



FNZ (UK) Ltd

Annual Report and Financial Statements

For the Year Ended 31 December 2022

Company Number: 05435760

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FNZ (UK) Ltd
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FNZ (UK) Ltd
Company Information

Directors

Catherine Brown (Non-Executive Director)
Alastair Conway
William Dobbin (Non-Executive Director)
Susan Harris (Non-Executive Director)
Andrew Ring
Gregor Stewart (Non-Executive Chairman)
John Tomlins (Senior Independent Director)

Company Secretary

Christopher Aujard

Independent Auditors

PricewaterhouseCoopers LLP
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144 Morrison Street
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London
EC2M 3TP

Company Registration Number

05435760

FNZ (UK) Ltd
Chairman's Statement for the year ended 31 December 2022

Chairman's Statement

Against the continued social and economic impacts of a slow recovery from the pandemic, and with the additional inflationary impact of the war in Ukraine, FNZ (UK) Ltd ('FNZ') has successfully weathered a challenging 2022. Driven by adverse market movements, partially offset by inflows and migrations from clients, assets under administration ('AuA') reduced by 6.1% during the year to £405.0bn as at 31 December 2022 (2021: £431.4bn). However, it was encouraging to see partial recovery in the level of AuA in the final few months of the year as markets and platform assets rallied.

The increase in service revenue during the year was offset by significantly lower development and enhancement revenue as a result of external uncertainties and migration complexity. Costs were inflated in 2022 due to the need to utilise a higher proportion of relatively expensive, non-permanent resource. Financial settlements associated with migration complexity, including some delays to implementation projects, were reimbursed by FNZ Group (meaning FNZ Group Limited and its subsidiaries). Additionally, a fair value gain of £20m which was recognised in 2021 did not reoccur in 2022. This resulted in a small profit, which was reduced by royalty payments to FNZ Group, to a £nil result for 2022 (2021: profit after tax of £58.0m). The outlook for 2023 is more positive as a result of client migrations already contracted, the growing pipeline for new revenue and an increasing proportion of permanent employees.

FNZ has continued to focus on delivering for our clients through what has been a challenging year for all. During the year FNZ successfully completed significant migrations meaning that more than six million customers of our clients now receive their service through an FNZ powered platform. We are genuinely opening up wealth to an ever-growing segment of the UK population.

We refreshed our leadership team during the year. Alastair Conway was appointed Chief Executive Officer following Matthew Ferman's transfer to a senior role within FNZ Group. I would like to thank Matthew for his commitment over recent years. Alastair has an impressive and relevant track record developed through his previous roles and has quickly and effectively established himself within our business. Alastair expects to add to the strength of his executive team in 2023.

During 2022 FNZ Group has reinforced the following values to re-emphasise our mission to help people achieve their financial goals:

- Customer obsessed for the long-term;
- Think big and make an impact;
- Act now and own it all the way; and
- Challenge, commit and win together.

In order to further develop our platform, during 2022 FNZ Group continued to invest in enhancements designed to accelerate the onboarding of client assets and expand the capabilities we offer to clients in the UK. This activity included the Group's investments in Tapico and Advicefront.

My thanks to all FNZ team members, the executive team, and the Board for their focus on delivering for clients in 2022. In particular, I would also like to thank all our strategic platform clients for their ongoing support and collaboration in helping UK consumers achieve their financial goals, despite the turbulent external environment.



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Gregor Stewart
Chairman

FNZ (UK) Ltd
Strategic Report for the year ended 31 December 2022

Principal Activities

The principal activity of FNZ (UK) Ltd ('FNZ' or 'the Company') is the provision of transaction and custody services to financial institutions to support the provision of wealth management services by these institutions to their intermediaries and end customers.

Financial Review

Revenue in the year has fallen by 11.5% to £225.3m (2021: £254.7m). The decline in revenue was driven mainly by a reduction in implementation and enhancement revenue of £93.9m year on year. This is due principally to the timing of a number of significant contracts with key clients, which are now expected in 2023. Despite a decline in AuA by 6.1% to £405.0bn (2021: £431.4bn) as at December 2022, service revenue has increased by 18.5% to £118.5m (2021: £100.0m) as a result of a full year of assets, migrated in 2021, on FNZ platforms. During the year, the Company entered into an agreement with FNZ Group Technologies Limited in relation to the provision of services by FNZ Group to the Company, such that the Company was reimbursed for settlement amounts paid to clients during the year in relation to migration complexity leading to some delays in implementation projects.

The reduction in implementation and enhancement revenue, partially offset by increased service revenue as detailed above, along with the increased expenditure as a result of business growth and spend on non-permanent resource, gave a small profit which was reduced by royalties to FNZ Group to give a result of £nil (2021: profit after tax of £58.0m).

FNZ continued to invest in enhancing automation of operational controls and the internal control environment, to provide greater scalability from a resilient base. FNZ Group maintained a strong R&D investment programme to ensure clients and their customers (wealth managers, financial advisers and end customers) benefit from proposition innovation and improved operating efficiency.

Outlook

FNZ entered 2023 with a number of incremental platform migrations in progress. The completion of these migrations will support our projected significant growth in AuA over the medium term. Our increasing scale allows continued investment in core product innovation, process automation and operational resilience which underpins our long-term mission of improving consumer engagement with wealth management and lowering the cost of access. We note the continuing market volatility that has been experienced in early 2023 as we monitor AuA levels on an ongoing basis.

Risk Management

FNZ has adopted the FNZ Group Risk Management Framework ('GRMF') which provides FNZ with a structure for managing its enterprise-wide risks. The GRMF sets out the processes, methods and supporting frameworks used by FNZ to manage risks associated with its business model and strategy, by setting out the roles and responsibilities and associated governance for managing and reporting on risks within the business.

In 2022, FNZ has continued to enhance the structure of its GRMF, further embedding our approach to financial risk and operational risk management.

Principal Risks, Financial Risks and Uncertainties

FNZ management and the Board regularly assess FNZ's key risks; those that would threaten its business model, future performance, solvency, capital adequacy or liquidity. These key risks relate to operational risks (including data and cyber security, change delivery and people risk), financial risk, market risk, liquidity risk, capital risk,

FNZ (UK) Ltd
Strategic Report for the year ended 31 December 2022 (continued)

regulatory risk and conduct and consumer harm risks. Each risk is managed against appropriate risk appetite thresholds for FNZ and as part of the broader GRMF.

Operational Resilience

FNZ recognises that the important business services it provides are key to FNZ clients and their end customers and are important to the UK financial services market and takes seriously the risks and vulnerabilities in its business and manages these through the ongoing improvement and development of operational resilience.

FNZ has robust policies, frameworks, and strategies in place to ensure that services and supporting systems can be kept at agreed acceptable levels of performance during any disruption to its business. In particular, the aim is to ensure the consistent availability and delivery of FNZ services, to preserve FNZ's brand reputation and that of its clients, and its financial performance, at all times, by requiring business owners to identify their critical activities, manage associated risks, and plan for their potential disruption.

FNZ will continue to enhance and refine operational resilience and has established a plan which includes severe but plausible scenario testing of services along with regular embedding, maintenance, and review activities. FNZ's Operational Resilience and Continuity Committee monitors and ensures the on-going development and oversight of operational resilience. This approach will continue to be influenced by information published by our regulators and industry experts.

FNZ has continued to demonstrate strong resilience throughout 2022 and with the introduction of a more formalised hybrid working approach is well prepared to deal with uncertainties that may arise.

Cyber Risk

The industry is targeted by cyber criminals and other threat actors who use increasingly sophisticated measures, within a constantly changing landscape, to exploit perceived vulnerabilities. FNZ manages information security in accordance with a tried and tested Information Security Risk Management Framework, supported by a comprehensive and ongoing investment programme in people, capabilities and tools. FNZ regularly tests its resilience against cyber threats via extensive penetration and failover tests using both internal and external expertise.

Change Delivery

FNZ is primarily exposed to operational risk through failure to deliver change for both new and existing clients in relation to the migration of assets and the servicing of those assets. The Board recognises that to meet the continued growth of FNZ the successful execution of change projects is key. FNZ manages change by ensuring that client and end-customer requirements are met, regulatory obligations are adhered to, and that any delivery programmes are managed in a controlled manner through a tried and tested Software Development Lifecycle delivery control framework.

People Risk

FNZ considers that there are risks to both talent acquisition, retention and employee wellbeing, compounded by current market circumstances such as the restricted employment market in the UK and the cost-of-living crisis. Failure to manage these risks appropriately may negatively impact client and regulatory commitments, productivity and engagement, and ultimately, the servicing of the end-customer. FNZ manages this risk, through competitive remuneration, a wellbeing programme, ongoing training and development and appropriate resource planning, against appropriate risk appetite statements. FNZ continues to work on closing the gender pay gap, which is reported separately on the Company's website.

Financial Risk

Financial risk arises primarily from the uncertainty regarding the timing and the estimation of revenue from implementation projects. Such revenues are reliant on the timing of contract commitments and are based on the stage of completion for each project. The recurring revenue derived from asset servicing has increased

FNZ (UK) Ltd
Strategic Report for the year ended 31 December 2022 (continued)

through FNZ's successful growth and the relative reliance on revenues derived from implementation projects that are subject to this type of uncertainty is decreasing.

Market Risk

FNZ market risk is related to foreign-exchange exposure that arises on spot and forward foreign currency positions other than FNZ's functional currency (GBP). FNZ's exposure to foreign exchange risk primarily arises from exposures to Czech foreign exchange derivative contracts linked to the day-to-day funding requirements of FNZ's business operations in the Czech Republic. Although not a material exposure, FNZ performs monthly gap analyses of its foreign exchange position to ensure risks associated with this are monitored and/or mitigated within acceptable levels of risk appetite. FNZ has a rolling 12-month partial hedging process in place.

FNZ is exposed to market volatility risk of its service revenue due to fluctuations in the value of AUA held on platform for its clients above certain levels. As part of its annual business planning cycle FNZ makes assumptions on market growth/movement over the forthcoming period taking into account historic evidence and forward-looking insight.

Credit Risk

FNZ has credit risk exposures through on-balance sheet assets such as receivables, contract assets, and cash at banks. FNZ uses the Standardised Approach set out in the UK Counterparty Credit Risk ('CCR') regulations to calculate its credit risk requirement.

Counterparty Credit Risk ('CRR')

CCR is the risk that a counterparty for securities financing transactions, both over-the counter (OTC) and centrally cleared derivatives transactions could default before the final settlement of the transactions. FNZ is exposed to CCR through foreign exchange OTC derivative contracts used primarily to hedge future expenses denominated in foreign currencies (see Market Risk above).

Liquidity Risk

Liquidity risk results from the irregular timing of cash receipts associated with client implementations, the short-term impact of certain operating expenses and counterparty risk. FNZ management continuously monitors cash-flow and liquidity projections via its treasury management function. As part of the introduction of the new Prudential regime for investment firms FNZ has enhanced its Financial Resources Risk Management Framework (FRRMF) to identify, measure, monitor, manage and report its liquidity risks and to demonstrate the effectiveness of its liquidity risk management in addition to financial risk more broadly.

Capital Risk

Capital risk arises if capital resources are not adequate to cover regulatory capital requirements. Capital risk could arise due to a depletion in capital resources as a result of the crystallisation of any of the risks to which FNZ is exposed. FNZ carefully assesses the capital it requires through a capital management framework, again enhanced as part of the FRRMF following the introduction of the new Prudential regime, that includes the setting of a capital risk appetite which is monitored on a continued basis.

Regulatory Risk

Regulatory risk relates to compliance with Financial Conduct Authority ('FCA') rules. FNZ has invested in building appropriate frameworks, tools and specialist compliance skills. All staff are provided with regulatory training by the Risk and Compliance department. Regulatory risk in relation to compliance with the FCA's capital and liquidity requirements is managed through a comprehensive framework of policies and a robust programme of assessment with senior management and Board oversight.

