**Provident Financial plc**
**Interim results for the six months ended 30 June 2019**

Provident Financial plc (PFG or 'the group') is the leading provider of credit products which provide financial inclusion for those consumers who are not well served by mainstream lenders. The group serves 2.4 million customers and its operations consist of Vanquis Bank, Moneybarn, and the Consumer Credit Division (CCD) comprising Provident home credit and Satsuma.

**Key financial results**

| | H1 2019 | H1 2018 | Change |
|---|---|---|---|
| Adjusted profit before tax[1] | £74.9m | £74.9m | -% |
| Amortisation of acquisition intangibles | (£3.7m) | (£3.7m) | -% |
| Exceptional costs (excluding bid defence costs) | (£10.0m) | (£36.6m) | 72.7% |
| Profit before tax and bid defence costs | £61.2m | £34.6m | 76.9% |
| Exceptional costs – bid defence costs | (£23.6m) | - | n/a |
| Statutory profit before tax | £37.6m | £34.6m | 8.8% |
| Adjusted basic earnings per share[1] | 21.8p | 24.2p | (9.9%) |
| Basic earnings per share | 8.1p | 9.8p | (17.3%) |
| Annualised return on assets[2] | 7.7% | 5.3% | n/a |
| Interim dividend per share | 9.0p | -p | n/a |

**Highlights**

**Continued good recovery of the group underpins the Board's reinstatement of the interim dividend**

- Group profit before tax and bid defence costs up 76.9% to £61.2m (2018: £34.6m).
- Group adjusted profit before tax[1] of £74.9m (2018: £74.9m), in line with internal plans and the first half of 2018.
- Improvement in the annualised return on assets from 5.3% to June 2018 to 7.7% to June 2019, with Vanquis Bank and Moneybarn both delivering returns above the group's target of 10%.
- Strategic initiatives well underway to deliver the group's 'Vision for the Future', including a number of product developments, combining online loans capabilities and cost and funding efficiencies.
- Further strengthening of the senior management team and Board following the appointments of Neil Chandler as Managing Director of Vanquis Bank, Robert East as Chairman of Vanquis Bank and a member of the group Board and Graham Lindsay to the group Board.
- Revolving syndicated facility successfully refinanced from £450m to a planned level of £235m, reflecting a lower funding requirement for the non-bank group now that Vanquis Bank is fully ring fenced and funded with retail deposits.
- The Board proposes an interim dividend of 9.0p per share (2018: nil), underpinned by the group's ongoing recovery.

**Vanquis Bank has delivered strong new account volumes despite adapting to changes in regulation**

- In line with internal plans, Vanquis Bank's profit before tax reduced to £85.0m (2018: £97.2m) primarily reflecting the expected reduction in ROP income and a shift in mix to nearer prime.
- New customer account bookings of 190,000, 3,000 higher than the first half of 2018 and ahead of management's plans, notwithstanding tighter underwriting and the impact of revised affordability processes.
- Improvement in the annualised impairment rate from 15.7% of average receivables to June 2018 to 15.1% to June 2019, reflecting an improvement in delinquency trends due to tighter underwriting and the shift in mix of business to nearer prime.

- Costs and interest charges reduced by 2.1% and 12.6% respectively, reflecting tight cost control and the impact of fully funding the business with retail deposits.

**Moneybarn delivers further strong growth in new business**

- Adjusted profit before tax[1] up 46.2% to £15.5m (2018: £10.6m) reflecting strong growth and improved credit quality.
- Demand for used cars has remained robust which, together with an improved customer experience, has resulted in strong growth in new business volumes of 34%, notwithstanding tighter credit standards.
- Annualised impairment rate of average receivables reduced to 12.3% (2018: 14.1%), reflecting stable default and arrears levels following progressive tightening of underwriting through 2017 and 2018.

