.UK has an appropriate view of risks across the payments ecosystem to sustain the expected level of resilience of a systematically important payment infrastructure.

## Committee membership

The Committee is chaired by Diane Côté and is composed of INEDs.

The Committee's revised Terms of Reference were approved by the Board during the year and will inform the work of the Committee for 2023.

The members of the Committee, and their attendance, during the year ended 31 December 2022, were as follows:

| Risk Committee member | Appointed to the Committee | Eligible meetings | Meetings attended |
|---|---|---|---|
| Peter Wyman | 1 January 2022 | 6 | 5 |
| Jean-Yves Rotté-Geoffroy[1] | 1 January 2022 | 5 | 4 |
| Lesley Titcomb[2] | 1 January 2021 | 6 | 6 |
| Diane Côté (Chair) | 12 January 2022 | 6 | 6 |

1 Jean-Yves Rotté-Geoffroy stood down from the Committee at the same time as standing down from the Board on 11 November 2022
2 Lesley Titcomb stood down from the Committee on 31 December 2022

# Risk Committee report
continued

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.

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 Chairs of the Risk and Audit Committees each sit on both Committees, ensuring that no issues fall between these two forums or are duplicated. The respective Committee Chairs have the discretion to agree the most appropriate Committee to fulfil any obligation or to call a joint Audit and Risk meeting in the event there is a perceived overlap of responsibilities.

The CEO, CFO, CRO and Director of Internal Audit regularly attended meetings of the Committees. Vocalink Executives and senior management also attended to provide updates on the risks related to the payment systems and services it manages for Pay.UK.

During 2022, the Risk Committee held six regular meetings. An orientation session was held in February 2022 to discuss and better understand the operational resilience impact tolerances that would come before the Committee in March and also the risk appetite.

The CRO also provides regular updates to the Chair throughout the year.

### Chief Risk Officer (CRO)

Helen Hunter-Jones, CRO, left Pay.UK during 2022 and was replaced by an interim CRO, Graham Davies, who was in place from 15 June 2022 to cover the period between Helen's departure and the arrival of the incoming permanent CRO.

Graham supported the Executive and the Risk directorate. He has over 25 years' experience in financial services implementing group-wide risk and governance frameworks including operational resilience.

The Chair of the Risk Committee was actively involved in the recruitment of the permanent CRO, Lisa Mellor, who joined in October 2022, bringing with her a broad range of risk experience across the financial services sector, including leading risk functions covering the UK, EMEA and APAC regions.

Lisa's experience in the development and implementation of enterprise risk management, regulatory, conduct, and operational risk frameworks in financial services ideally place her to head up our risk function, leading the development of our role as a systemic risk manager.

As CRO, Lisa leads and oversees all aspects of risk management for Pay.UK and reports to the CEO and also, to maintain the objectivity of the Risk and Compliance function, to the Chair of the Risk Committee. The Committee oversees the performance of the CRO and overall the effectiveness of the Risk and Compliance function.

## Role of the Committee

The Risk Committee has a threefold role: to advise the Board on risk appetite limits and overall risk matters, to oversee the effectiveness of the Risk Management Framework including its second line of defence and review and challenge the adequacy of risk management within the Pay.UK Group.

The Risk Committee ensures there is focus on managing risks within risk appetite as defined by the Board, and that it has oversight of Pay.UK's risk profile.

The Committee supports the Board in determining the nature and extent of the principal risks Pay.UK is willing to take in order to achieve its long-term strategic objectives.

When significant decisions are being made by the Board, the Risk Committee will review, discuss and support the Board in its decision-making.

The Risk Committee has a particularly important role given Pay.UK's role as a systemic risk manager overseeing the continual and effective identification, assessment and mitigation of both existing and emerging risks to the payments ecosystem.

The responsibility and authority of the Committee covers the activities of the Pay.UK Group as a whole.

## Activities of the Committee in 2022

The Committee establishes formal agendas covering all responsibilities set out in its Terms of Reference. During the year, the Committee discharged these responsibilities with the following activities:

- Provided robust reviews of principal risks and emerging risks.
- Reviewed and challenged management's assessment of Pay.UK's risk profile and management's mitigating actions.
- Reviewed and challenged Pay.UK's operational resilience.
- Monitored the cyber security framework and enhancement programme.
- Monitored risk mitigation activities, including the delivery of actions, to manage risks within risk appetite.
- Monitored compliance with Pay.UK's risk management procedures.
- Reviewed, challenged and recommended to the Board the Company's Risk Appetite Statement.
- Oversaw the full risk refresh ensuring our principal risks included risks to the wider payments ecosystem.
- Oversight of the implementation and embedding of the simplified RAM which clearly highlights those risks outside appetite.

## Committee effectiveness

The Committee's performance was reviewed as part of the Board evaluation carried out by PwC in late 2022. As part of this work PwC observed the September 2022 meeting, having reviewed the Committee's documentation including its Terms of Reference, minutes, meeting papers and agendas.

At its meeting in November 2022 the Committee discussed the results of the report. The evaluation concluded that the Committee was working effectively and, as had been self-identified, the Committee should continue to keep under review the apportionment of time in Committee meetings, focused on current and emerging risks, versus risk identification and measurement processes. It was also recommended that more time should be scheduled periodically during the year for Board discussion on this important topic.

The Committee agreed to continue to assess its focus regularly and concluded that it was performing well and operating effectively.

### Key responsibilities:

- Oversight of the Company's current risk exposure, overall risk appetite, tolerance and strategy, and the principal and emerging risks the Company is willing to take in order to achieve its long-term strategic objectives.