Conduct and Consumer Harm

The Board tracks a range of measures to assess and manage our potential exposure to Conduct and Consumer Harm risks to our clients and their customers. To ensure an appropriate focus on both conduct risk and

FNZ (UK) Ltd
Strategic Report for the year ended 31 December 2022 (continued)

consumer harm, management have a Customer Committee which meets regularly to assess and oversee a detailed set of performance and key risk indicators. Additionally, the Board has established a Client and

Customer Oversight Committee to advise the Board on the Company's ability and capacity to meet its obligations and reduce the risk of harm to the end customer.

Business Risk

Business risk includes strategic risk, propositional risk and Group risk.

In recent years FNZ has rapidly expanded through organic growth and client migrations. To execute its growth strategy, further migration opportunities are likely to be considered in the medium term. The failure to support client AuA growth or effectively manage client migrations poses a risk to the firms' strategic objectives. To address this risk, FNZ works closely with its clients to support their own strategic objectives and has in place a robust client migration process and operational capabilities.

FNZ recognises that there is an inherent degree of competition in the financial technology sector and that its competitors may impact FNZ's ability to execute its stated business objectives and strategy, this includes the potential loss of FNZ's technological advantage to a competitor. FNZ manages the risk of technology obsolescence through constant investment in innovation, supported by an in-house product team. In addition to this, FNZ will partner with other technology companies, where appropriate.

Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group (e.g. reputational contagion). Financially, FNZ is exposed to other FNZ Group entities through cross-guarantees. This is mitigated by FNZ Group Limited which has provided FNZ with a letter of support guaranteeing financial assistance to the full extent of its resources. In addition, where services are provided between entities in the FNZ Group, these are done on an arm's length basis, supported by formal intercompany contracts.

Business risk also encompasses the exposure to uncertainty in the wider economic and competitive environment and the impact of that environment on FNZ's ability to execute its stated business objectives and strategy. This risk is managed with strategic focus, assisted by appropriate senior management oversight and a strong corporate governance framework including a documented risk strategy and associated appetite statement.

Business risk also arises from the effects of ongoing economic uncertainties and geopolitical shifts. The war in Ukraine and the overhang from COVID have caused inflation to rise sharply and, in response UK fiscal policy has resulted in interest rates rising to levels not seen for more than a decade. These macro-economic uncertainties and risks, including inflation risk, are likely to last for some time and whilst FNZ cannot directly influence their outcome it is monitoring the impacts closely and ensuring continued support for our clients and their end customers as required.

Climate Change

FNZ's climate-related risks fall within two categories:

- Organisational – the two main areas of energy usage are data centres and travel. Activities to reduce FNZ's footprint include powering its data centres with renewable energy and utilising cloud-based technology infrastructures where appropriate and maintaining a reduced travel footprint.
- Propositional – remaining at the forefront of developing and implementing tools and solutions to support climate resilient products and services.

In line with the expectations of FNZ's clients who are increasingly making net zero pledges, FNZ will continue to deploy its technology solutions to help them deliver on these pledges through appropriate reporting, reduction and mitigation solutions. FNZ Impact, a platform feature, supports investors in understanding and mitigating the climate risk inherent in their investments and aligning to the goals of the Paris Agreement.

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Strategic Report for the year ended 31 December 2022 (continued)

To facilitate the identification, assessment, monitoring, and reporting of the above operational risks, FNZ has a developed risk management framework with associated governance processes in place. This includes the following processes to assist first line management: risk appetite statements and thresholds for the management of risks, a change risk assessment framework to support projects, management information to support monitoring and analysis and an embedded governance structure to support the review, challenge, and approval of projects and operational risks.

Section 172(1) Statement

Section 172(1) of the Companies Act 2006 requires each Director to act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefits of its members as a whole. The Directors in doing so, have regard to the likely consequences 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 with members of the Company.

The Board considers the consequences of their decisions in the long term and is guided by the five-year strategic plan alongside the GRMF and risk appetite to achieve long term sustainable success whilst maintaining high standards of business conduct. For each matter that comes to the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the decision-making process.

FNZ considers its key stakeholders to be the following:

Shareholders

FNZ is a wholly owned subsidiary of FNZ Group Entities Ltd (formerly Kiwi UK Holdco 2, Ltd) and the ultimate controlling party is FNZ Group Limited (formerly Kiwi Holdco CayCo, Ltd). The Board ensures that matters are communicated and referred to the respective shareholder and FNZ Group Limited where appropriate. Further information on FNZ Group Limited shareholders can be found in the Ownerships and Structure section of the Directors' Report.

Employees

The Board champions the view that employees are fundamental to the long-term success of FNZ. Employees receive regular updates on the financial and economic factors affecting the performance of FNZ and the FNZ Group via a number of channels, including directly from senior management and video messages which facilitate a systematic flow of information on matters which directly impact the Company's employees. In online, live forums, employees are encouraged to ask questions and help shape future communications they receive.

FNZ promotes fair reward, diversity, inclusion, equal opportunities, the freedom of association and other human rights through our interactions with our employees and in our decisions on hiring, remuneration, training and promotion. Diversity and inclusion are key to FNZ being a responsible and successful business. FNZ values the views of its employees and promotes a collaborative, open and transparent communications environment which helps maintain a healthy, inclusive and strong workplace. Through a diversity and inclusion ('D&I') programme, a series of developments have taken place including diverse shortlisting, gender balanced interview panels, and senior leadership target-setting. These initiatives are intended to drive the D&I agenda as FNZ embarks on a multi-year journey in this area.

In 2022 FNZ has experienced increased voluntary attrition levels across all functions and geographies, mainly driven by external factors such as low unemployment and the "great resignation" following the COVID pandemic where significant career changes have been instigated after a period of reflection. The data collection on voluntary attrition has increased to allow for improved analysis and an action plan has been instigated to retain key talent.

FNZ (UK) Ltd
Strategic Report for the year ended 31 December 2022 (continued)

The labour market in 2022 was volatile with the unemployment rate reducing to 3.7% and remains lower than pre COVID pandemic levels. Competition, particularly in Edinburgh, with other recruitment drives has increased the “War for Talent”. FNZ was able to fill vacancies with an increased referral reward to utilise existing employee networks, the use of specialised recruitment agencies and an increased in-house recruitment team. The reputation of the business remains attractive to candidates as Glassdoor reviews are buoyant and the introduction of the FNZ Way cultural collateral has been positively received by candidates. All new employees complete a survey to check that the onboarding experience has been smooth, supportive and positive.

Post the COVID pandemic, all employees have been requested to work in a hybrid model with a minimum of three days a week in the office to encourage collaboration and knowledge transfer. To support this change in working pattern, a range of support has been offered to employees including various emotional advice services to address the anxiety that some have encountered linked to this change. In addition, a UK property upgrade plan has been undertaken to make the office environment more attractive, increase collaboration areas and to reflect the FNZ brand.

2022 saw the introduction of an advanced employee engagement tool where response data is collated “real time” and results can be benchmarked with other organisations.

Customers

As part of the annual review of the five-year strategic plan, the Directors consider all stakeholders. In particular recognising that sustainable growth requires long term trusted partnerships with clients. Such partnerships are only possible if the firm maintains high standards of business conduct at all times.

The Customer Committee meets on a monthly basis and reports to the newly constituted Board Client & Customer Oversight Committee. Its focus continues to be improving customer outcomes by enhancing service standards, products and business relationships with clients and end customers.

FNZ places critical importance on the safeguarding of clients and their retail customers’ assets; the Board continued to strengthen this control environment during the year.

Suppliers

FNZ is reliant upon suppliers for a number of key services and in accordance with its strategic risk framework, suppliers are selected after careful consideration in line with FNZ’s procurement policy.

The resilience of our suppliers is key for FNZ with focused due diligence activities in place to ensure understanding of the resilience of the supplier base.

Regulators

During the year FNZ continued to focus on maintaining compliance with regulatory requirements. FNZ supports the conduct requirements and expectations of the regulator to deliver positive end-customer outcomes and avoid customer harm. FNZ remains committed to an open relationship with the regulator on all matters.

Community and the Environment

FNZ aims to continually drive improvement in its business and services across a multi-year journey to achieve a net-positive impact on the environment, society, and its people. The measurement and management of environmental, social and governance considerations is part of FNZ’s approach, and includes FNZ’s commitment to measuring and reporting scope 1, 2 and 3 emissions. For further detail see Emissions and Energy Consumption in the Directors’ Report.


FNZ (UK) Ltd

Strategic Report for the year ended 31 December 2022 (continued)

Through innovative research and development, for example the launch of platform propositions such as FNZ Impact, retail investors, their advisors and wealth managers are informed of the sustainability impact of their long-term savings from the perspective of their personal values, ultimately catalysing the shift to more sustainable capital allocations at scale and supporting the transition to a lower carbon economy.

The FNZ Foundation, which represents the FNZ Group, made its first grant in the area of environmental sustainability to The Nature Conservancy Council, and provided corporate support to the NSPCC, as well as a spectrum of charitable causes in the communities in which the FNZ Group operates, and others that are important to colleagues.

Approved by the Board on 31 March 2023 and signed on its behalf by:


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Alastair Conway
Director

FNZ (UK) Ltd
Governance Report for the year ended 31 December 2022

Corporate Governance Statement

As a privately owned, non-listed company, FNZ is not required to comply with the UK Corporate Governance Code (the 'Code'). The Board, however, continues to give careful consideration to the principles of corporate governance as set out in the Code and, having regard to its regulated status, remains committed both to maintaining high standards of corporate governance and complying with the Code so far as it is practicable and appropriate for a company of its size and nature.

Board of Directors

The Board is comprised of the Non-Executive Chairman, the Senior Independent Director, three further Non-Executive Directors and two Executive Directors. The Board has considered the independence of its Non-Executive Chairman and of its Non-Executive Directors and has concluded that all are independent. FNZ does not require its Directors to retire and submit themselves for re-election. Any changes to the Board composition or structure are considered by the Nominations Committee. A review of the effectiveness of the Board is carried out annually.

The Board is required to meet at least ten times per year and there is a schedule of formal matters specifically reserved for the Board's consideration. The Board programme is designed so that Directors have a regular opportunity to consider the Company's strategy, operations, risks, policies, financial plans, customer outcomes, technology, financial results, liquidity, capital and regulatory requirements in order for the Board to arrive at a balanced assessment of the Company's position and prospects. Strategic developments (including consideration of new contracts and propositions), operational performance, financial performance, risk management, customer outcomes and regulatory compliance are considered at each Board meeting. The Board regularly invites internal subject matter experts to the Board meetings in order for them to provide additional insight into their specialist areas.

FNZ has a clear division of responsibility between the roles of the Chairman and the Chief Executive Officer. The Non-Executive Chairman has a responsibility to ensure that the strategies and policies proposed by the Executive Directors are fully discussed and critically examined, not only with regard to the best long-term interests of the shareholders, but also with regard to FNZ's relationships with the regulator and its employees, clients, suppliers and other stakeholders.

Day to day management of the business is delegated to FNZ's Senior Executives, who the Board relies upon for the provision of accurate, complete and timely information and the Board may seek further information where necessary.

Board Committees

The Board has delegated certain responsibilities to the Board Risk and Compliance Committee ('BRCC'), the Audit Committee, the Remuneration Committee, the Nominations Committee and the Board Client and Customer Oversight Committee. These Committees have written Terms of Reference which define their authorities, duties and membership.

Internal Control and Risk Management

The Directors formally acknowledge their responsibility for establishing effective internal control within the Company. The Board has put in place a system of internal controls, set within the framework of a clearly defined organisational structure, with well understood lines of responsibility, delegation of authority, accountability, policies and procedures, which is supported by training, monitoring, reporting and review procedures.

FNZ (UK) Ltd
Governance Report for the year ended 31 December 2022 (continued)

A strategic plan (including a five-year financial plan) and an annual operating budget are prepared by management and challenged and agreed by the Board. Monthly reporting and analysis against budget and revised forecasts are reported formally to and challenged by the Board.

The GRMF provides a structure for managing FNZ's enterprise-wide risks. It sets out the processes, methods and supporting frameworks used by FNZ to manage the risks associated with its business model and strategy, setting out the roles and responsibilities within the framework and associated governance for managing and reporting on risks within the business.