**CCD turnaround progressing well with a view to return the business to profitability in the second half of 2020**

- Reduction in adjusted loss before tax[1] to £15.1m (2018: loss of £23.2m) reflects ongoing recovery of the home credit business.
- UK new customer growth in home credit 15% higher than the first half of 2018.
- Reduction in first half costs of 11% reflects the impact of headcount reductions over the last 18 months with cost efficiency remaining an ongoing priority for the business.
- Testing of enhanced performance management of the field force through a balanced scorecard with some element of variable pay has been well received, with full roll-out taking place through the second half of 2019.
- Satsuma has continued to deliver good growth and produced a break even result in the first half of the year.

**Malcolm Le May, Chief Executive Officer, commented:**

"Despite the distraction of the unsolicited bid from February to June this year, I am pleased with the group's operational and financial performance during the first half of the year. We have delivered strong new business volumes whilst maintaining stable delinquency trends and our first half results are in line with our internal plans. We are pleased to announce reinstatement of an interim dividend of 9.0p per share, which reflects our confidence in the ongoing recovery of the group. We will be hosting a Capital Markets Day on 7 November 2019 where we will provide further detail on the medium-term strategy and outlook for the group."

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[1] *Adjusted profit before tax is stated before: £3.7m (2018: £3.7m) of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 and exceptional charges of £33.6m (2018: £36.6m) comprising: (i) £23.6m of defence costs associated with Non-Standard Finance's (NSF's) unsolicited offer for the group; and (ii) £10.0m in relation to the turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017. Exceptional costs in the first half of 2018 also included £18.5m in respect of the refinancing of the senior bonds maturing in October 2019.*

[2] *Annualised return on assets is calculated as adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June.*

**Note:**

This report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report, but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, like-for-like any such forward-looking information. This report is intended solely to provide information to shareholders to assess the group's strategies and neither the company nor its directors accept liability to any other person, save as would arise under English law. The report should not be relied on by any other party or for any other purpose.

**INTERIM REPORT**

## Chief Executive Officer's review

### Introduction

Despite the significant distraction and associated costs of defending the unsolicited NSF offer, the group has made good operational and financial progress over the last 6 months. Adjusted profit before tax of £74.9m was in line with both internal plans and the first half of 2018 and each of the group's businesses has delivered strong new customer growth whilst maintaining stable delinquency. As a result of the continued resilient operational performance of the group, and as we near completion of the turnaround programme, I am pleased that the Board has confirmed an interim dividend of 9.0p per share. As highlighted previously, the interim dividend will be paid in September rather than in late November, bringing the group in line with other financial institutions and in recognition of the continued support of shareholders.

PFG has been through a substantial period of change over the past 2 years, adapting to a more stringent and continually evolving regulatory environment necessitating significant changes to each of our business models to ensure that they are sustainable.

Vanquis Bank is now providing credit under the enhanced affordability guidance implemented last year and has introduced a number of measures to adapt to the FCA's Credit Card Market Study (CCMS) in respect of persistent debt. These include the introduction of higher minimum payments due in 2018 together with the recent introduction of recommended payments and communication strategies to reduce the number of customers in persistent debt. These measures are designed to encourage customers to pay off their borrowing quicker, pay less overall and avoid getting into persistent debt. The business has also made a number of changes to its interest and fee structures, including downwards re-pricing for customers of suitable credit quality and the basis for charging late and over limit fees. The ROP refund programme was successfully completed in the first half of the year, in line with provisions originally established at the end of 2017.

The FCA investigation at Moneybarn is close to being concluded with the expected financial impact within the previously announced financial provisions.

In CCD, the changes made to the business model over the last 18 months has meant that the business and the enhanced customer proposition was well placed for the introduction of the new high-cost credit guidance in respect of home credit in the first quarter of 2019. To comply with new regulatory requirements, existing home credit customers must now make a specific request in writing before a Customer Engagement Manager (CEM) can offer them a loan. CEMs are also required to explain all available options to a customer who wishes to borrow, including refinancing their existing loan or taking out a concurrent loan. Importantly, the use of voice recording on customer visits allows CCD to evidence compliance with the new FCA rules, which also benefits the customer. In addition, CCD has made good progress in the testing of an enhanced performance management framework involving the introduction of a balanced scorecard with an element of variable pay. The new framework is expected to improve financial performance whilst maintaining good customer outcomes and will be rolled out nationwide in the second half of the year.