### 2022 key achievements:

- Oversight of a full risk refresh that combined our level one and level two risks into a suite of principal risks, ensuring inclusion of risks to the wider payments ecosystem and leading to better oversight of the risk landscape and the development of more informed discussions.
- Review and challenge of the updated risk appetite framework.
- Appointed a strong Chief Risk Officer.
- Review, challenge and subsequent oversight of a simplified risk assessment matrix (which clearly highlights those risks outside of appetite).
- Oversight of operational resilience and the implementation and integration of the new framework.
- Worked collaboratively with colleagues from the Audit Committee to avoid duplication of discussion on common subjects.
- Oversight of the management and monitoring of risks outside or approaching appetite.
- Oversight of emerging risks and related management responses.
- Review of the Company's wider role as a systemic payment infrastructure risk manager.

### Areas of focus in 2023:

- Continued monitoring and assessment of our performance as a systemic risk manager.
- Oversight of risk with a particular focus on a range of principal and emerging risks including systemic risk management, supplier availability, integrity and security, wider payment system resilience and NPA programme delivery.
- Continued refinement of the ERMF.
- Review and monitoring of improvements to Pay.UK's operational resilience.
- Continued focus on cyber security.
- Oversight of the effectiveness of the third-party risk management.
- Oversight of the management of the NPA and other key programmes related risks.

# Remuneration Committee report

"The Committee is responsible for determining the Directors' remuneration and ensuring the reward structure across the Company is fair, proportionate and supports the right behaviours."

**Anna Bradley**
Chair of the Remuneration Committee

The Committee focused its activities during the year on the embedding of the new pay policy, introduced in 2021, ensuring that the reward structure for colleagues and the Executives appropriately recognised and rewarded hard work, performance and the right behaviours.

Recognising the impact of the cost of living crisis the Committee considered, and approved, a number of initiatives, including a one-off payment to those colleagues on salaries of less than £40,000 per annum. This initiative was well received by all colleagues as a fair approach to supporting those most in need of support during this difficult time. It was also accepted, that the Company was not able to resolve all the difficulties, brought to the fore, by the increasing cost of living.

The Committee received updates throughout the year on the measurement of Company performance against a pre-agreed and communicated set of targets. These performance measures needed to be met, before any bonuses could be paid, and were determined by a combination of: Company performance and individual performance calculated against a target bonus percentage in accordance with the pay policy framework. The Committee ensured that payments did not 'reward failure', the wrong behaviours or poor performance.

Having taken into consideration the Company performance as a whole, it was agreed to approve the payment of full bonus arrangements. This was done whilst acknowledging some KPIs had not been fully met. This decision was taken having considered overriding external circumstances, which had impacted delivery in one area, whilst all other targets had been reached or over-achieved on some indicators.

The Committee was provided with detailed analysis on the Company's gender pay position and was updated on the Company's 2022 gender pay gap disclosure requirement.

The Committee reviewed the 2021 incentive plan outcomes for the CEO, and agreed a revised bonus structure. The outcome of the LTIP that covers a three-year performance period, 2022–2024, will be reported in the 2024 Annual Report.

A part of the Committee's work has been reviewing the skills and capabilities required on the Board and Committees, as several directors stepped down to pursue their executive careers outside of Pay.UK.

The Committee also received insights into the feedback received on the launch of the People Strategy in early 2022.

## Committee membership

The members of the Committee during the year ended 31 December 2022 were as follows:

| Remuneration Committee member | Appointed to the Committee | Eligible meetings | Meetings attended |
|---|---|---|---|
| Anna Bradley | May 2019 | 5 | 5 |
| Mark Hoban | November 2020 | 5 | 5 |
| Peter Wyman[1] | September 2022 | 1 | 1 |
| Jean-Yves Rotté-Geoffroy[2] | January 2022 | 4 | 4 |

1 Peter Wyman joined the Committee on a temporary basis to support the work of the Committee, until such time as an additional Director could be appointed. He stood down from the Committee on 31 December 2022

2 Jean-Yves Rotté-Geoffroy stood down from the Committee at the same time as standing down from the Board on 11 November 2022

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.

## Role of the Committee

The Remuneration Committee has responsibility for determining the policy for Directors' remuneration and setting remuneration, for the Company's Chair, Executive Directors and senior management (the Executive team). The Board is responsible for determining the remuneration of the INEDs, following a recommendation from the Remuneration Committee.

Performance-related pay is a key component of our reward structure for all employees and, as such, setting stretching targets is a critical focus area for the Committee. Every year we undertake a rigorous exercise to ensure that our targets are sufficiently stretching, taking into consideration our own strategic aspirations.

The Committee is able to exercise its judgement to vary the level of payout if it considers that the formulaic payout determined by measuring performance is inconsistent with Pay.UK's actual underlying performance.

## Activities of the Committee in 2022

The Committee met five times during 2022 and continued to have a strong focus on ensuring an appropriate alignment between remuneration of Executive management and colleagues, ensuring that the pay policy is strategically aligned with the business and both attracts and recognises the talent needed to drive transformation and cultural change within Pay.UK.

Committee discussions ensured that reputational and behavioural risks that could arise from target-based incentives were identified and mitigated. The Committee ensured that pay and reward decisions were uncomplicated and their rationale easy to understand.

Before approving the annual bonus outcomes, the Committee discussed whether or not the proposed payout was appropriate in the context of the current external environment and of Pay.UK's performance during the year.

Having considered benchmark data and economic conditions the Committee agreed the 2023 pay increase of 5% for all colleagues, including the Executive, in line with the Pay.UK reward framework and pay policy.

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

### 2022 key achievements:

- Approval of initiatives to support colleagues during the cost of living crisis.
- Oversight of the embedding of the reward framework and pay policy.

### Areas of focus in 2023:

- Embedding the reward framework and pay policy.
- Review of the pay structures and reward arrangements to ensure strong alignment between driving performance and motivating and retaining top talent.
- Benchmarking and review of Chair and INED fees, to support discussions in respect of appointments and re-appointments.
- Review of the CEO role and responsibilities, leading to a review of the remuneration structure.
- The setting of stretching yet attainable Company performance targets for 2023 that reflect Pay.UK's strategic objectives and open and transparent pay for performance philosophy.
- Review of the pay policy to ensure that it continues to support the long-term success of Pay.UK, and is aligned with emerging best practice.