Responsibility for embedding the GRMF within the UK Business sits with the UK Board, its sub committees and management teams. They attest annually to the Group Board as to the effectiveness and embeddedness of the framework in their businesses.

Risk Appetite Framework

Risk Appetite is an expression of the level of risk that FNZ is willing to take to execute its strategy. Risk Appetite is articulated through Risk Appetite Statements, which define the level of risk FNZ is willing to avoid, accept or seek to meet its strategic and business objectives for each risk type defined in the risk taxonomy. Risk appetite is aligned to the key risks and includes both quantitative and qualitative statements, with measures and limits on the amount of risk FNZ is willing to take. They are supported by Key Risk Measures including Key Risk Indicators ('KRIs').

FNZ Risk Culture

A strong risk culture enables effective risk management and supports the successful delivery of FNZ's strategy. Culture is delivered through tone from the top, leadership displaying the right values, strong and effective governance, remuneration incentivising high performance and good behaviours and consequences for poor behaviour, training staff and communicating and reinforcing key messages constantly. This forms an integral part of the end of year review process which informs any proposed enhancements to overall remuneration. At FNZ, the risk culture reflects the firm's scale and complexity and:

- Aligns to the objectives of FNZ and the needs of FNZ stakeholders and is focused on end customer outcomes.
- Promotes a holistic understanding of risk and is embedded in the ongoing processes for strategic and operational decision making, through risk-focused processes and methods.
- Considers FNZ impacts on environment and local communities.

As part of embedding a strong risk culture, FNZ has a risk management objective for all staff within the FNZ performance management process.

Risk Reporting

A calendar of events for the UK Board and the BRCC is created and maintained throughout the year to ensure that the responsibilities of the Board and Committee are fulfilled. It acts as a tool each month in preparing and setting of agendas.

FNZ is committed to firm-wide governance and a risk management framework that is appropriate to the nature, scale, and complexity of the business. Under the 'Three Lines of Defence' model, the Board has ultimate responsibility for managing and controlling risk within FNZ's stated risk appetite.

First Line Management: Risk Ownership The business functions own risks. First line management have the primary responsibility for managing risks on a day-to-day basis and operating an effective suite of internal controls which include any incremental new deals with existing clients and new clients. The First Line identifies, assesses, controls, and mitigates risks, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives. They are responsible for implementing corrective actions to address process and control deficiencies.

FNZ (UK) Ltd
Governance Report for the year ended 31 December 2022 (continued)

Second line: Risk Oversight The specialist functions, such as Risk and Compliance, are independent of the First Line and provide guidance, oversight and challenge to the business in relation to risk management. They are responsible for setting risk management policies, developing risk management frameworks, and facilitating and monitoring the implementation of effective risk management practices by management.

Third Line: Independent Assurance Internal Audit provides the Board and senior management with wide ranging assurance underpinned by a high level of independence unfettered access across FNZ. Internal Audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the way the first and second lines achieve risk management and control objectives.

Board Risk and Compliance Committee

The BRCC comprises the Non-Executive Chair and three further Non-Executive Directors, one of whom is the Chair of the Audit Committee. The Chief Executive Officer ('CEO'), Chief Finance Officer ('CFO'), Chief Risk Officer ('CRO'), Chief Compliance Officer and the Global Head of Internal Audit attend meetings by invitation and provide advice where appropriate.

The primary purpose of the BRCC is the oversight of risk management and regulatory compliance FNZ. The responsibilities of the BRCC include reviewing and approving or where appropriate recommending to the board for approval:

- Risk management strategy, framework, policies and measurement systems;
- Overall approach to risk appetite and monitoring of specific risk appetite statements;
- Risk Identification: identification of key risks, including project related and emerging risks facing the business;
- The framework for achieving regulatory compliance;
- The Business continuity plan; and
- Internal Capital Adequacy and Risk Assessment process ('ICARA') process and outputs

Both the Audit Committee and the BRCC are conscious that there are certain matters that could be considered by both Committees but ongoing dialogue between the Chairs and the relevant Executives ensure that there are no duplications or omissions.

Audit Committee

The Audit Committee comprises the Non-Executive Chair and two further Non-Executive Directors, each with relevant financial and commercial experience, one of whom is the Chair of the BRCC. The CEO, CFO, CRO and the Global Head of Internal Audit attend meetings by invitation and provide advice where appropriate. The external auditors attend all Audit Committee meetings.

The Audit Committee's principal oversight objectives are financial control and reporting, internal audit activities and external audit. The responsibilities encompass:

- Approval and oversight of the Internal Audit Plan, which examines and evaluates the adequacy and effectiveness of FNZ's systems and internal controls;
- Reviewing audit reports and recommendations resulting from the audit plan and monitoring compliance with those recommendations;
- Accounting procedures and financial controls;
- Integrity of the financial statements and of any information published by FNZ relating to its financial performance, including the annual report and recommending the Annual Report and Accounts to the Board;
- Financial and accounting policies and the key financial estimates and judgements employed; and
- The results and the effectiveness of FNZ's external audit.

FNZ (UK) Ltd
Governance Report for the year ended 31 December 2022 (continued)

The Audit Committee is responsible for assessing the independence and recommending the appointment, removal and remuneration of the external auditors to the Board for approval. It is responsible for monitoring the provision of non-audit services to FNZ.

Remuneration Committee

The Remuneration Committee comprises the Non-Executive Chair and two further Non-Executive Directors (one of whom can be the Company Chair). Other attendees may include the CEO, Chief Human Resources Officer, CRO and Group General Counsel as appropriate.

The Remuneration Committee is responsible for oversight of FNZ's remuneration policy. It is responsible for ensuring that FNZ has a transparent, risk focused remuneration strategy that enables it to procure the levels of skill necessary to achieve its strategic objectives effectively and that it meets the Financial Conduct Authority's remuneration code requirements for a 'Tier Three Firm'. The Committee is also responsible for overseeing the Senior Managers and Certification Regime ('SMCR').

Nominations Committee

The Nominations Committee comprises the Non-Executive Chair and all other Non-Executive Directors. Other attendees may include the CEO, Chief Human Resources Officer, CRO and Group General Counsel as appropriate.

The principal objective of the Nominations Committee is to review and to make recommendations to the Board in relation to the:

- Size, structure and composition of the Board and FNZ's governing bodies;
- Nomination of individuals to FNZ's Board and governing bodies;
- Appointment of all senior personnel including the description of the role and capabilities required for particular appointments;
- Board diversity; and
- Succession planning.

Board Client & Customer Oversight Committee

The Board Client & Customer Oversight Committee comprises the Non-Executive Chair and two further Non-Executive Directors. Other attendees may include the CEO, CFO, CRO and COO as appropriate. This Committee was constituted in 2022 and held its inaugural meeting in October 2022.

The primary purpose of the Board Client & Customer Oversight Committee is to advise the Board in its oversight of the effectiveness of FNZ's ability and capacity to meet its obligations and reduce the risk of harm to the end customer with specific focus on oversight of delivery and servicing activities.

FNZ (UK) Ltd
Directors' Report for the year ended 31 December 2022

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2022.

Directors

The Directors of the Company who were in office during the year were:

Catherine Brown
Alastair Conway (appointed 21 October 2022)
William Dobbin
Matthew Ferman (resigned 16 May 2022)
Susan Harris
Andrew Ring
Gregor Stewart
John Tomlins

Ownership and Structure

FNZ is a wholly owned subsidiary of FNZ Group Entities Ltd (formerly Kiwi UK Holdco 2, Ltd) (a New Zealand registered company). The ultimate parent company is Falcon Newco Limited (an exempted limited company incorporated under the laws of the Cayman Islands). The ultimate controlling party is FNZ Group Limited (formerly Kiwi Holdco CayCo, Ltd (a New Zealand registered company) and FNZ is a member of the group of companies held directly and indirectly by FNZ Group Limited.

FNZ has five wholly owned, dormant subsidiaries:

- FNZ (UK) Nominees Limited
- FNZ Wealth Nominees Limited
- FNZ Wealth Nominees EUR Limited
- FNZ Wealth Nominees USD Limited
- FNZ Wealth Gross Nominees Limited

FNZ has branches located in Czech Republic, Ireland, Italy and Switzerland. The latter two are in the process of being closed.

Shareholder Relations

FNZ does not hold any specific meetings with its shareholders since it is a wholly owned subsidiary within the FNZ Group. Representatives from each of the major shareholders are Directors of the FNZ Group Limited Board and receive regular updates on FNZ. The Non-Executive Chairman is also a Non-Executive Director of FNZ Group Limited (formerly Kiwi Holdco CayCo, Ltd).

FNZ (UK) Ltd
Directors' Report for the year ended 31 December 2022 (continued)

Results and Dividends

The audited financial statements and related notes for the year ended 31 December 2022 are set out on pages 23 to 52. The financial results for the year are summarised below:

	2022	2021
	£'000	£'000
Revenue	225,303	254,672
Result/Profit for the year after tax	-	57,994

In respect of the year ended 31 December 2022, the Directors recommended that no dividend be paid (2021: £nil).

	2022	2021
	£'000	£'000
Total comprehensive (expense)/income for the year attributable to the equity holders	(135)	57,965

Share Issue

There were no shares issued in the period.

Bank Facilities

On 24 December 2019 FNZ entered into a £10m revolving credit facility ('RCF'). This facility was a re-designation of the Group's existing RCF. This facility allows the Company to utilise bank loans for periods of one month to six months up to a maximum value of £10m. Further detail is available in Note 20 to the financial statements.

Post Balance Sheet Events

There are no material post-balance sheet events directly affecting the Company.

Financial Resources

Effective from 1 January 2022 FNZ falls under the FCA's Investment Firms Prudential Regulation and the Prudential Sourcebook for MiFID Investment Firms (MIFIDPRU) as an FCA solo regulated MiFID Investment Firm and is classed as a 'MIFIDPRU non-SNI £150k Firm' for financial adequacy purposes.

FNZ is subject to the ICARA rules and requirements governing financial resources adequacy and the amounts, quality, and availability of Own Funds (regulatory capital) and Liquid Assets (regulatory liquidity) FNZ must hold or have access to at all times.

The overall purpose of the ICARA is to ensure that FNZ:

- has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operation of its business or winding down its business; and
- holds financial resources that are adequate for the business it undertakes.

The requirement for adequate financial resources achieves two key outcomes:

- to enable the firm to remain financially viable throughout the economic cycle with the ability to address any potential material harms that may result from its ongoing activities (including both regulated activities and unregulated activities); and

FNZ (UK) Ltd
Directors' Report for the year ended 31 December 2022 (continued)

- to enable the firm to conduct an orderly wind-down while minimising harm to consumers or to other market participants, and without threatening the integrity of the wider UK financial system.

The ICARA process sets out how FNZ meets the Overall Financial Adequacy Rule (OFAR), and through meeting the OFAR the Firm demonstrates it has adequate financial resources in the form of own funds and liquid assets. It is a continuous process that:

- identifies and monitors potential material harms and their underlying risks;
- considers and develops appropriate financial and non-financial mitigants to minimise the likelihood of risk crystallisation and the impact of potential material harm;
- assesses own funds and liquid assets requirements on an ongoing basis against business as usual and stressed operating conditions;
- develops and implements appropriate and credible recovery actions tied to specific intervention points to restore own funds and/or liquid assets where there is a risk of breaching threshold requirements; and
- develops and implements a robust and comprehensive wind-down plan including timelines for when and how the plan is to be triggered and administered over the wind down horizon.

FNZ reviews the ICARA process and updates the ICARA documentation at least every 12 months or more frequently if there are material changes to the business model or operating model.

The ICARA process focuses on assessing the quantity and quality of own funds and liquid assets to meet the Own Funds Threshold Requirement (OFTR) and the Liquid Assets Threshold Requirement (LATR), both of which must be met at all times to meet the OFAR.

The key aspect of the ICARA is the requirement to identify and manage risks that would result in:

- material harms arising from ongoing operations to clients, end-customers, the market in which the firm operates, and the firm itself; and
- harms that might result from winding down the firm's business.

As noted above, harms do not exist on their own; they manifest as a product of a material risk crystallising. Only when a material risk crystallises does potential harm appear. Once a risk crystallises, FNZ has controls in place to mitigate the impact of the risk and the potential material harms.