The group continues to focus on governance and culture, with a number of senior appointments during the first half of the year, including Neil Chandler, who was appointed as Managing Director of Vanquis Bank, Robert East, who was appointed as Chairman of Vanquis Bank and a member of the group Board, and Graham Lindsay, who was appointed to the group Board. We have also made good progress in embedding our Blueprint throughout the business to realign the culture more closely with the developing needs of the customer base.

As set out in the first quarter trading statement in May 2019, the Board's vision is to be the best and most trusted provider of credit to the underserved across a broader range of products and distribution channels, in order to help our customers on a path to a better everyday life.

The group's focus is on providing customers with credit products appropriate for their circumstances, delivering good customer outcomes and, through this, generating sustainable shareholder returns. To do this we will:

- Deliver a broader product range;
- Enhance our distribution capabilities;
- Establish a single view of our customer; and
- Grow responsibly, delivering sustainable shareholder returns.

We continue to deliver and develop a number of initiatives across each of these areas of focus:

**Broader product range**

With our existing customer base of 2.4 million customers, our leading multi-channel distribution capabilities and the excellent recognition enjoyed by our brands, the group is uniquely positioned to reach those who require finance and to provide credit products appropriate for them. The group will be building on its multi-channel distribution capabilities to meet a broader set of credit needs, developing a full product suite to support the aim of full financial inclusion for our customers in our increasingly digital world.

Management are progressing a number of product initiatives:

- Combining Satsuma and Vanquis Bank loan capabilities in order to provide a joined up range of online unsecured lending products at various price points, terms and issue values to meet customer needs. We plan to complete this process during the second half of the year.

- We continue to discuss with the FCA the possibility of offering an enhanced ROP product, catering to customers who value its features, providing them with additional forbearance measures beyond those prescribed by regulation.

- The trial of Provident Direct has recently commenced in one area. Provident Direct leverages capabilities in both home credit and Satsuma and is relationship managed in the home by a CEM, but payments are collected remotely via continuous payment authority (CPA). We believe this product will be attractive to customers who value the human face-to-face customer relationship management but who would also prefer the option of a direct repayment process.

**Enhanced distribution capability across digital and face-to-face channels**

Through the combination of technology and human interface, the group can help customers access a growing range of products that includes credit cards, term loans and vehicle financing, offered at rates commensurate with customers' credit standing, which we know changes over time. During the first half, we have focused on improving our distribution capabilities in a number of areas:

- The Vanquis Bank app now has over 1.0 million active users and Vanquis Bank customers now have access to Moneybarn car finance. We aim to provide access to other group products in due course.

- Further development and integration of the Provident Knowledge Universe (PKU) across the group. The PKU is our data collaboration with Experian and allows us to enhance management of the customer experience and ensure that we use this rich data source to better identify and fulfil customer needs with the group's products.

- CCD has successfully trialled an enhanced performance management framework, firstly in one area then in the whole of a region, which includes measuring the performance of CEMs based on a balanced scorecard and rewarding them with some element of variable pay linked to the level of performance. The implementation of this full suite of performance measures is essential to improving the efficiency and effectiveness of the field organisation and is an important component of returning the business to profitability in the second half of 2020.

**Establish a single view of our customer**

Historically, the group has been organised in distinct product-specific silos with little collaboration or cross-group cohesion, and limited focus on realising synergies across the group's customer and cost base, or development of shared capabilities. This is now changing as a result of the new product and distribution initiatives already highlighted, alongside the renewed momentum within the management teams generated by the changes enacted to the group and divisional structures over the last 12 months. The strategy is to leverage the customer and capability synergies which exist across the businesses and which, together with the group's scale, represent a significant competitive advantage for the group.