# Remuneration Committee report
continued

## Director emoluments

### Directors’ remuneration for the year ended 31 December 2022

| Executive Directors[1] | Remuneration 2022 £’000 | Remuneration 2021 £’000 | Bonus 2022 £’000 | Bonus 2021 £’000 | Pension 2022 £’000 | Pension 2021 £’000 | Pension allowance 2022 £’000 | Pension allowance 2021 £’000 | Other minor benefits[1] 2022 £’000 | Other minor benefits[1] 2021 £’000 | Total remuneration 2022 £’000 | Total remuneration 2021 £’000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| David Pitt | **359** | 153 | **135** | 30 | **–** | – | **43** | 18 | **–** | – | **537** | 201 |
| Matthew Hunt[2] | **411** | 283 | **36** | 83 | **4** | 4 | **35** | 27 | **2** | 4 | **488** | 401 |
| **Total** | **770** | 436 | **171** | 113 | **4** | 4 | **78** | 45 | **2** | 4 | **1,025** | 602 |

| | Remuneration | Bonus | Pension | Pension allowance | Other minor benefits | Total remuneration |
|---|---|---|---|---|---|---|
| Highest paid Director | 359 | 135 | – | 43 | – | 537 |

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

2 Matthew Hunt stepped down from the Board and left the company on 1 August 2022

| Non-Executive Directors | Remuneration 2022 £’000 | Remuneration 2021 £’000 | Total remuneration 2022 £’000 | Total remuneration 2021 £’000 |
|---|---|---|---|---|
| Anna Bradley | **73** | 73 | **73** | 73 |
| Diane Côté | **73** | – | **73** | – |
| Mark Hoban | **160** | 160 | **160** | 160 |
| John Mountain[1] | **–** | – | **–** | – |
| Marc Pettican[1] | **–** | – | **–** | – |
| Jean-Yves Rotté-Geoffroy | **64** | 73 | **64** | 73 |
| Lesley Titcomb | **73** | 73 | **73** | 73 |
| Lars Trunin[1] | **–** | – | **–** | – |
| Peter Wyman | **73** | 73 | **73** | 73 |
| **Total** | **516** | **452** | **516** | **452** |

1 The role of NED is unpaid.

## Executive Directors

### Chief Executive Officer

**Bonus**

As had been agreed at the commencement of David Pitt’s tenure, the Committee carried out an annual review of the CEO’s total remuneration. As part of this review, the highly competitive nature of the market was considered, and, as such there were certain anomalies which needed to be addressed.

The Committee considered the scale and scope of the CEO role and agreed, given the evolving industry changes, the development of the Pay.UK strategy and likely future responsibilities of Pay.UK, a more detailed market benchmark review should be carried out, once a clearer view of the market had been achieved. In doing so the Committee recognised that the CEO compensation should be brought outside the standard Executive compensation structure.

It was therefore agreed, that currently, it was more appropriate to make adjustments to variable pay, which related to performance, than to look at adjustments to changes to base pay. As a result, the CEO’s bonus potential was increased by 10% to 30% of base, where performance met expectations.

**Long-term incentive plan**

As reported last year, the compensation element for the CEO includes, in addition to base salary and bonus, a cash LTIP.

The LTIP agreement and long-term performance indicators cover all Pay.UK’s strategic goals, but specifically: strategy: NPA, stakeholder engagement and culture.

The LTIP covers a three-year performance period, at 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 2024 Remuneration Committee report.

### Chief Strategy Officer and Deputy Chief Executive

As has been previously reported, Matthew Hunt stepped down from the Board at the time of his leaving the business, in August 2022.

Matthew played a pivotal role as interim CEO before David Pitt’s appointment in July 2021, and then supporting David in his first year of post. Having done so, Matthew left the business to pursue his career in the wider payments industry.

On leaving the business Matthew was paid a total of £100,100 as compensation for his loss of office, which is reflected in his total remuneration in the table on page 84.

## Non-Executive Director fees

There was no increase in INED fees for the 2022 financial year.

INED remuneration is benchmarked against relevant sectors and reviewed periodically. It is anticipated a further review will be carried out in 2023.

The role of NED continues to be unpaid, as individuals fulfilling this role are remunerated by their own organisations.

## Committee effectiveness

A Board evaluation was carried out by PwC and a desktop review of the Remuneration Committee was carried out as part of this evaluation. The Committee subsequently met to discuss its performance and agreed it continued to be effective and fulfil its role.

### Pay policy

The pay policy, which forms the basis of our reward framework comprises the following elements and applies to all colleagues across Pay.UK:

- Basic pensionable pay.
- A non-contributory group personal pension scheme with a 12% employer contribution.
- Additional 1.5% employer contribution matched to employee Additional Voluntary Contributions (AVCs).
- Competitive employee benefits including, but not limited to life assurance, private medical scheme, death in service provision, additional medical benefits, and a fitness subsidy.
- Employee performance-related bonus scheme, paying between 5% and up to 15% for a performance rating of ‘meets performance’ rating.
- Performance-related bonus for Executive and senior management, paying up to 20% for a ‘meets performance’ rating.
- A multiplier of between 125% and 150% of target bonuses, may be applied for ‘exceeds’ or ‘substantially exceeds’ performance ratings.

# Directors' report

Read more about our GOVERNANCE FRAMEWORK on page 60

## Principal activities

Pay.UK is the recognised operator and standards body for the UK's interbank retail payment systems. The activities that make up this work remain unchanged from the prior year.

## Guarantors

Pay.UK is a company limited by guarantee. We have 41 Guarantor members including banks, fintechs and PSPs. We engage with the majority of our Guarantor members during the year across all forums and across all levels of our organisations.

In July 2022 we held our AGM as a hybrid meeting, which was the first time in three years a physical format was available, with 25 Guarantors in attendance.