Emissions and Energy Consumption

The approach used for the assessment of FNZ's greenhouse gas emissions follows the methodology set out by the World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition). A market based approach is taken and FNZ uses an annual turnover (£m) intensity metric to allow meaningful comparison in subsequent years.

Scope	Organisation emissions (tCO ₂ e)		tCO ₂ e/£ million revenue		tCO ₂ e/FTE	
	2022	2021	2022	2021	2022	2021
Scope 1	53.372	47.778	0.287	0.201	0.029	0.029
Scope 2	404.827	145.567	2.176	0.612	0.222	0.089
Scope 3	331.880	715.223	1.784	3.005	0.182	0.439
All Scopes	790.079	908.568	4.247	3.818	0.433	0.557

Streamlined Energy and Carbon Reporting ('SECR')	kWh	kWh
	2022	2021
	1,224,616	685,570

FNZ (UK) Ltd
Directors' Report for the year ended 31 December 2022 (continued)

There has been an increase in Scope 2 emissions in 2022 largely due to additional offices acquired from clients through the lift and shift approach. However, a notable decrease in Scope 3 emissions has been achieved through a reduction in air travel in the UK. The increase in tCO₂e/£ million revenue for all scopes is attributable to a fall in revenue year on year.

Energy efficiency improvements during the year include:

- Efforts since the global pandemic to encourage train travel over short haul flights and online meeting facilities continue to be widely used resulting in new sustainable ways of future working and a drop in emissions associated with travel.
- Initiating the transition of technological architecture to the Cloud, removing the necessity to store and process information in local networks and move towards outsourcing these tasks to centralised facilities, and retirement of outdated data storage facilities continues.
- The creation of a central database for all energy and environmental consumption figures, f-gases and business travel figures for all offices globally, in order to enable the collection of more granular information to improve the accuracy of monitoring FNZ's footprint.

Going Concern

Under company law, the Company's Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Company is a going concern. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out within the Strategic and Directors' Reports.

As part of its normal business practice the Company prepares annual and longer-term plans. The Directors have reviewed the Company's financial position, its forecasts, its cash-flows, liquidity, capital, operational resilience and its borrowing facilities. The Directors have considered the impact of various severe but plausible scenarios, as well as a reverse stress test. These scenarios include severe market downturn, cyber security breach, and other idiosyncratic events. The Directors do not anticipate requiring any financial support from FNZ Group Limited (formerly Kiwi Holdco CayCo, Ltd), the ultimate controlling party nevertheless has provided FNZ with a letter of support guaranteeing financial assistance to the full extent of its resources.

Having performed the going concern review, the Directors are satisfied that the Company has access to sufficient resources to meet its liabilities for the foreseeable future and therefore the Directors have confirmed that the financial statements should be prepared on a going concern basis.

Directors' Interests

None of FNZ's Directors have a direct interest in FNZ. All Directors have direct and/or indirect interests in FNZ's ultimate controlling party FNZ Group Limited (formerly Kiwi Holdco CayCo, Ltd). The value of the investments held by FNZ's Non-Executive Directors are not considered sufficiently material to affect their independence.

Directors' Indemnities

The Directors have the benefit of an indemnity provision contained in FNZ's Articles of Association, subject to the conditions set out in the Companies Act 2006. This is a 'qualifying third party indemnity' provision as defined in Section 234 of the Companies Act 2006.

Pension Scheme

FNZ operates a defined contribution pension scheme in which all employees are eligible to participate.

FNZ (UK) Ltd
Directors' Report for the year ended 31 December 2022 (continued)

Donations

No political donations were made during the year (2021: £nil).

Other Disclosures

Information relating to the following statutory disclosures can be found in the Strategic Report:

- Future Developments
- Research and Development
- Financial Risk Management
- Employee Information
- Statement of Engagement with Employees and other Stakeholders

Statement of Directors' Responsibilities in Respect of the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

FNZ (UK) Ltd
Directors' Report for the year ended 31 December 2022 (continued)

Directors' Confirmations

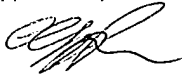
In the case of each Director in office at the date the Directors' Report is approved:

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

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and it is the intention of the Directors to reappoint the auditors under the deemed appointment rules of Section 487 of the Companies Act 2006.

The Board of Directors authorised these financial statements for issue on 31 March 2023.

Approved by the Board and signed on its behalf by:



.....
Andrew Ring
Director

FNZ (UK) Ltd
Independent Auditors' Report to the Members of FNZ (UK) Ltd

Report on the audit of the financial statements

Opinion

In our opinion, FNZ (UK) Ltd's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2022; the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

FNZ (UK) Ltd
Independent Auditors' Report to the Members of FNZ (UK) Ltd (continued)

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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 auditors' 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006.

FNZ (UK) Ltd
Independent Auditors' Report to the Members of FNZ (UK) Ltd (continued)

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the higher level of judgment involved in determining the stage of completion and eventual outcome of each implementation contract and posting inappropriate journal entries to revenue or expenses. Audit procedures performed by the engagement team included:

- Enquiries with management, internal legal counsel, and individuals outside the finance function, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing relevant meeting minutes including those of the Board and the Audit Committee;
- Designing audit procedures that incorporated unpredictability around the nature, timing or extent of our testing to material and immaterial financial statement line items;
- Identifying and testing journal entries, focusing on those determined by us as displaying higher fraud risk characteristics, such as, but not limited to, unusual account combinations; entries with descriptions containing key unexpected words, and review for entries posted by unexpected users; and
- Reading key correspondence with, reports to, and making enquiries of meetings with the Financial Conduct Authority in relation to compliance with laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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 or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

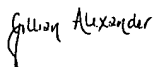
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Gillian Alexander (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
31 March 2023

FNZ (UK) Ltd
Statement of Comprehensive Income for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Revenue from contracts with clients	4	182,475	233,618
Other operating income	4	42,828	21,054
		<u>225,303</u>	<u>254,672</u>
Operating expenses	6	(240,566)	(206,128)
Net impairment losses and provisions on contract assets	5	(1,908)	(9,455)
Expected credit loss	5	(239)	-
Other operating gains	19	934	99
Other income	8	23,473	-
Fair value remeasurement of value share	9	-	20,000
Finance income	10	109	1,010
Finance costs	10	(6,477)	(4,390)
Profit before taxation		<u>629</u>	<u>55,808</u>
Income tax (expense)/credit	11	(629)	2,186
Result/Profit for the year		<u>-</u>	<u>57,994</u>
Other comprehensive expense – items that may be reclassified to profit or loss			
Currency translation differences on foreign branches		(135)	(29)
Total other comprehensive expense for the year		<u>(135)</u>	<u>(29)</u>
Total comprehensive (expense)/ income for the year attributable to the equity holder		<u>(135)</u>	<u>57,965</u>

There are no items of other comprehensive expense which have not already been presented in arriving at the total comprehensive expense for the year.

The notes on pages 27 to 52 form part of these financial statements.

FNZ (UK) Ltd
Balance Sheet as at 31 December 2022

	Note	2022 £'000	2021 (Restated)* £'000
Non-current assets			
Property, plant and equipment	15	51,743	45,225
Intangible assets	16	77	580
Contract assets	5	169,892	118,820
Deferred tax asset	14	310	296
Total non-current assets		222,022	164,921
Current assets			
Cash and cash equivalents	12	75,009	67,277
Trade and other receivables	13	25,822	24,651
Derivative financial instruments	19	992	58
Contract assets	5	104,154	97,667
Current tax asset		1,325	2,923
Total current assets		207,302	192,576
Total assets		429,324	357,497
Current liabilities			
Trade and other payables	18	121,875	54,934
Contract liabilities	5	706	386
Lease liabilities	25	9,271	9,539
Borrowings	20	14,376	14,325
Total current liabilities		146,228	79,184
Non-current liabilities			
Lease liabilities	25	49,673	47,058
Trade and other payables	18	3,764	3,668
Other provisions	21	1,600	-
Total non-current liabilities		55,037	50,726
Total liabilities		201,265	129,910
Equity			
Share capital	22	25,890	25,890
Share premium	22	4,243	4,243
Retained earnings		199,495	198,888
Foreign currency translation reserve		(1,569)	(1,434)
Total equity		228,059	227,587
Total equity and liabilities		429,324	357,497

*Current and non-current contract assets have been disclosed separately above. The prior year comparative has been updated to reflect this. Further details are disclosed in note 5.

The financial statements on pages 23 to 52 were approved by the Board of Directors on 31 March 2023 and signed on its behalf by:



Andrew Ring
Director

Company registration number: 05435760

The notes on pages 27 to 52 form part of these financial statements.

FNZ (UK) Ltd
Statement of Changes in Equity for the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Total equity £'000
Balance at 1 January 2021	25,890	4,243	140,909	(1,405)	169,637
Profit for the year	-	-	57,994	-	57,994
Share-based compensation plan - value of employee services	-	-	(15)	-	(15)
Other comprehensive expense for the year	-	-	-	(29)	(29)
Balance at 31 December 2021	25,890	4,243	198,888	(1,434)	227,587
Result for the year	-	-	-	-	-
Share-based compensation plan - value of employee services	-	-	607	-	607
Other comprehensive expense for the year	-	-	-	(135)	(135)
Balance at 31 December 2022	25,890	4,243	199,495	(1,569)	228,059

The notes on pages 27 to 52 form part of these financial statements.

FNZ (UK) Ltd
Statement of Cash Flows for the year ended 31 December 2022

	2022 £'000	2021 £'000
Cash flows from operating activities		
Profit before taxation	629	55,808
<i>Adjustments for:</i>		
Interest income	(109)	(1,010)
Interest expense	6,477	4,390
Depreciation and amortisation	12,047	9,946
Share based payment expense/(credit)	607	(15)
Operating profit before working capital changes	<u>19,651</u>	<u>69,119</u>
<i>Adjustments for:</i>		
(Increase)/decrease in trade and other receivables	(1,453)	1,702
Increase in contract assets	(57,559)	(77,903)
Increase in prepayments and other debtors	(652)	(3,395)
Increase in trade and other payables	8,416	11,777
Increase/(decrease) in contract liabilities	320	(236)
Increase in non-tax provisions	1,600	-
Net intercompany inflows	56,291	18,689
Operating cash inflow after working capital changes	<u>26,614</u>	<u>19,753</u>
Taxation paid	955	(1,105)
Net cash generated from operating activities	<u>27,569</u>	<u>18,648</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,807)	(982)
Net cash used in investing activities	<u>(2,807)</u>	<u>(982)</u>
Cash flows from financing activities		
Drawdown from bank loan facility	51	4,325
Interest received	24	-
Interest paid	(1,530)	(878)
Cash incentive received on entering property lease	-	7,000
Lease payments	(15,440)	(11,054)
Net cash used in financing activities	<u>(16,895)</u>	<u>(607)</u>
Impact of foreign exchange	(135)	(29)
Net increase in cash and cash equivalents	<u>7,732</u>	<u>17,030</u>
Cash and equivalents at 1 January	67,277	50,247
Cash and equivalents at 31 December	<u>75,009</u>	<u>67,277</u>
Represented by:		
Cash	75,009	67,277
	<u>75,009</u>	<u>67,277</u>

The notes on pages 27 to 52 form part of these financial statements.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022

1. General information

FNZ (UK) Ltd's ('FNZ' or the 'Company') principal activity is to work with major financial institutions to provide a set of core, outsourced technology and asset administration services that span the entire wealth management value chain. The Company is incorporated and domiciled in the United Kingdom with the registered address 10th Floor 135 Bishopsgate, London, EC2M 3TP and company number 05435760. The Company is regulated by the Financial Conduct Authority ('FCA') in the United Kingdom (registration number: 438687). At the year end date, the Company had branches located in Czech Republic, Ireland, Italy and Switzerland. The UK branch in Italy was closed on 17th March 2023 and the branch in Switzerland is in the process of being closed.