**Responsible growth with a focus on sustainable shareholder returns**

It is clear that the group must focus on responsible growth, supported by cost control and efficiency and on delivering products from the most efficient capital structure.

In the first half of the year, the group has delivered a number of actions focused on cost and capital efficiency:

- **Costs**:
    - Continued the extraction of costs across the group, extending the actions taken in previous periods, to achieve run-rate annual savings of £90m since early 2018.
    - In January 2019, CCD announced a voluntary redundancy programme in central support functions with the aim of reducing central headcount by over 200. Together with actions already taken and the ongoing tight control of costs, this is expected to result in CCD's cost base reducing by c.£20m in 2019. Overall there has been a reduction in roles within CCD approaching 1,000 over the last 18 months. Cost efficiency remains a key priority in returning the business to profitability in the second half of 2020.
    - Established a medium-term objective, over the next three years, to target a 500-basis points reduction in the cost income ratio from 43% in 2018 to 38%.

- **Funding efficiencies:**
    - Successful refinancing of the group's syndicated banking facility in July 2019.
    - Commenced the process of exploring the ability to use retail deposits and securitisation to fund Moneybarn, which would offer specific scaleable funding cost advantages and flexibility.
    - Begun preparations for the normal Prudential Regulation Authority (PRA) review of the group's capital requirements which will commence in the fourth quarter of the year and conclude in the first quarter of 2020. Management are assessing a number of areas which could potentially lead to a reduction in capital requirements from the current fully loaded Total Capital Requirement (TCR) of 25.5%.

**Outlook**

After a year of recovery in 2018, the first six months of 2019 has seen a renewed momentum in the delivery of the group's long-term strategic objective to deliver good outcomes for customers combined with sustainable and attractive returns to shareholders. Despite the distraction of the unsolicited and hostile offer, the group has maintained its focus on delivering on its strategic initiatives. Looking forward to the full year, the Board confirms that overall the group continues to trade in line with internal plans.

CCD performed broadly in line with internal plan for the first half of the year despite the impact of the new high-cost credit guidance in respect of home credit. However, it is a strategic imperative to return the business to profitability as soon as possible. The Board is targeting CCD returning to profitability in the second half of 2020, underpinned by the roll-out of enhanced performance management in the second half of 2019, further cost reduction and the recent launch of the Provident Direct trial.

Longer term, the group is confident that through our market position, clear strategy and our complementary, synergistic and industry-leading businesses, we will deliver an attractive investment for shareholders. As the group transitions to a model in which Vanquis Bank, with its enhanced product range, is the fulcrum of the group, it is appropriate that our return metrics are fully reflective of this. Accordingly, the target to deliver a return on assets of approximately 10% for the group as a whole is consistent with a target return on equity of between 20% and 25%, by 2021 and beyond. We will also target sustainable receivables growth through the cycle of between 5% and 10% per annum which we expect to achieve over the medium term, maintain dividend cover of at least 1.4 times once the home credit business returns to profitability and maintain a sensible buffer over the TCR as prescribed by the PRA. The management team will present its views on the longer term outlook for the group at a Capital Markets Day on 7 November 2019.

**Malcolm Le May**
**Chief Executive Officer**
**30 July 2019**

## Financial review

### Group performance

The group's 2019 interim results can be summarised as follows:

| | Six months ended 30 June 2019 £m | 2018 £m | Change % |
|---|---|---|---|
| Adjusted profit/(loss) before tax: | | | |
| – Vanquis Bank | 85.0 | 97.2 | (12.6) |
| – Moneybarn | 15.5 | 10.6 | 46.2 |
| – CCD | (15.1) | (23.2) | 34.9 |
| – Central costs | (10.5) | (9.7) | (8.2) |
| **Adjusted profit before tax[1]** | 74.9 | 74.9 | - |
| Amortisation of acquisition intangibles | (3.7) | (3.7) | - |
| Exceptional costs (excluding bid defence costs) | (10.0) | (36.6) | 72.7 |
| **Profit before tax and bid defence costs** | 61.2 | 34.6 | 76.9 |
| Exceptional costs – Bid defence costs | (23.6) | - | n/a |
| **Statutory profit before tax** | 37.6 | 34.6 | 8.8 |
| | | | |
| **Adjusted basic EPS[1]** | 21.8p | 24.2p | (9.9) |
| **Basic EPS** | 8.1p | 9.8p | (17.3) |
| **Annualised ROA[2]** | 7.7% | 5.3% | n/a |

[1] *Adjusted profit before tax is stated before: (i) £3.7m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2018: £3.7m); and (ii) exceptional charges of £33.6m (2018: £36.6m) comprising £23.6m of costs in respect of defending the unsolicited offer from NSF (2018: £nil) and £10.0m in relation to the turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017 (2018: £18.1m). Exceptional costs in the first half of 2018 also included £18.5m in respect of the refinancing of the senior bonds maturing in October 2019.*

[2] *Annualised return on assets is calculated as adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June.*

Group adjusted profit before tax of £74.9m was in line with both internal plans and the first half of 2018 (2018: £74.9m). Statutory profit before tax increased by 8.8% to £37.6m (2018: £34.6m) due to a reduction in exceptional costs. Exceptional costs in the first half of 2019 were £33.6m, lower than £36.6m in the first half of 2018, and mainly comprised bid defence costs of £23.6m in respect of the NSF unsolicited offer and £10.0m in respect of the ongoing turnaround of the home credit business. Excluding bid defence costs, the group's reported profit before tax was up 76.9% to £61.2m (2018: £34.6m).

As expected, Vanquis Bank's adjusted profit before tax has reduced by 12.6% to £85.0m (2018: £97.2m), principally reflecting the continuing reduction in the revenue yield due to lower ROP income and a shift in mix to better-quality, nearer prime business. Full-year profits in 2019 are expected to be more evenly spread between the first and second halves compared with 2018 which experienced a strong performance in the first half followed by the weaker performance in the second half caused by an increase in impairment from the introduction of higher minimum due payments.

Moneybarn's adjusted profit before tax has increased by 46.2% to £15.5m (2018: £10.6m), reflecting strong growth and improved credit quality.

CCD has reported a reduced adjusted loss before tax of £15.1m (2018: loss of £23.2m) as the business continues to deliver on its recovery plan whilst adapting to the impact of the new home credit guidance within the high-cost credit review. As previously communicated, the focus in 2019 is on stabilising the customer base and continuing to reduce costs, both of which are necessary to return the business to profitability. As a result of the ongoing actions taken by management, the business expects to deliver a reduced loss in the second half 2019. The first half of 2020 is also expected to be a loss, reflecting normal seasonality, before the business is expected to return to profitability in the second half of 2020. Overall, 2020 is expected to be breakeven as a whole.

Basic earnings per share reduced by 17.3% to 8.1p (2018: 9.8p) due to the impact of the rights shares issued in April 2018 and due to the defence costs being treated as significantly non-tax deductible pending further analysis of the tax provision. Adjusted basic earnings per share of 21.8p (2018: 24.2p) reduced by 9.9%, reflecting the impact of the rights shares issued in April 2018.

**Vanquis Bank**

| | Six months ended 30 June | | |
|---|---|---|---|
| | 2019 £m | 2018 £m | Change % |
| Customer numbers[1] ('000) | 1,791 | 1,747 | *2.5* |
| Period-end receivables | 1,438.1 | 1,432.4 | *0.4* |
| Average receivables[2] | 1,440.9 | 1,487.1 | *(3.1)* |
| Revenue | 294.6 | 331.9 | *(11.2)* |
| Impairment | (96.6) | (117.3) | *17.6* |
| Revenue less impairment | 198.0 | 214.6 | *(7.7)* |
| Annualised revenue yield[3] | 41.9% | 45.0% | |
| Annualised impairment rate[4] | 15.1% | 15.7% | |
| Annualised risk-adjusted margin[5] | 26.8% | 29.3% | |
| Costs | (97.1) | (99.2) | *2.1* |
| Interest | (15.9) | (18.2) | *12.6* |
| Profit before tax | 85.0 | 97.2 | *(12.6)* |
| Annualised return on assets[6] | 10.4% | 11.2% | |