## Articles of Association

The Articles of Association were last approved by Guarantors at the Company's 2021 AGM. Any amendments to the Articles of Association may only be made by a special resolution at a general meeting of Guarantors.

## 2023 Annual General Meeting

The Company's Annual General Meeting (AGM) is a key date for the Board as it provides our Guarantors and Directors an opportunity to meet as a collective body, to discuss the work of the Company, and to ask questions directly of the Directors and management.

The 2023 AGM will be held on 26 July 2023 virtually, by way of video conference, with all those present being able to see and hear each other and to vote accordingly.

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.

## Directors

The names and biographical details of the Directors who served on the Board and Board Committees during the year, including changes that have occurred during the year and up to the date of this report, are shown in the Corporate Governance report and incorporated into the Directors' report by reference.

## Appointment and retirement of Directors

The Company's Articles of Association, the Code, the Companies Act 2006 and related legislation govern the appointment and retirement of Directors.

Directors may be appointed by ordinary resolution of the Company or by the Board. In addition to any powers of removal conferred by the Companies Act 2006, the Directors, or any Committee authorised by the Directors, may terminate the appointment of any Executive Director.

In accordance with the Code and the Company's Articles of Association, all Directors are subject to election by Guarantors at the first AGM following their appointment, and subject to annual re-election thereafter.

Each Director of the Board is standing for re-election and the 2023 Notice of AGM sets out the reasons why the Board believes each Director should be re-elected.

## Directors' powers

Subject to relevant company law and the Company's Articles of Association, the Directors may exercise all powers of the Company.

## Strategic report

Pages 6 to 87 of this Annual Report comprise the Strategic report, Governance and Directors' report and the Remuneration report. These reports have been written and presented in accordance with English Law and the liabilities of the Directors in connection with this report shall be subject to the limitations and restrictions provided accordingly.

The Directors are required to provide a management report, containing a fair review of the business and a description of the principal risks and uncertainties facing the Company. These disclosures may be found in the Strategic report on pages 6 to 53.

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 pages 36 - 42, and the Audit Committee and Risk Committee reports on pages 68 -75 and 79 - 81.

The Strategic report on pages 6 to 53 provides a description of the Company's activities relating to our employees, their involvement with the Company, including information on some of our key policies and how these have been implemented during the year. The s172 and People, community and environment sections of the Strategic Report describe the work carried out in respect of the Group Diversity and Inclusion Policy, which incorporates Board diversity and is covered in pages 43 to 45 and pages 48 - 53. Information covering our sustainability performance is included in pages 52 to 52.

Information summarising how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, is included in the s172 statement on pages 43 to 45.

## Corporate Governance statement

The Corporate Governance report, which may be found in pages 62 to 67, is incorporated by reference into this Directors' report and includes details of our compliance with the Code and how the Company has applied the main principles. The People and community and s172 sections of the Strategic Report also describe the work carried out in respect of the Group Diversity and Inclusion Policy, which incorporates Board diversity.

## Insurance

Directors' and officers' liability insurance was maintained by the Company throughout 2022 and to the date of this report.

## Financing

The Company finances its operations through a mixture of in-year income, retained earnings and advances from the funding customers. The Company does not trade in financial instruments.

## Financial reporting

The Annual Report and Financial Statements is intended to provide a balanced and clear assessment of the Company's past performance, present position and future prospects. The Company's results for the year are shown in the Consolidated statement of comprehensive income on page 92. A statement by the Directors on their responsibility for preparing the financial statements is given on page 67.

## Going concern

As a consequence of the work undertaken to support the viability statement, which may be found on page 46, the Directors have continued to adopt the going concern basis in preparing the financial statements (see note 2.2 in the financial statements).

## Auditors and disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report have confirmed their acknowledgement of their responsibilities in respect of disclosure of relevant audit information to the Company's Auditors on page 67.

## Political donations

In compliance with the Articles of Association, the Company did not make any political donations during the year (2021: £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 subsequent events may be found in Note 23 to the financial statements.

By order of the Board

**Mark Hoban**
Chair

31 May 2023

Read more about our CORPORATE GOVERNANCE REPORT on pages 62 and 67

# 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 2022 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 2022 which comprise Consolidated statement of comprehensive income, Consolidated statement of financial position, Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, 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 are 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 or 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.

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

continued

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

In preparing the financial statements, the Directors are responsible for assessing the 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 Group and Parent Company and the industry in which it operates, and considered the risk of acts by the Group and Parent 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).

We considered 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:

- enquiring of management and of those charged with governance regarding the controls and processes in place to ensure compliance with the requirements of the respective authorities;
- discussions with management, internal audit and legal in respect of any known or suspected fraud or instances of non-compliance with laws and regulations;
- review of minutes of board meetings throughout the period;
- agreement of the financial statement disclosures to underlying supporting documentation; and
- review of key correspondence with the Payment Systems Regulator and the Bank of England's Financial Market Infrastructure Directorate (FMID).

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: https://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

31 May 2023

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

# Consolidated statement of comprehensive income

## For the year ended 31 December 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Turnover** | 4 | **154,469** | 151,999 |
| Administrative expenses | | **(153,854)** | (137,752) |
| Other operating expenses | 20 | – | (260) |
| Other operating income | | – | 260 |
| **Operating profit** | 5 | **615** | 14,247 |
| Interest income | 8 | **261** | 8 |
| **Profit on ordinary activities before taxation** | | **876** | 14,255 |
| Tax on profit on ordinary activities | 9 | **(17)** | (2,701) |
| **Profit for the financial year, being total comprehensive income** | | **859** | 11,554 |

All activities are derived from continuing activities. The notes on pages 97 to 110 form part of these consolidated financial statements.