FNZ is a wholly owned subsidiary of FNZ Group Entities Ltd (formerly Kiwi UK Holdco 2, Ltd) (a New Zealand registered Company). The ultimate parent company is Falcon Newco Limited (an exempted limited company incorporated under the laws of the Cayman Islands). The ultimate controlling party is FNZ Group Limited (formerly Kiwi Holdco CayCo, Ltd (a New Zealand registered Company) and FNZ is a member of the Group.

2. Statement of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared on the historical cost basis, except for the fair valuation of the derivative financial instruments.

(b) Exemption from consolidation

Consolidated financial statements are prepared for FNZ Group Limited. Consolidated financial statements are not prepared for the Company as a consolidation exemption has been taken under section 405 of the Companies Act due to the only subsidiaries being dormant companies which are not considered to be material for the purposes of consolidation. Details of the subsidiaries have been disclosed in note 17.

(c) Going concern

Under company law, the Company's Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Company is a going concern. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out within the Strategic and the Directors' Reports.

As part of its normal business practice the Company prepares annual and longer-term plans. The Directors have reviewed the Company's financial position, its forecasts, its cash-flows, liquidity, capital, operational resilience and its borrowing facilities. The Directors have considered the impact of various severe but plausible scenarios, as well as a reverse stress test. These scenarios include severe market downturn, cyber security breach, and other idiosyncratic events. The Directors do not anticipate requiring any financial support from FNZ Group Limited (formerly Kiwi Holdco CayCo, Ltd), the ultimate controlling party nevertheless it has provided FNZ with a letter of support guaranteeing financial assistance to the full extent of its resources.

Having performed the Going Concern review, the Directors are satisfied that the Company has access to sufficient resources to meet its liabilities for the foreseeable future and therefore the Directors have confirmed that the financial statements should be prepared on a going concern basis.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2. Statement of significant accounting policies (continued)

(d) Revenue from contracts with clients

The Company's revenue from contracts with clients relates to the types of transactions included within this note. FNZ provides transaction and custody services to financial institutions to support the provision of wealth management services by these institutions to their intermediaries and end customers. FNZ defines these institutions as its clients and the end customers of these institutions are defined as customers.

i. Asset servicing

These are fees related to the performance obligations associated with the provision of ongoing dealing, pricing and custodial services charged to clients for the use of FNZ platforms. Revenue is recognised based on Assets-Under-Administration ('AuA'), subject to contractual minimum fees, and in accordance with contractually agreed charging structures set out in the underlying clients contracts.

Clients simultaneously receive and consume the benefits of using live FNZ platforms and fees are calculated, as the performance obligation is satisfied, on either (a) minimum fees or (b) by applying contracted basis points to the AuA on the platform. Revenue is recognised at a point in time with these fees being charged or accrued monthly.

ii. Implementation and enhancement revenue

These are fees related to the performance obligations associated with the development and configuration of custody service platforms. It is FNZ's policy that platform implementation projects (which include enhancements to existing clients' platforms) are separate performance obligations from the ongoing asset servicing and these are separately identifiable obligations within client contracts with separately determinable transaction prices. Due to the nature of these projects taking multiple periods, the revenue is recognised over time on a stage of completion basis. The percentage cost-to-complete method is used, where the costs incurred to date on the project are calculated as a percentage of the project's total estimated costs.

The total estimated cost for the project is the sum of the direct configuration and integration costs to deliver the proposition, and the direct allocation of core cost, applicable to the project. 'Core Cost' relates to the expense incurred in the development of the Single Global Core Product Suite. All costs are calculated based on a project management tool which is updated regularly for all the activities of project staff.

The Company determines the stage of completion based on the costs incurred to date as a percentage of the total project costs, which is an input method in accordance with the revenue accounting standard, IFRS 15. To calculate the stage of completion on a project, management must assess the forecasted costs-to-complete the project. This forecast of future costs is a deemed to be a key accounting estimate for the financial statements.

Revenue is recognised net of VAT and in accordance with IFRS 15 in proportion to the work or services which have been performed, based upon legally binding agreements and the specific terms of each client contract. Typically the Company's implementation and enhancement services are provided under fixed-price contracts although the Company has also entered into contracts where revenue is linked to AuA and variable in nature. Where revenue is variable, the future fees receivable are estimated in line with the terms of the client contract and using AuA forecasts taking into account all reasonably available information. This use of forecast AuA to estimate variable consideration receivable is deemed to be a key accounting estimate for the financial statements.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

Revenue is invoiced in line with the agreed terms set out in the underlying client contracts. Where revenue recognised exceeds the amount invoiced, this is recognised as a contract asset. Where amounts invoiced exceed revenue recognised the invoiced amount is recognised as a contract liability and is held on the balance sheet before being released to the Statement of Comprehensive Income as the revenue recognition criteria is met. Where there is uncertainty over collectability of an amount already included in revenue, an impairment allowance is recognised separately as an expense.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2. Statement of significant accounting policies (continued)

(d) Revenue from contracts with clients (continued)

iii. Cost plus ("Lift and Shift")

Where a client is not yet on the Company's platform, the Company may incur the cost of the current operations required to service the outgoing customer platform prior to migration. The provision of transition services by the Company prior to migration to the Company's platform represent a separate performance obligation under IFRS 15. Lift and Shift revenue for this performance obligation is therefore accrued during the transition period, prior to migration, to reflect the additional benefit that the Company earns over the life of the contract as a result of the transition services. This revenue is recognised on the basis of the costs incurred on the Lift and Shift performance obligation in the period, plus a commercial margin.

iv. Revenue from contracts with clients via other Group entities

Where the Company incurs development costs in relation to client contracts which are entered into by other Group entities, the Company will recharge the relevant Group entity for the revenue that has been earned from work undertaken by staff and other utilised resources of the Company. Revenue is recognised at the point in time when the revenue earned from use of the Company's resources becomes rechargeable.

v. Cost recharges

The Company incurs certain costs on behalf of clients. Costs are recharged to clients in line with contractually agreed charging structures set out in the underlying client contracts. Revenue is recognised at a point in time when the cost is rechargeable.

(e) Other operating income

i. Development services recharges

Development service recharge revenue arises when the Company undertakes development work on behalf of other Group companies. This work includes development of IP assets held elsewhere in the Group. Costs incurred by the Company for this work are identified and charged to the recipient companies with an appropriate mark-up. Revenue is recognised at the point in time when the cost is rechargeable.

ii. Costs recharged to group entities

The Company incurs certain operating costs on behalf of other companies within the Group. Related costs are identified by management and recharged to the recipient companies. Revenue is recognised at the point in time when the cost is rechargeable.

iii. Sub-lease rental income

The Company sublets part of its office space. Rental income arising is recognised over time on a straight-line basis over the life of the lease.

(f) Contract balances

i. Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the client. If the Company satisfies a performance obligation by transferring goods or services to a client before the client pays consideration, or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Company holds contract assets with the objective to collect the contractual cash flows and therefore measures them at amortised cost. For assets associated with client contracts where full payment of fees will take place over a longer period than the full delivery of the associated performance obligation, that portion of assets which are not expected to be realised in cash or cash equivalents within a year of the balance sheet date is defined as non-current.

ii. Contract liabilities

A contract liability is the obligation to transfer goods or services to a client for which the Company has received consideration (or an amount of consideration is due) from the client. If a client pays consideration before the Company transfers goods or services to the client, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2. Statement of significant accounting policies (continued)

(g) Finance income and cost

Finance income arising on financial assets at amortised cost is calculated using the effective interest method and is recognised in the Statement of Comprehensive Income. Finance costs are recognised on an accruals basis according to the contractual obligations agreed over the full contractual term. No finance costs have been capitalised during the year.

(h) Foreign currency translation

Foreign currency transactions are translated into the Company's functional currency ('GBP') using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Translation differences arising on consolidation of the Company's European branches are recognised in other comprehensive income with the foreign currency translation reserve representing the cumulative impact of these translation differences on consolidation.

(i) Derivative financial instruments

The Company's derivative financial instruments held are measured at fair value. These instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. Fair value gains and losses are recognised in the Statement of Comprehensive Income.

(j) Leases

The Company leases various properties and computer equipment. Rental contracts are typically made for fixed periods of 3 to 15 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. The Company uses the rate applicable for its revolving credit facility when determining the incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise some computer equipment and small items of office furniture.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2. Statement of significant accounting policies (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and cash held at banks available for use by the Company.

(l) Property, plant and equipment

Property, plant and equipment ('PP&E') comprises office buildings, computer & other equipment and fixtures, fittings & furnishings and is carried at cost less accumulated depreciation and any recognised impairment loss. PP&E is depreciated using the straight line method over the estimated useful lives of the assets:

- Office properties: 15-20 years (2021: 15-20 years)
- Computers & other equipment: 3-5 years (2021: 3-5 years)
- Fixtures, fittings & furnishings: 3-5 years (2021: 3-5 years)

Throughout the year and at each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount is the higher of fair value less costs of disposal and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised as an expense immediately.

(m) Intangible assets

Intangible assets comprise acquired software licences. These are amortised using the straight line method over the useful life of the asset with this typically being 3 years. Where the software is an integral part of a computer or other equipment it is treated as property, plant and equipment. In these instances, amortisation is charged on the asset as a whole. Amortisation is included within operating expenses as disclosed in Note 6.

(n) Trade and other receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Trade receivables are amounts due from clients for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade and other receivables do not carry any interest (except intercompany receivables - see note 2(q)) and are accounted for at issue date. The Company holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost. Refer to accounting policies of financial assets in note 2(r) for further details on this subsequent measurement and details of the Company's impairment policies.

(o) Trade and other payables

Trade and other payables are not interest bearing (except intercompany payables) and are stated at their nominal value.

(p) Borrowings

Borrowings are valued initially at fair value less transaction costs directly attributable to the acquisition of the financial liability as required by IFRS 9. These instruments are subsequently stated at amortised cost using the effective interest method.

(q) Intercompany receivables and payables

Intercompany receivables and payables are interest bearing and are initially recognised at fair value and subsequently at amortised cost. Interest applied to intercompany balances is calculated on the base rate of the country of the Company in receivable position plus 250 to 325 basis points (2021: base rate plus 250 to 325 basis points) and charged on the effective interest rate method. The Company holds intercompany receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost. Refer to accounting policies of financial liabilities in note 2(s) for further details of subsequent measurement.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2. Statement of significant accounting policies (continued)

(r) Financial assets

Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through either other comprehensive income ('OCI') or through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ('FVOCI').

Recognition and derecognition

Typical purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Initial recognition and measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its financial assets:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the statement of comprehensive income. Impairment losses are presented as a separate line item within operating expenses.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a financial asset that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, for trade receivables and contract assets.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2. Statement of significant accounting policies (continued)

(s) Financial liabilities

Classification and subsequent measurement

Financial liabilities are measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. All other financial liabilities are measured at amortised cost.

Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(t) Taxation

Corporation tax is provided on the taxable profits at the standard UK corporation tax rate. From 2022, where Corporation tax is relieved due to losses being surrendered by other FNZ companies by way of Group Relief, this will also be recognised at the standard rate of UK corporation tax.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future have occurred at the balance sheet date. Temporary differences are differences between the carrying amount of an asset or liability in the Balance Sheet and its tax base. Deferred tax is measured at the average tax rates that are expected to apply in the years in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are only recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(u) VAT

The majority of the services currently supplied by the Company are exempt from UK VAT. However, due to the Company's taxable business activities and that it is required to account for UK VAT under the reverse charge procedure in respect of the services it receives from overseas providers, it is registered for UK VAT.

As with expenditure incurred from UK suppliers, accounting for UK VAT under the reverse charge procedure (on services received from abroad) produces in the most part an irrecoverable VAT cost for the Company. The services received from abroad principally comprise transactions with related Group companies.

The Statement of Comprehensive Income and the Statement of Cash Flows have been prepared on a VAT inclusive basis, in relation to expenditure.

(v) Other provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the future cost of discharging the obligation.

(w) Share-based payments

The Group operates a management equity scheme by issuing shares in FNZ Group Limited to specific individuals, including employees and non-executive directors of the Company. The Company applies the requirements of IFRS 2 'Share-based Payments' in respect of the share awards granted to its employees.