1 *Customer numbers previously included Vanquis Bank credit card customers who had a Vanquis Bank loan as two separate customers. In order to adopt a more holistic 'single view of customer' approach, customer numbers now reflects Vanquis Bank customers who have a loan as well as a credit card as one customer. Accordingly, the June 2018 comparative for customer numbers has been restated onto a comparable basis resulting in a reduction in customer numbers from 1,764,000 to 1,747,000.*

2 *Calculated as the average of month end receivables for the 6 months ended 30 June excluding the impact of the balance reduction provision of £1.2m (2018: £69.3m) arising as a result of the resolution of the FCA investigation into ROP reached on 27 February 2018.*

3 *Revenue as a percentage of average receivables for the 12 months ended 30 June.*

4 *Impairment as a percentage of average receivables for the 12 months ended 30 June.*

5 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June.*

6 *Profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June.*

In line with management's internal plans, Vanquis Bank's adjusted profit before tax reduced by 12.6% to £85.0m in the first half of 2019 (2018: £97.2m). The reduction in profits primarily reflects the continued moderation in the annualised revenue yield from reduced ROP income and a shift in business mix towards better quality, nearer prime. In addition, as expected, receivables growth has been modest following the implementation of persistent debt measures and revised affordability processes. These adverse variances were partly offset by an improved impairment rate, operational leverage and a reduction in interest costs. Profits in 2018 were more weighted towards the first half of the year as the second half of the year was adversely impacted by an increase in impairment as a result of increased forbearance and the introduction of higher minimum payments which both led to an increase in payment arrangements.

Whilst the marketing activity of competitors in both the direct mail and internet channels has continued, demand for Vanquis Bank's credit cards continues to be strong. Despite tighter underwriting standards, including the withdrawal of the 69.9% APR product, and the implementation of revised affordability processes which have reduced new booking volumes by approximately 25%, new customer bookings of 190,000 were 3,000 higher than the first half of last year and ahead of management's plans. This reflects the benefit from the implementation of the new underwriting engine towards the end of 2018 which has enabled Vanquis Bank to enhance the customer onboarding journey. This includes the full roll-out of soft search pre-application for all channels and the pre-approval and pre-population for all affiliate channels, both of which have resulted in an improvement in application completion rates. As a result, customer numbers ended the first half at 1,791,000 (2018: 1,747,000), representing year-on-year growth of 2.5%, a lower rate of growth than the 4% reported at the Q1 trading update due to the sale of 18,000 semi-performing customers on payment arrangements during the second quarter of the year. During the second half of the year, Vanquis Bank will be undertaking a re-activation campaign on approximately 250,000 customers who are currently not active and will close down those customer accounts that do not re-activate in order to manage contingent risk if there is any deterioration in the economic environment.

Despite strong new booking volumes, receivables ended the first half at £1,438.1m, a modest increase of 0.4% from £1,432.4m at June 2018. This planned level of growth reflects lower average customer balances due to the impact of two changes in regulation. Firstly, in response to the FCA's definition of persistent debt within the CCMS, Vanquis Bank increased minimum due payments in the last quarter of 2018 and commenced testing of communication strategies in respect of higher recommended payments during the first quarter of the year. Approximately, 15% of Vanquis Bank customers currently meet the definition of being in persistent debt and the business is actively working with these customers with a view to removing them from this position in advance of March 2020, which is the first 36-month checkpoint after which customers who still meet the definition of being in persistent debt will be offered a way to repay their balance in a reasonable period. Secondly, revised affordability processes introduced in November 2018, together with the impact of not extending credit to those customers meeting the definition of persistent debt, has resulted in a reduction in the level of further credit extended to existing credit under the credit line increase programme. Credit line increases in the first half of 2019 were approximately 50% lower than the first half of 2018.