# Consolidated statement of financial position

## As at 31 December 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 10 | **714** | 463 |
| Investments | 11 | – | – |
| | | **714** | 463 |
| **Current assets** | | | |
| Debtors due within one year | 12 | **20,017** | 20,976 |
| Cash at Bank | 13 | **90,993** | 86,202 |
| | | **111,010** | 107,178 |
| **Creditors: amounts falling due within one year** | 14 | **(56,859)** | (54,060) |
| **Net current assets** | | **54,151** | 53,118 |
| **Total assets less current liabilities** | | **54,865** | 53,581 |
| **Creditors: amounts falling due after more than one year** | 15 | **(1,591)** | (2,046) |
| Provision for liabilities | 16 | **(880)** | – |
| **Total assets less total liabilities** | | **52,394** | 51,535 |
| | | | |
| **Equity** | | | |
| Called up share capital | 17 | – | – |
| Profit and loss account | 18 | **47,917** | 47,058 |
| Capital reserve | 18 | **4,477** | 4,477 |
| **Total equity** | | **52,394** | 51,535 |

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

**David Pitt**
Chief Executive Officer

31 May 2023

Company Registration No: 10872449

# Company statement of financial position

As at 31 December 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 10 | **542** | 215 |
| Investments | 11 | **–** | – |
| | | **542** | 215 |
| **Current assets** | | | |
| Debtors | 12 | **21,352** | 28,859 |
| Cash at Bank | 13 | **56,743** | 54,944 |
| | | **78,095** | 83,803 |
| **Creditors: amounts falling due within one year** | 14 | **(30,984)** | (36,176) |
| **Net current assets** | | **47,111** | 47,627 |
| **Total assets less current liabilities** | | **47,653** | 47,842 |
| **Creditors: amounts falling due after more than one year** | 15 | **(1,591)** | (2,046) |
| **Total assets less total liabilities** | | **46,062** | 45,796 |
| **Equity** | | | |
| Called up share capital | 17 | **–** | – |
| Profit and loss account | 18 | **46,062** | 45,796 |
| **Total equity** | | **46,062** | 45,796 |

The Company has decided to take the election in Section 408 of the Act, not to present the Company's Statement of Comprehensive Income. The Company's profit for the year was £266k (2021: £10,970k).

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

**David Pitt**
Chief Executive Officer

31 May 2023

# Consolidated statement of changes in equity

As at 31 December 2022

| | Profit and Loss Account £'000 | Capital Reserve £'000 | Called up Share Capital £'000 | Total Equity £'000 |
|---|---|---|---|---|
| **Balance as at 1 January 2021** | 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** |
| Profit for the financial year | **859** | **–** | **–** | **859** |
| **Balance as at 31 December 2022** | **47,917** | **4,477** | **–** | **52,394** |

# Company statement of changes in equity

As at 31 December 2022

| | Profit and Loss Account £'000 | Capital Reserve £'000 | Called up Share Capital £'000 | Total Equity £'000 |
|---|---|---|---|---|
| **Balance as at 1 January 2021** | **34,826** | **–** | **–** | **34,826** |
| Total comprehensive income for the year | 10,970 | – | – | 10,970 |
| **Balance as at 31 December 2021** | **45,796** | **–** | **–** | **45,796** |
| Total comprehensive income for the year | **266** | **–** | **–** | **266** |
| **Balance as at 31 December 2022** | **46,062** | **–** | **–** | **46,062** |

# Consolidated statement of cash flows

For the year ended 31 December 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Cash generated from operating activities** | 19 | **7,284** | 25,308 |
| Taxation paid | | **(2,108)** | (1,667) |
| **Net cash inflow from operating activities** | | **5,176** | 23,641 |
| ***Investing activities*** | | | |
| Interest received | | **262** | 8 |
| Purchase of fixed assets | | **(647)** | (251) |
| **Net cash (outflow) from investing activities** | | **(385)** | (243) |
| ***Financing activities*** | | | |
| Repayment of advance | | **–** | (10,801) |
| **Net cash outflow from financing activities** | | **–** | (10,801) |
| **Net increase in cash and cash equivalents** | | **4,791** | 12,597 |
| **Cash and cash equivalents at the beginning of the year** | | **86,202** | 73,605 |
| **Cash and cash equivalents at the end of the year** | | **90,993** | 86,202 |



# 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, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the FRC and the Companies Act 2006. The Group's functional and presentational currency is the pound sterling.

For the year ended 31 December 2022 the following subsidiaries of the Company were entitled to exemption from audit under Section 479C of the Companies Act 2006 relating to subsidiary companies.

| Subsidiary Name | Companies House Registration Number |
|---|---|
| Cheque and Credit Clearing Company Limited | 01962903 |
| Faster Payments Scheme Limited | 07751778 |

### 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 2023 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 but not limited to, 12 months from the date the financial statements are authorised for issue. Accordingly, they have adopted the going concern basis in preparing the report and accounts. This conclusion has been reached on the basis that:

- We have a clear future funding strategy for the NPA programme that has been reviewed and challenged by our Board and wider stakeholders and protects the resilience of Pay.UK whilst providing benefits to our customers.
- The Group has a 2023 budget in place agreed by the Board and shared with its funding customers prior to the year end. This includes the ability to review the price per item in year in the event that volumes are lower than budget, and a monthly forecasting process to review both costs and income.
- 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.

# 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. Customers are charged a fee for each transaction that have been processed through our networks.

### Managed services

The Group also provides several managed services, including Paym (which closed in March 2023), the CASS 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.

### Income from other services

The Group provides other services including fraud prevention solutions, accreditation schemes and 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. Deferred income is included as part of creditors due within one year.

### Other operating income

In 2021 former shareholders of the UK Payments Administration (UKPA) subsidiary provided funds to the Group to allow the defined benefit pension plan to move to a pension scheme buy-out. These revenues were recognised as other operating income.

### Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income is accrued on a time basis, at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 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 |

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

# 2. Accounting policies continued

## 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 lease term.

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 Impairment of non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

## 2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

## 2.8 Cash

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

## 2.9 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.

# Notes to the financial statements
continued

## 2.10 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 participated in a defined benefit fund through UKPA Limited during the year. A full Pension Buy-out was completed in 2021 and the defined benefit scheme wound up.