The cost of recipients' services received in exchange for the grant of rights under the scheme is measured at the fair value of the equity instrument granted, and is charged in the Statement of Comprehensive Income over the estimated vesting period.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

3. Critical accounting judgements and estimates

The preparation of the Company's financial statements requires the use of accounting estimates where, by definition, it will not be known if they will equal actual results. The Directors also have to make judgments and estimates on how to apply the Company's accounting policies. The areas involving significant estimates or judgements are:

Critical accounting judgements

- Identifying performance obligations within client contracts where platform implementation and enhancement projects are separate performance obligations from the ongoing asset servicing and that these are separately identifiable obligations within client contracts with separately determinable transaction prices - refer to note 2(d)
- Due to lack of specific IFRS 15 guidance, the determination of the allocation of any reductions in the transaction price, subsequent to contract inception, are initially allocated to the related performance obligation. This is limited to the extent that the allocation would result in negative revenue being recognised on that performance obligation. Any remaining amount is capitalised and recognised as a deduction against future other revenues earned from the customer contract.

Critical accounting estimates

- Recognition of revenue from client contracts where performance obligations are satisfied over a period of time on a stage of completion basis using percentage cost-to-complete method which requires estimate of future project costs - refer to note 2(d)
- Estimate of implementation and enhancement revenue receivable from client contracts where fees are calculated with reference to AuA and variable in nature - refer to note 2(d)
- Estimate of cost plus ('Lift and Shift') revenue receivable from client contracts where revenue is recognised on a cost plus estimated margin basis in line with costs incurred - refer to note 2(d)

4. Revenue

	2022	2021
	£'000	£'000
Revenue from contracts with clients:		
Asset servicing fees	118,454	100,042
Implementation and enhancement fees	20,955	114,847
Lift and Shift revenue	41,281	15,242
Revenue from contracts with clients via other Group entities	-	33
Cost recharges to clients	1,785	3,454
	182,475	233,618
Other operating income:		
Development services recharge	25,576	12,577
Cost recharges to other Group entities	15,785	7,721
Sub-lease rental income	1,002	281
Other income	465	475
	42,828	21,054
	225,303	254,672

The composition of the Company's revenue recognised in 2022 differed significantly from that recognised in 2021. Additional Lift and Shift and intercompany revenue, which has a relatively low margin, was recognised in the year, partially offsetting the significant year on year decline in implementation and enhancement fees. This has been impacted in part by the timing of customer agreements, as well as by the challenging external climate and by the impact of adverse client settlements not previously expected to be incurred.

Recurring client service revenue has continued to increase year on year in line with the growth of the Company, despite uncertain market performance, reducing reliance on other revenue sources.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

5. Contract assets and liabilities

The Company recognises the following revenue-related contract assets and liabilities:

	Current 2022 £'000	Current 2021 (restated) £'000
Contract assets relating to implementation and enhancement fees	106,301	107,122
Impairment loss on receivables from contract assets relating to implementation and enhancement fees (note 23)	(1,908)	(9,455)
Provision for expected credit loss on contract assets	(239)	-
Total current contract assets	104,154	97,667
	Non-current 2022 £'000	Non-current 2021 (restated) £'000
Non-current contract assets	169,892	118,820
Total contract assets	274,046	216,487
Contract liabilities relating to asset servicing fees	706	386
Total contract liabilities	706	386

Current and non-current contract assets - restatement

Current and non-current contract assets have been disclosed separately as above. The prior year has been restated to correctly present £118,820k of contract assets as non-current (1 January 2021: £55,878k) in order to conform with IAS 1. This restatement has no impact on profit or net assets as disclosed in the prior year.

Significant changes in contract assets and liabilities

Contract assets have increased in the year predominantly due to the full-year impact of long-term Lift & Shift projects first entered into in 2021 - contract assets are recognised in line with costs incurred, so have risen significantly over the first full year of these projects. A contract asset has been recognised in association with one client project where settlements have been incurred during the year resulting in a cumulative catch-up adjustment to revenue.

Sensitivity of contract assets to critical accounting estimates

Implementation and enhancement revenue is calculated using the percentage cost-to-complete method, where the costs incurred to date on the project are calculated as a percentage of the total estimated costs over the life of the project. Invoices relating to implementation and enhancement revenue are issued to clients in line with the agreed terms set out in the underlying client contract. Contract assets relating to implementation and enhancement fees arise when fees earned exceed invoices issued. As a result the carrying value of contract assets is directly impacted by the revenue calculation which requires an estimate of future project costs when a project is not complete at the reporting date. The sensitivity of the carrying value of the Company's contract assets to this estimate of future project costs is shown below.

	Impact on carrying value of current and non-current contract assets	
	2022 £'000	2021 £'000
10% decrease in future project cost estimate	2,573	2,479
10% increase in future project cost estimate	(2,426)	(2,331)

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

5. Contract assets and liabilities (continued)

	Impact on carrying value of current and non-current contract assets	
	2022 £'000	2021 £'000
10% decrease in future AuA estimate	6,373	6,220
10% increase in future AuA estimate	(6,429)	(6,220)

The Company's contract asset balance is sensitive to the estimate of future AuA due to a significant client contract which links implementation and enhancement revenue receivable to AuA during the term of the contract.

6. Operating expenses

	2022 £'000	2021 £'000
Staff costs (note 7)	91,857	75,128
Operational platform costs	32,958	13,642
IT costs, hardware and software maintenance	28,597	19,790
Contract staff and consultancy fees	23,622	12,841
Development services recharges	12,762	8,589
Management services recharges	6,192	5,907
Depreciation & amortisation (notes 15 and 16)	12,047	9,946
Other expenses	10,150	8,005
Short term leases and service agreements	8,269	4,557
Insurance costs	5,964	2,743
Premises costs	4,844	3,946
Royalty charge from other Group companies for use of intellectual property	1,678	40,493
Travel & entertainment	1,626	541
Total operating expenses	240,566	206,128

Costs have been driven by the ongoing growth of the business and include the full year impact of the additional cost base taken on as part of the Lift & Shift projects commenced in 2021. The increase in operational platform costs is driven by costs associated with one major Lift & Shift project which began to be incurred at the end of 2021. Insurance costs reflect the cost of coverage for the growing FNZ Group and are in large part recovered through intercompany recharges.

Royalties are capped at the point beyond which they would result in the Company incurring a loss for the year.

Contract staff and consultancy fees in 2022 were predominantly incurred to support the delivery of client projects which had required a lower level of external resource in 2021. A significant portion of this cost relates to non-UK projects and is recovered through intercompany recharges.

Fees paid to the Company's auditors can be analysed as follows:

	2022 £'000	2021 £'000
Services:		
Statutory audit	382	324
Audit related assurance	939	726
Other assurance services	186	215
Tax advisory services	17	182
Tax compliance services	-	2
Total paid to auditors	1,524	1,449

The above amounts are presented inclusive of VAT.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

7. Staff costs

	2022	2021
	£'000	£'000
Wages and salaries	76,157	62,990
Social security costs	11,090	9,279
Other pension costs	4,003	2,874
Share-based payment expense/(credit) (note 24)	607	(15)
Total staff costs	91,857	75,128

Employee wages, salaries and social security costs are included within the overall staff costs disclosed in note 6.

Average monthly number of employees	2022	2021
	No.	No.
Operations	1,131	865
Product development and delivery	374	370
Administration (including sales and executives)	70	37
	1,575	1,272

The Company operates a Group Personal Pension scheme for its UK and Czech employees and pays into the appropriate pension schemes for other foreign employees. The assets of the scheme are held separately on a defined contribution basis under an insured arrangement.

The total cost charged to the Statement of Comprehensive Income of £4,003k (2021: £2,874k) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme. During the year, employer contributions to the UK pension scheme were 6% (2021: 6%). As at 31 December 2022, contributions of £637k (2021: £532k) due in respect of the current year had not been paid to the scheme.

8. Other income

	2022	2021
	£'000	£'000
Other income	23,473	-
	23,473	-

During the year, the Company entered into an agreement with FNZ Group Technologies Limited in relation to the provision of services by FNZ Group to the Company, such that the Company was reimbursed for settlement amounts paid to clients during the year in relation to migration complexity leading to some delays in implementation projects.

9. Fair value remeasurement of value share

	2022	2021
	£'000	£'000
Remeasurement on sale	-	20,000
	-	20,000

During the prior year, the Company acquired a value share in the future disposal of a client business for a consideration of nil. On the same day, the share was sold to FNZ Group Limited for a sum of £20m. This sale was deemed to have taken place at fair value, and accordingly a fair value remeasurement of £20m was recognised in the prior year.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

10. Finance income and costs

	2022	2021
	£'000	£'000
Finance income:		
Interest on intercompany balances	85	1,010
Other interest	24	-
	109	1,010
Finance costs:		
Interest on leases	2,532	2,437
Interest on intercompany balances	2,415	1,075
Other interest	1,530	878
	6,477	4,390

The interest on intercompany balances has been calculated using interest rates of 250 to 325 basis points above the base rate (2021: 250 to 325 basis points above the base rate) of the country of the company in the receivable position.

11. Income tax expense

	2022	2021
	£'000	£'000
Current tax:		
Current tax on result or profit for the year	312	-
Adjustment in respect of prior years	(16)	(2,388)
Foreign tax relief	-	-
Foreign tax suffered	347	281
Total current tax (credit)/expense	643	(2,107)
Deferred tax:		
Originations and reversal of temporary differences	(105)	(95)
Adjustment in respect of prior years	91	16
Total deferred tax (note 14)	(14)	(79)
Taxation (credit)/expense	629	(2,186)

The tax assessed for the year differs from the statutory rate of corporation tax in the UK of 19% (2021: 19%). This difference is further explained below.

	2022	2021
	£'000	£'000
Profit before taxation	629	55,808
Tax on result or profit at standard UK tax rate of 19% (2021: 19%)	119	10,604
Adjusted by tax effect of:		
Adjustments in respect of prior years	75	(2,372)
Expenses not deductible	162	104
Effects of group relief	-	(10,803)
Deferred tax recognised at higher rate	(74)	-
Effects of overseas tax rates	347	281
Taxation (credit)/expense	629	(2,186)

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

11. Income tax expense (continued)

It was announced in the UK Government's budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021. The closing deferred tax balances have therefore been calculated taking into account this change of rate and the applicable period over which the deferred tax assets and liabilities are expected to crystallise.

Further information about deferred income tax is presented in Note 14.

12. Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash and cash equivalents	<u>75,009</u>	<u>67,277</u>

13. Trade and other receivables

	2022	2021
	£'000	£'000
Trade receivables	15,541	14,088
Prepayments	6,502	6,547
Other receivables	3,779	4,016
	<u>25,822</u>	<u>24,651</u>

14. Deferred tax asset

	2022	2021
	£'000	£'000
At 1 January	296	217
Adjustment in respect of prior years	(91)	(16)
Deferred tax credit/(charge) to income statement for the year	105	95
At 31 December	<u>310</u>	<u>296</u>
Deferred taxation at 31 December comprises:		
Fixed assets	148	240
Unutilised tax losses	-	-
Unpaid pension contributions	162	56
Deferred tax asset	<u>310</u>	<u>296</u>

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. Contracted revenue streams to the Company and expected future profits indicate that it is probable the asset recognised will be utilised.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

15. Property, plant and equipment

	Office properties £'000	Computers & other equipment £'000	Fixtures, fittings & furnishings £'000	Total £'000
Cost				
As at 1 January 2021	24,778	22,646	7,284	54,708
Additions	20,539	1,860	56	22,455
As at 31 December 2021	45,317	24,506	7,340	77,163
Accumulated depreciation				
As at 1 January 2021	(6,410)	(13,783)	(2,627)	(22,820)
Depreciation charge for the year	(3,470)	(4,485)	(1,163)	(9,118)
As at 31 December 2021	(9,880)	(18,268)	(3,790)	(31,938)
Net book value				
As at 31 December 2021	35,437	6,238	3,550	45,225
Cost				
As at 1 January 2022	45,317	24,506	7,340	77,163
Additions	4,715	8,803	4,544	18,062
As at 31 December 2022	50,032	33,309	11,884	95,225
Accumulated depreciation				
As at 1 January 2022	(9,880)	(18,268)	(3,790)	(31,938)
Depreciation charge for the year	(4,592)	(5,653)	(1,299)	(11,544)
As at 31 December 2022	(14,472)	(23,921)	(5,089)	(43,482)
Net book value				
As at 31 December 2022	35,560	9,388	6,795	51,743

The Directors' review of impairment indicators did not result in the inclusion of any impairment loss in the Statement of Comprehensive Income.

Information on the value of assets held under lease agreements has been disclosed in note 25.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

16. Intangible assets

	Software licences £'000	Total £'000
Cost		
As at 1 January 2021	7,298	7,298
As at 31 December 2021	7,298	7,298
Accumulated amortisation		
As at 1 January 2021	(5,890)	(5,890)
Amortisation charge for the year	(828)	(828)
As at 31 December 2021	(6,718)	(6,718)
Net book value		
As at 31 December 2021	580	580
Cost		
As at 1 January 2022	7,298	7,298
As at 31 December 2022	7,298	7,298
Accumulated amortisation		
As at 1 January 2022	(6,718)	(6,718)
Amortisation charge for the year	(503)	(503)
As at 31 December 2022	(7,221)	(7,221)
Net book value		
As at 31 December 2022	77	77

The Directors' review of impairment indicators did not result in any inclusion of any impairment loss in the Statement of Comprehensive Income.

17. Investments in subsidiary undertakings

The Company has investments in FNZ (UK) Nominees Limited (Company No. 05471102), FNZ Wealth Gross Nominees Limited (Company No. 08472251), FNZ Wealth Nominees Limited (Company No. 08472254), FNZ Wealth Nominees EUR Limited (Company No. 10492170) and FNZ Wealth Nominees USD Limited (Company No. 10491868), which are all wholly owned subsidiaries. These subsidiaries were set up to segregate client assets in a nominee name for the UK market, and as such will not trade in any year. They are all incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Suite 1, 3rd Floor 11-12 St. James's Square, London SW1Y 4LB.

The net book value of the investment in FNZ (UK) Nominees Limited is £1 (2021: £1). This value is considered to be equal to the subsidiary's fair value at balance sheet date. The net book value of the investments in FNZ Wealth Gross Nominees Limited, FNZ Wealth Nominees Limited, FNZ Wealth Nominees EUR Limited and FNZ Wealth Nominees USD Limited are £100 each (2021: £100). This value is considered to be equal to the subsidiaries' fair values at balance sheet date.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

18. Trade and other payables

	Current 2022 £'000	Current 2021 £'000
Trade payables	17,583	7,892
Amounts owed to related entities (note 24)	70,896	12,275
Employee related payables	8,793	11,869
Accruals and deferred income	13,422	15,206
Other payables	11,181	7,692
	<u>121,875</u>	<u>54,934</u>

Amounts due to related entities carry interest. Refer to note 2(q) for interest rates applied to amounts due to related entities.

	Non-current 2022 £'000	Non-current 2021 £'000
Other payables	<u>3,764</u>	<u>3,668</u>

19. Derivative financial instruments

	<u>Carrying amount</u>		<u>Fair value level 2</u>	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Financial assets/(liabilities) measured at fair value				
As at 1 January	58	(41)	58	(41)
Increase in fair value for the year	934	99	934	99
As at 31 December	<u>992</u>	<u>58</u>	<u>992</u>	<u>58</u>

Forward foreign exchange contracts are entered into for the purchase of Czech Republic Koruna for development and operational work from the Company's Czech branch. The forward foreign exchange contracts are not designated as hedging instruments and hedge accounting is not applied. The fair value is based on year-end forward rates. Similar contracts are traded in an active market and the quotations reflect the actual transactions in similar instruments; as such these contracts are classified as fair value level 2. This classification is prescribed by IFRS 13 'Fair Value Measurement' and an explanation of this level has been provided below.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

20. Borrowings

	2022	2021
	£'000	£'000
Drawn RCF	10,000	10,000
Loan from related entity	4,376	4,325
	14,376	14,325

The Company has a single £10,000k revolving credit facility ('RCF'), which allows the Company to utilise loan funding up to the value of the facility for periods ranging from one month to six months. At the year end, the full value of the facility was utilised and repayable on 20 February 2023. The full balance was subsequently rolled over, to be repayable on 22 May 2023. A cash margin ratchet with margins between 2.25% and 3.00% p.a. payable applies to the RCF. Interest is repayable at the end of the agreed utilisation period.

The company has a €5m loan with Die European Bank for Financial Services GmbH (ebase), a company within the Group. The loan is repayable on 31 May 2023, and interest is accruing at a rate of 2.31% per annum.

21. Other provisions

	Other £'000
At 1 January 2022	-
Provided during the year	1,600
At 31 December 2022	1,600

This provision is in respect of an onerous contract and is based on management's current best estimate of contract performance. The provision is expected to unwind over the remaining seven-year term of the contract.

22. Share capital and share premium

The Company is a private company limited by shares. Details of the Company's authorised share capital have been provided below. All shares are issued and fully paid. The Company has no unpaid share capital (2021: nil).

	No. of shares		Share capital		Share premium	
	2022	2021	2022	2021	2022	2021
			£'000	£'000	£'000	£'000
Ordinary shares						
Fully paid	25,890,300	25,890,300	25,890	25,890	4,243	4,243
Unpaid	-	-	-	-	-	-
Total	25,890,300	25,890,300	25,890	25,890	4,243	4,243

There were no share movements in 2022 or 2021.

23. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Company's risk management programme includes a focus on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. As such the sensitivity of profit or loss to changes in exchange rates mainly arises from Czech Republic Koruna ('CZK') denominated forward exchange contracts.

The Company also assesses climate-related risks, including both organisational and propositional risks, on an ongoing basis. The impact of climate risk factors on the preparation of the financial statements is considered to be immaterial from the perspective of both the Company and the users of the financial statements.

The Company has a dedicated BRCC that focuses on risk management. The Board discusses risk management at their monthly Board meetings.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

23. Financial risk management (continued)

Market risk

Foreign exchange risk

It is the Company's policy to utilise currency hedges, for material FX exposure, to partially mitigate against the risk of non-GBP exposures from increased operating expenditure in foreign currencies. The Company has a rolling 12-month partial hedging process in place for CZK and operates within the relevant risk appetite levels as set by the Board.

	Impact on post-tax profit	
	2022	2021
	£'000	£'000
GBP/CZK exchange rate - increase 10%*	(3,035)	(2,541)
GBP/CZK exchange rate - decrease 10%*	3,710	3,106

*Holding all other variables constant

Price risk

The Company's service fee revenue and certain implementation and enhancement revenue contracts are linked to the market value of Assets-under-Administration ('AuA'). This value affects the amount of revenue earned. The risk of a significant reduction in AuA is partially mitigated as only a portion of AuA has an underlying exposure to the equity market and the fact that most client contracts include minimum annual fees that are not linked to the value of AuA.

The Company's forward foreign exchange contracts are the only assets or liabilities which are held at market value. The finance team are responsible for arranging these forward contracts and monitoring the positions to ensure the associated risks are mitigated within acceptable levels of risk appetite.

Interest rate risk

The Company's main interest bearing liabilities are its lease liabilities (note 25), the RCF (note 20), and its intercompany balances (note 24). Lease interest rates are fixed when entering into the lease. The RCF rate is set every time the facility is renewed, as per note 20. Liabilities include a loan issued by another company within the Group at a fixed rate of interest, as per note 24. For the other intercompany liabilities, the Company has entered into a netting agreement with other companies in the Group. The Directors consider this agreement to adequately mitigate the interest rate risks associated with the related party balances.

The Company's income and operating cash-flows are substantially independent of changes in market interest rates.

The Company analyses its interest rate exposure on an ongoing basis. On an annualised basis, if interest rates on variable interest rate borrowings had been 200 basis points higher/lower with all other variables held constant, Company pre-tax profit for the year would have been £1,360k lower/higher respectively (2021: £113k).

Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to clients, including outstanding receivables and committed transactions.

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, for trade receivables and contract assets. The credit risk assessments carried out in respect of the Company's financial assets has resulted in £239k of expected credit losses in the current year (2021: £nil). Credit risk is not typically considered significant as the Company's client base consists of large financial institutions.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

23. Financial risk management (continued)

Credit risk (continued)

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. An impairment loss was recognised in respect of two client contracts in the year. In both cases, an assessment was made that the revenue associated with work performed on contracts was no longer recoverable.

A summary has been provided below of the financial assets which the Directors consider to have credit risk.

	Gross carrying amount £'000	Expected credit loss allowance £'000	Receivables written off during the year as uncollectible £'000	Net carrying amount £'000
As at 31 December 2022				
Trade receivables	15,541	-	-	15,541
Contract assets	276,193	(239)	(1,908)	274,046
As at 31 December 2021				
Trade receivables	14,088	-	-	14,088
Contract assets	225,942	-	(9,455)	216,487

No trade receivables within the net carrying amount shown above are noted as remaining past due (2021: £nil).

Liquidity risk

Liquidity risk primarily results from the irregular timing of cash receipts associated with client implementations. FNZ management reviews cash flow forecasts regularly and actively manages cash requirements to ensure that the Company has sufficient funds to meet its needs.

The table below provides a maturity analysis for the Company's liabilities on a gross, undiscounted basis:

	6 months or less £'000	6 - 12 months £'000	1 - 5 years £'000	More than 5 years £'000
At 31 December 2022				
Trade payables	17,583	-	-	-
Amounts owed to related entities	70,896	-	-	-
Employee related payables	8,793	-	-	-
Other payables	8,233	2,948	3,764	-
Contract liabilities	706	-	-	-
Lease liabilities	4,540	4,730	27,330	22,343
Borrowings	14,376	-	-	-
	<u>125,127</u>	<u>7,678</u>	<u>31,094</u>	<u>22,343</u>
At 31 December 2021				
Trade payables	7,892	-	-	-
Amounts owed to related entities	12,275	-	-	-
Employee related payables	11,869	-	-	-
Other payables	6,121	1,571	3,668	-
Contract liabilities	386	-	-	-
Lease liabilities	3,735	5,804	21,823	25,235
Borrowings	14,325	-	-	-
	<u>56,603</u>	<u>7,375</u>	<u>25,491</u>	<u>25,235</u>

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

23. Financial risk management (continued)

Capital management

The following disclosures relating to capital management are unaudited unless otherwise stated, and should be read in conjunction with the Financial Resource section of the Directors' Report on page 15.

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the Balance Sheet, are:

- to safeguard the Company's ability to continue as a going concern so that it can continue to provide services to and fulfil its contractual commitments to its clients and provide returns for its shareholders;
- to maintain a strong capital base to support the development of its business;
- to comply with the capital requirements set by the regulators of the investment firm market where the Company operates.

Capital adequacy and the use of regulatory capital are monitored monthly by the Company's board, employing techniques based on the guidelines developed by the Basel Committee and the European Commission Directives, as implemented by the Financial Conduct Authority ('FCA'), for supervisory purposes. The required information is filed with the FCA on a quarterly basis.

The Company's regulatory capital resources are exclusively comprised of Common Equity Tier 1 ('CET 1') items.

	2022	2021
	£'000	£'000
Common Equity Tier 1		
Fully paid up share capital	25,890	25,890
Share premium	4,243	4,243
Retained earnings	199,495	198,888
Foreign currency translation reserve	(1,569)	(1,434)
Less: Deduction for intangible assets	(77)	(580)
Total qualifying Common Equity Tier 1 capital	227,982	227,007
Total regulatory capital	227,982	227,007

Internal Capital Adequacy and Risk Assessment

The ICARA replaces the ICAAP as the relevant document under the IFPR regulatory regime which came into force in 2022. The overall purpose of the ICARA is to ensure that FNZ has appropriate systems and controls in place to identify, monitor and, where proportionate, reduce all potential material harms that may result from the ongoing operation of its business or winding down its business, and that it holds financial resources that are adequate for the business it undertakes.