UKPA 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.

Following the pension buy-out in 2021, all assets and liabilities under scheme were transferred to the insurance company and the obligation discharged to the members.

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

(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'.

## 2. Accounting policies continued

### 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 12 months after the balance sheet date, the Company will measure these benefits at their discounted present value applying an appropriate discount rate.

### Additional incentives

During the year, the Company commenced the operation of a cash based 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.

## 2.11 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 the 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.

# Notes to the financial statements
continued

## 2.12 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.

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.

## 2.13 Related-party transactions

The Company has taken the exemption under Section 33.1A of FRS 102 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

In the application of the Group's accounting policies, which are described in Notes 2.1 to 2.13, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

For the current financial year, the Directors have reviewed its policies and concluded that there are no critical accounting judgements or key sources of estimation uncertainty that have a significant impact on the financial statements.

## 4. Turnover

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Payment systems | **128,874** | 125,129 |
| Managed services | **17,425** | 20,345 |
| Other income | **8,170** | 6,525 |
| | **154,469** | 151,999 |

## 5. Operating profit

The Group operating profit is stated after charging:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Fees payable to the Group's Auditor for the audit of the Group's annual accounts | **172** | 142 |
| Fees payable to the Group's Auditor for tax compliance fees | **27** | 26 |
| Depreciation | **396** | 291 |
| Operating lease rentals – land and buildings | **557** | 2,020 |
| – plant and machinery | **22** | 23 |

Included within Auditor's remuneration for audit services above is £46k (2021: £50k) payable to the Auditor of the subsidiary entities.

## 6. Staff costs

| Group and Company | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Employee costs during the year were: | | |
| Wages and salaries | **30,676** | 23,628 |
| Social security costs | **3,858** | 2,967 |
| Cost of defined contribution pension scheme | **3,310** | 2,554 |
| Other staff cost | **1,228** | 956 |
| | **39,072** | 30,105 |
| Average number of employees: | | |
| Administrative | **344** | 310 |

## 7. Directors' remuneration

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Directors' emoluments | **1,436** | 1,293 |
| Compensation for Loss of Office | **100** | – |
| Company contribution for defined contribution pension scheme | **4** | 4 |
| | **1,540** | 1,297 |
| Highest paid Director | **537** | 401 |

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

## 8. Interest income

| Group | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Bank interest income | **261** | 8 |
| | **261** | 8 |

# Notes to the financial statements
continued

## 9. Taxation

### Group

| Analysis of tax charge for the period | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Corporation tax** | | |
| Current tax on profits for the year | 180 | 2,683 |
| Adjustments in respect of prior periods | (180) | 11 |
| **Total current tax** | – | 2,694 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | 14 | 29 |
| Adjustments in respect of prior periods | (2) | (13) |
| Effect of tax rate change on opening balance | 5 | (9) |
| **Total deferred tax** | 17 | 7 |
| **Taxation on profits on ordinary activities** | 17 | 2,701 |

### Provision for deferred tax

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Short-term timing differences | (59) | (6) |
| Fixed Asset timing differences | 70 | – |
| **Total current tax** | 11 | (6) |
| **Deferred tax** | | |
| Provision at start of period | (6) | (13) |
| Deferred tax charge in the profit and loss account for the period | 17 | 7 |
| Provision at end of period | 11 | (6) |

### Factors affecting the tax charge for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK 19% (2021: 19%). The differences are explained below:

| Group | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | 876 | 14,255 |
| Tax on profit on ordinary activities at standard corporation tax rate of 19% (2021: 19%) | 166 | 2,708 |
| Effects of: | | |
| Losses eliminated | – | 15 |
| Group relief (claimed) | – | (26) |
| Expenses not deductible for tax purposes | – | 1 |
| Fixed asset differences | (12) | (7) |
| Adjustments to tax charge in respect of previous periods | (180) | 11 |
| Adjust closing deferred tax to average rate of 19% | – | (1) |
| Adjustment to tax charge in respect of previous periods – deferred tax | (2) | (17) |
| Changes in unrecognised deferred tax | 40 | 17 |
| Remeasurement of deferred tax for changes in tax rates | 5 | – |
| Current tax charge for the year | 17 | 2,701 |



## 9. Taxation continued

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. As such, deferred tax has been calculated by reference to 25% based on the forecast reversals of the related temporary differences.

The Group's effective tax rate is 2% (2021: 19%) and lower than the corporation tax rate primarily due to release of prior period over provision and other temporary differences.

## 10. Tangible fixed assets

| Group | Leasehold property £'000 | Fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2021 | 2,070 | 1,552 | 2,355 | 5,977 |
| Transfer | (21) | – | 21 | – |
| Additions | – | 199 | 448 | 647 |
| Disposals | – | – | – | – |
| **At 31 December 2022** | 2,049 | 1,751 | 2,824 | 6,624 |
| **Depreciation** | | | | |
| At 1 January 2021 | (1,905) | (1,476) | (2,133) | (5,514) |
| Transfer | 20 | – | (20) | – |
| Charge for the year | (32) | (80) | (284) | (396) |
| Disposals | – | – | – | – |
| **At 31 December 2022** | (1,917) | (1,556) | (2,437) | (5,910) |
| **Net book value** | | | | |
| **At 31 December 2022** | 132 | 195 | 387 | 714 |
| At 31 December 2021 | 165 | 76 | 222 | 463 |

| Company | Fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2021 | 10 | 379 | 389 |
| Additions | 199 | 448 | 647 |
| **At 31 December 2022** | 209 | 827 | 1,036 |
| **Depreciation** | | | |
| At 1 January 2021 | (7) | (167) | (174) |
| Charge for the year | (43) | (277) | (320) |
| **At 31 December 2022** | (50) | (444) | (494) |
| **Net book value** | | | |
| **At 31 December 2022** | 159 | 383 | 542 |
| At 31 December 2021 | 3 | 212 | 215 |

# Notes to the financial statements
continued

## 11. Investments
### Group

| Company | Investment in subsidiary companies £'000 |
|---|---|
| **Cost** | |
| At 1 January 2022 | – |
| Additions in the year | – |
| **At 31 December 2022** | – |

### 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 & Wales | Limited by Guarantee | 100% | Switching Services |
| Cheque & Credit Clearing Company Limited | 1 July 2018 | England & Wales | Ordinary | 100% | Inactive |
| Faster Payments Scheme Limited | 1 May 2018 | England & Wales | Limited by Guarantee | 100% | Inactive |
| Mobile Payments Service Company Limited (indirect subsidiary through Faster Payments Scheme Limited) | 1 May 2018 | England & Wales | Limited by Guarantee | 100% | Payments Services |
| UK Payments Administration Limited | 1 July 2018 | England & Wales | Ordinary | 100% | Shared Services |
| UTSP Limited (indirect subsidiary through Faster Payments Scheme Limited) | 1 May 2018 | England & 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 2022 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

| | Aggregate of share capital and reserves £'000 | Profit £'000 |
|---|---|---|
| Bacs Payment Schemes Limited | 1,944 | – |
| Cheque & Credit Clearing Company Limited | – | – |
| Faster Payments Scheme Limited | 2,533 | – |
| Mobile Payments Service Company Limited | – | – |
| UK Payments Administration Limited | – | – |
| UTSP Limited | 1,855 | 593 |
| | 6,332 | 593 |

## 12. Debtors: amounts falling due within one year

| Group | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Trade debtors | **1,863** | 498 |
| Other debtors | **2,100** | 2,525 |
| Deferred tax | **–** | 6 |
| VAT | **–** | 133 |
| Prepayments and accrued income | **16,054** | 17,814 |
| | **20,017** | 20,976 |

| Company | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Trade debtors | **1,573** | 371 |
| Amounts owed by subsidiaries | **4,556** | 9,167 |
| Other debtors | **2,099** | 2,524 |
| Deferred tax | **25** | 6 |
| VAT | **–** | 877 |
| Prepayments and accrued income | **13,099** | 15,914 |
| | **21,352** | 28,859 |

Other debtors (Group and Company) includes £1,591k (2021: £2,046k) 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. Cash at Bank
At 31 December 2022, total cash and cash equivalents included cash amounting to £25m (2021: £21m) that was held in a ring-fenced account to support the Group's Risk Capital and was therefore not available for immediate use by the Group to support day to day working capital.

## 14. Creditors: amounts falling due within one year

| Group | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Trade creditors | **335** | 1,992 |
| Corporation tax | **172** | 2,151 |
| Social security and other taxes | **1,116** | 906 |
| VAT | **843** | – |
| Other creditors | **602** | 825 |
| Deferred tax | **11** | – |
| Accruals and deferred income | **53,780** | 48,186 |
| | **56,859** | 54,060 |

| Company | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Trade creditors | **43** | 369 |
| Amounts due to subsidiaries | **–** | 1,276 |
| Corporation tax | **30** | 2,009 |
| Social security and other taxes | **1,116** | 906 |
| VAT | **87** | – |
| Other creditors | **602** | 825 |
| Accruals and deferred income | **29,106** | 30,791 |
| | **30,984** | 36,176 |

# Notes to the financial statements
continued

## 15. Creditors: amounts falling due in more than one year

| Group and Company | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Contract incentive | 1,591 | 2,046 |
| | 1,591 | 2,046 |

The 2022 creditor relates to a contract incentive and has an equal and opposite offset in debtors due in more than one year.

## 16. Provision for liabilities

| Group | 2022 £'000 | 2021 £'000 |
|---|---|---|
| At 1 January | 858 | – |
| Unwinding of discount | 57 | – |
| Adjustments for change in discount | (35) | – |
| | 880 | – |

Provision for liabilities relates to estimated cost of reinstating the leasehold premises to the original state at the commencement of the lease. The cost is unwinding to 31 December 2024 when we expect to incur these costs.

## 17. 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 41 Guarantors, whose guarantee in the event of winding up the Company was a sum not exceeding £1 each.

## 18. 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.

## 19. Notes to the statement of cash flows

| Group | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the financial year | 859 | 11,554 |
| **Adjustments for** | | |
| Depreciation | 396 | 291 |
| Interest income | (261) | (8) |
| Taxation | 17 | 2,586 |
| Decrease / (Increase) in debtors | 497 | (5,763) |
| Increase in creditors | 5,776 | 16,648 |
| **Net cash generated from operating activities** | 7,284 | 25,308 |

## 20. 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.

In 2021 the pension buyout was completed and the Scheme's liabilities transferred to the insurer and the Employers' obligation to the members was extinguished. The Scheme was wound up in late December that same year. The Scheme did not invest directly in property occupied by the Company or in financial securities issued by the Company. With the scheme now wound up, the 2022 disclosures are all £nil with only transactions in 2022 shown for comparison purposes.

**Recognised in profit or loss**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest (income) | – | – |
| Past service cost | – | 260 |
| Losses on settlements | – | – |
| **Total expense recognised in profit or loss** | – | 260 |

**Movement in the net balance sheet position**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Expense charged to profit and loss | – | 52 |
| Amount recognised outside of profit and loss | – | – |
| Employer contributions | – | (52) |
| **Closing net assets** | – | – |

**Movement in present value of defined benefit obligation**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Opening defined benefit obligation | – | 39,244 |
| Interest on plan liabilities | – | – |
| Actuarial (gains)/losses due to: | | |
| Experience on benefit obligation | – | – |
| Changes in financial assumptions | – | – |
| Changes in demographic assumptions | – | – |
| Benefit payments | – | – |
| Past service costs | – | – |
| Pension buyout | – | (39,244) |
| **Closing defined benefit obligation** | – | – |

# Notes to the financial statements

continued

**Movement in fair value of Scheme assets**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Opening fair value of Scheme assets | – | 39,192 |
| Interest on Scheme assets | – | – |
| Actual return on Scheme assets less interest on Scheme assets | – | – |
| Contributions by the employer | – | 52 |
| Benefit payments | – | – |
| Curtailments and settlements | – | – |
| Pension buyout | – | (39,244) |
| **Closing fair value of Scheme assets** | – | – |

## 21. Financial commitments

At 31 December 2022, the Company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Not later than one year | **1,715** | 1,637 |
| Later than one year and not later than five years | **1,467** | 2,642 |
| | **3,182** | 4,279 |

The lease commitment on floors 1, 2 and 3 of 2 Thomas More Square is to 2024. The terms under the rent review on all three floors were finalised at the end of 2022 providing certainty on these commitments until the end of the lease.