It is a continuous process where FNZ reviews and updates the ICARA documentation at least every 12 months or more frequently if there are material changes to the business model or operating model. The Board retains ultimate responsibility for the ICARA. The ICARA is subject to review, robust challenge, and approval with engagement by senior management and the Board through a structured governance process. This assessment draws on the results of existing risk management techniques and reporting. The Company also performs capital planning as part of its business planning process.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

24. Related parties

FNZ is a wholly owned subsidiary of FNZ Group Entities Ltd (formerly Kiwi UK Holdco 2, Ltd) (a New Zealand registered Company). The ultimate parent company is Falcon Newco Limited (an exempted limited company incorporated under the laws of the Cayman Islands). The ultimate controlling party is FNZ Group Limited (formerly Kiwi Holdco CayCo, Ltd (a New Zealand registered Company) and FNZ is a member of the Group. FNZ Group Entities Ltd and FNZ Group Limited were registered in New Zealand and were New Zealand tax resident as at the year end date, all Cayman registered companies within the Group were UK tax residents.

Transactions with related entities

The Company has entered into the following transactions with related parties during the year:

	2022	2021
	£'000	£'000
Immediate parent – FNZ Group Entities Ltd		
Interest receivable on intercompany balance (note 10)	-	44
Working capital and other transactions	-	(44)
Other related entities		
Revenue from contracts with clients via other Group entities (note 4)	-	33
Development services recharge revenue (note 4)	25,576	12,577
Management services recharge revenue (note 4)	15,785	7,721
Non-operational intercompany recharge (note 8)	23,473	-
Royalty charge from other Group companies for use of intellectual property (note 6)	(1,678)	(40,493)
Development services recharges (note 6)	(12,762)	(8,589)
Management services recharges (note 6)	(6,192)	(5,907)
Interest receivable on intercompany balance (note 10)	85	966
Working capital and other transactions	(102,908)	14,938
	(58,621)	(18,754)

Amounts due (to)/from related entities

The Company holds the following balances with related parties at the end of the year. All balances are classed as current and are repayable on demand.

	2022	2021
	£'000	£'000
Other related entities	(70,896)	(12,275)
	(70,896)	(12,275)

There were no transactions with or balances due to/from the Company's ultimate parent, Falcon Newco Limited, during the current or prior financial year.

It is the Group's policy to charge 5% uplift where staff costs are recharged to other Group entities. Other costs are recharged as incurred.

The company has a €5m loan with Die European Bank for Financial Services GmbH (ebase), a company within the Group. This balance is disclosed within borrowings per note 20.

The Company has provided service agreement guarantees in respect of client contracts entered into by other Group entities. These guarantees do not represent a financial guarantee and no liabilities have been recognised as the risk of loss is deemed to be remote.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

24. Related parties (continued)

Key Management's emoluments

Total remuneration is included within staff costs (see Note 7). Key Management includes those who have the authority and responsibility for planning, directing and controlling the activities of the Company. During the year, 16 people remunerated by the Company were classed as Key Management (2021: 14). Short-term emoluments include salary, bonuses and other benefits provided.

	2022 £'000	2021 £'000
Aggregate short-term emoluments	3,716	2,758
Contributions made in respect of money purchase schemes	131	103
Share-based payments	265	47
	<u>4,112</u>	<u>2,908</u>

The emoluments relating to Directors (as listed on page 1) has been provided below.

	2022 £'000	2021 £'000
Directors' emoluments		
Aggregate short-term emoluments	1,462	1,476
Contributions made in respect of money purchase schemes	18	28
Share-based payments	139	11
	<u>1,619</u>	<u>1,515</u>

	2022 £'000	2021 £'000
Highest paid Director		
Aggregate short-term emoluments	400	404
Share-based payments	67	1
	<u>467</u>	<u>405</u>

Loans to/from related parties

The Company has extended a loan to one of the Directors of an entity within the Group. This loan has no fixed repayment date and is charged interest at 2.5%. Interest accrued is included within the balance payable. The balance remaining payable in respect of this loan was £528k at the year end (2021: £506k).

Incentive Plan - Share-based compensation plan

The Group operates a management equity scheme allowing employees and other specific individuals equity participation in the Group through beneficial ownership of class B3, B4, F1 and G1 shares ('the MIP shares') in FNZ Group Limited. The issues of B3, B4, F1 and G1 shares were approved by the Group Remuneration Committee in 2017, 2018, 2021 and 2022 respectively. Employees of the Company hold MIP shares but the Company has no obligations arising in respect of these shares. The issues of the MIP shares have been treated as equity-settled share-based payments in the Statement of Comprehensive Income. At 31 December 2022, employees of the Company held 108,652 B3 shares (2021: 110,029), 18,572 B4 shares (2021: 47,592), 12,825 F1 shares (2021: 21,177) and 527 G1 shares (2021: nil).

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

24. Related parties (continued)

Incentive Plan - Share-based compensation plan (continued)

When valuing the B3 and B4 shares, the Company used the Black-Scholes model to calculate the fair value of one award on the grant date of the awards. All Class B Shares with exception of 'B1' shares are subject to distribution hurdles as determined by the Group Board upon issue, and participate pro rata with all other Class B Shares above their respective hurdles. The hurdles for B3 and B4 shares, expressed in relation to B1 shares, were treated as the effective exercise price as input into the model. The share price on grant was based on an external expert valuation conducted for the purpose of the launch of the new equity scheme. An estimate of future volatility was made with reference to historical volatility over a similar time period to the performance period. Historical volatility is calculated based on the annualised standard deviation of a listed peer group's daily share price movements.

The standard contractual vesting period of B3 and B4 shares is four equal instalments over four years from the contractual vesting date. The terms of the scheme includes the potential for accelerated vesting in case of a liquidity event or distribution to shareholders prior to the four year period. Therefore, the Group applied a one year (25%) reduction to the standard four year contractual vesting period to the valuation model to reflect this theoretical potential of accelerated vesting.

As with the B3 and B4 shares, F1 and G1 shares are subject to hurdle rates which determine the value a holder of F1 and G1 shares would be expected to obtain. The hurdle rates for F1 and G1 shares are linked to a return on investment rate ('IRR') achieved by the shareholders of FNZ Group Limited. If this IRR is achieved upon a "Liquidity Event", a percentage of financial returns above this rate will be shared with F1 and G1 shareholders. A Liquidity Event is primarily a transfer of all or substantially all of the assets of FNZ Group Limited or the shares in FNZ Group Limited to a third party. FNZ Group Limited may also elect to include an initial public offering ('IPO') as a Liquidity Event. There are several hurdle rates and the value of F1 and G1 shares increases as the IRR increases.

Option pricing methods ('OPM') such as Black-Scholes, as used for the B3 and B4 shares, can be used to determine the value of the F1 and G1 shares based on the range of potential payoffs. This would reflect the "hope" or "time" value of the F1 and G1 shares and captures the upside potential. However, a standard OPM model, such as Black-Scholes, is not deemed to appropriately value the F1 and G1 shares as that valuation methodology lacks the versatility to consider the criteria of the F1 and G1 shares and their interaction with the IRR. A Monte Carlo Simulations ('MCS') approach has been used to determine the value of the F1 and G1 shares by simulating thousands of potential payoffs in a risk-neutral framework. The Group has used a MCS approach to value the F1 and G1 shares by using the average payoff to F1 and G1 shareholders from the thousands of simulations in the model. The Group used an external expert valuation for this exercise and for the purpose of the launch of the F1 and G1 shares equity scheme. An estimate of future volatility was made with reference to historical volatility over a similar time period to the performance period. Historical volatility is calculated based on the annualised standard deviation of a listed peer group's daily share price movements.

The standard contractual vesting period of F1 and G1 shares is eight equal instalments over eight years from the contractual vesting date. As with the B3 and B4 shares, the terms of the F1 and G1 scheme includes the potential for accelerated vesting in case of a liquidity event or distribution to shareholders prior to the eight year period. Therefore, the Group applied a reduction to the standard eight year contractual vesting period to the valuation model to reflect this theoretical potential of accelerated vesting, with this being a one year (12.5%) for F1 shares and a two year (25%) reduction for G1 shares.

FNZ (UK) Ltd

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

24. Related parties (continued)

Incentive Plan - Share-based compensation plan (continued)

A summary of the valuation assumptions for the share classes held by employees of the Company has been provided below.

Award	Volatility	Dividend yield	Risk free rate	Assumed life	Fair price of one award
B3 share	24.50%	0.0%	0.15%	3 years	£1.59
B4 share	25.00%	0.0%	0.79%	3 years	£17.79
F1 share	32.70%	0.0%	0.60%	7 years	£227.46
G1 share	28.70%	0.0%	4.31%	6 years	£183.88

The risk-free rate assumed reflected the UK government yield curve for the assumed life as at the grant date.

The cost of recipients' services received in exchange for grant of the MIP shares is charged to the Statement of Comprehensive Income over the estimated vesting period, which is the shorter of the remaining contractual vesting period or the period to estimated liquidity event date (estimated at time of share issue) in the event this was less. Based on these vesting assumptions, the B3 and B4 shares are fully vested and the weighted average remaining life of the remaining F1 and G1 shares at the end of the year was 6.0 years.

Assumptions have been made over performance criteria, specifically leavers. The Company has assumed 20% leavers and applied this to unvested F1 and G1 shares over the assumed life.

The Company has recognised a share-based payment charge in the year in relation to these schemes of £607k (2021: £15k credit).

Incentive Plan – Kiwi CayLP, LP

The founders of the Group and some key management (including Non-Executive Directors) also participate in the equity growth and future value of the business via Kiwi CayLP, LP, a Cayman registered investment vehicle that itself holds equity in FNZ Group Limited. Prior to the launch of the existing share schemes some awards of units in Kiwi CayLP, LP were made in January 2017, including those to Non-Executive Directors.

Incentive Plan – EIP

Additionally, the Group operates a legacy Employee Incentive Plan ('EIP') which provided the opportunity for certain employees to participate in the future growth of the business. Units, which are notional only and which do not constitute shares in any company, entitle the holders to a small proportion of any distribution by FNZ Group Limited to its shareholder Kiwi CayLP, LP. A small number of former employees continue to hold such units.

FNZ (UK) Ltd
Notes to the Financial Statements for the year ended 31 December 2022 (continued)

25. Lease liabilities

(a) Amounts recognised in the Balance Sheet

The net book value of assets held in respect of right-of-use assets were as follows:

	2022 £'000	2021 £'000
Property, plant and equipment (note 15)		
Office properties	35,560	35,437
Fixtures, fittings & furnishings	6,365	3,149
Computers & other equipment	7,007	5,052
	<u>48,932</u>	<u>43,638</u>

Additions to the right-of-use assets during the 2022 and 2021 financial year were as follows:

	2022 £'000	2021 £'000
Property, plant and equipment (note 15)		
Office properties	4,474	20,539
Fixtures, fittings & furnishings	4,342	-
Computers & other equipment	6,438	935
	<u>15,254</u>	<u>21,474</u>

(b) Amounts recognised in the Statement of Comprehensive Income

The Statement of Comprehensive Income includes the following amounts relating to leases:

	2022 £'000	2021 £'000
Depreciation and amortisation charge of right-of-use assets		
Property, plant and equipment (note 15)		
Office properties	4,383	3,470
Fixtures, fittings & furnishings	1,126	945
Computers & other equipment	4,482	3,805
	<u>9,991</u>	<u>8,220</u>
Interest expense included in finance cost (note 10)	2,532	2,437
Expense relating to short-term leases included in operating expenses (note 6)	407	415
Total cash outflow impact of leases	(15,440)	(11,054)

26. Changes in accounting policy and disclosure

New and amended standards adopted by the Company

No new standards or amendments have been adopted by the Company for the first time for the financial year beginning on 1 January 2022 which would be considered to have a material impact on the Company.

New standards and interpretations not yet adopted

There are no forthcoming standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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Notes to the Financial Statements for the year ended 31 December 2022 (continued)

27. Commitment and contingencies

As at 31 December 2022 there were no capital commitments (2021: £nil). There are no contingent assets or liabilities as at 31 December 2022 (2021: none)

28. Subsequent events

There are no material post-balance sheet events directly affecting the Company.