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

## 22. Ultimate parent company

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

## 23. Subsequent events

The Pay.UK Group made the decision to permanently close the Paym service delivered through the Mobile Payments Service Company Ltd in 2022. Consequently, on 7 March 2023, the service ceased to operate. The 2022 contribution to income was £2.5m.



# Glossary

| | |
|---|---|
| **A2A** | Accounts to Accounts |
| **ACE** | Action on Colleague Engagement |
| **AGM** | Annual General Meeting |
| **API** | Application Programming Interface |
| **APP** | Authorised Push Payment |
| **AUDDIS** | Automated Direct Debit Instruction Service |
| **AVCs** | Additional Voluntary Contributions |
| **BABS** | Bacs Approved Bureau Scheme |
| **Bacs** | Bacs Payment System |
| **BASS** | Bacs Approved Software Service |
| **BBA** | British Bankers Association |
| **BIS** | Bank for International Settlements |
| **BITC** | Business in the Community |
| **BPRS** | Bulk Payment Redirection Service |
| **BTAS** | Bacs Training Accreditation Scheme |
| **BUS** | Biller Update Service |
| **CASS** | Current Account Switch Service |
| **CBDCs** | Central Bank Digital Currencies |
| **CDID** | Consolidated Design and Impact Document |
| **CEF** | Customer Engagement Forum |
| **CI** | Central Infrastructure |
| **CMA** | Competition and markets authority |
| **CoP** | Confirmation of Payee |
| **CPAS** | Cheque Printer Accreditation Scheme |
| **CPMI-IOSCO** | CPMI-IOSCO Principles for Financial Market Infrastructures |
| **CSR** | Corporate Social Responsibility |
| **DDIs** | Direct Debit Instructions |
| **EBA** | Euro Banking Association |
| **ECB** | European Central Bank |
| **EISCD** | Extended Industry Sort Code Directory |
| **ERMF** | Enterprise Risk Management Framework |
| **EUAC** | End User Advisory Council |
| **EUIG** | End User Industry Group |
| **EVP** | Employee Value Proposition |
| **FCA** | Financial Conduct Authority |
| **FLF** | First Love Foundation |
| **FMI** | Financial Market Infrastructure |
| **FMID** | Financial Market Infrastructure Directorate |
| **FPS** | Faster Payment System |
| **FRC** | Financial Reporting Council |
| **FRS** | Financial Reporting Standard |
| **FSSC** | Financial Services Skills Council |
| **FTE** | Full-time equivalent |
| **GDPR** | General Data Protection Regulation |
| **HMRC** | HM Revenue and Customs |
| **IAC** | Industry Advisory Council |
| **IAN** | Interactive Advance Notification |
| **IBS** | Important Business Services |
| **ICS** | Image Clearing System |
| **IFRS** | International Financial Reporting Standard |
| **INED** | Independent Non-Executive Director |
| **ISO** | International Organisation for Standardisation |
| **ISO 20022** | International Organisation for Standardisation 20022 |
| **KPIs** | Key performance indicators |
| **LMS** | Learning Management System |
| **LTIP** | Long Term Incentive Plan |
| **MPSCo** | Mobile Payments Service Company Limited |
| **NEDs** | Non-Executive Director |
| **NPA** | New Payments Architecture |
| **NPCI** | National Payments Corporation of India |
| **OB** | Opening Banking |
| **OBL** | Open Banking Limited |
| **PaaS platform** | Payments as a Service platform |
| **PAC** | Participant Advisory Council |
| **PEF** | Participant Engagement Forum |
| **PFMI** | Principles for Financial Market Infrastructures |
| **PISP** | Payment Initiation Service Provider |
| **PKI** | Public Key Infrastructure |
| **POC** | Proof of Concept |

# Glossary
continued

| | |
|---|---|
| **PPC** | Price Per Click |
| **PSO** | Payment System Operator |
| **PSP** | Payment Service Provider |
| **PSR** | Payment Systems Regulator |
| **PSW** | Payment Services Website |
| **QBR** | Quarterly Business Review |
| **RAM** | Risk Assessment Matrix |
| **RCA** | Root Cause Analysis |
| **RCSAs** | Risk Control Self-Assessments |
| **RDC** | Remote Deposit Capture |
| **RFP** | Request for Proposal |
| **RTGS** | Real-Time Gross Settlement |
| **RTO** | Recovery Time Objectives |
| **RtP** | Request to Pay |
| **SCVAS** | Sort Code Validation Accreditation Scheme |
| **SIP** | Single Immediate Payment |
| **SLA** | Service level agreement |
| **SME** | small and medium-sized enterprise |
| **SPG** | Strategic Participant Group |
| **SRD** | Secondary Reference Data |
| **TCH** | The Clearing House |
| **TPMF** | Third Party Management Framework |
| **UK GAAP** | United Kingdom Generally Accepted Accounting Practice |
| **UKF** | UK Finance |
| **UKPA** | UK Payments Administration |
| **UTSP** | Universal Trust Service Provider |
| **WEEE** | Waste Electrical and Electronic Equipment |

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