The focus of the Vanquis Bank loans proposition remains on providing unsecured loans to existing credit card customers. Volumes have been kept at modest levels during the first half of the year as the group works towards combining Satsuma and Vanquis Bank loan capabilities in order to provide a joined up range of online unsecured lending products. The receivables book in respect of Vanquis Bank loans at the end of the first half was £24.2m (2018: £25.1m).

Revenue has shown an 11.2% reduction to £294.6m in the first half of the year (2018: £331.9m) compared with the 3.1% reduction in average receivables. The annualised revenue yield has moderated from 45.0% to June 2018 to 41.9% to June 2019 due to three factors. Firstly, a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales in April 2016. This resulted in a year-on-year reduction in ROP income of approximately £10m. Secondly, there has been some further moderation in the interest yield from: (i) the continued increase in the mix of nearer prime customers; (ii) downwards re-pricing of higher APR accounts where the customer has improved their credit standing; (iii) balance reductions applied to accounts as part of the ROP refund programme were typically at higher APRs. Finally, there have been some changes to the basis for charging late and over limit fees to customer accounts.

The ROP refund programme was completed during March 2019 within the previously announced financial provision for refunds and balance reductions and agreed timetable with the FCA. There has been no material change in the level of complaints arising in relation to ROP following the announcement of the settlement in February 2018. The remaining provisions held in respect of the ROP refund programme, including the balance reduction provision of £1.2m within receivables (2018: £69.3m), amount to £29.8m at June 2019 (2018: £159.8m). Discussions are continuing with the FCA regarding the possibility of offering an enhanced ROP product and a potential return to new sales in due course.

Delinquency trends showed a favourable movement compared with the first half of last year due to a shift in business mix towards better quality, nearer prime. In addition, the rate of increase in payment arrangements experienced in the second half of 2018, due to enhanced forbearance and the increase in minimum due payments, has moderated through the first half of 2019. Accordingly, the annualised impairment rate to June 2019 has reduced to 15.1% of average receivables compared with 15.7% to June 2018. Underwriting standards have been progressively tightened over the last two years which, together with the historic resilience of the business model, means that Vanquis Bank is well-positioned if there is any deterioration in the UK economic environment.

The annualised risk-adjusted margin has moderated from 29.3% to June 2018 to 26.8% to June 2019, reflecting the reduction in the annualised revenue yield offset by the modest improvement in the impairment rate discussed above.

Costs have reduced by 2.1% to £97.1m in the first half of 2019 (2018: £99.2m). Despite stronger new account bookings, Vanquis Bank has been able to access operational leverage reflecting tight cost control. Cost efficiency remains a strong focus for Vanquis Bank. There are now over 1.0 million active users of Vanquis Bank's new mobile app and customers now have access to Moneybarn car loans. The new app and the PKU will allow enhanced management of the customer journey and greater collaboration across the group's divisions. The continuing development of digital capability is an essential driver in delivering good customer outcomes and maintaining the returns of Vanquis Bank in the context of a moderating revenue yield.

Interest costs of £15.9m have reduced by 12.6% during the first half of 2019 (2018: £18.2m). This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 3.5% in the first half of 2018 to 3.0% in the first half of 2019. This reflects the impact of Vanquis Bank repaying its intercompany loan from PFG and becoming fully funded with retail deposits in November 2018. The intercompany loan represented a higher cost of funding for Vanquis Bank.

Vanquis Bank's annualised return on assets has reduced to 10.4% (2018: 11.2%), reflecting the moderation in the annualised risk-adjusted margin partly offset by cost efficiency.

**Moneybarn**

| | Six months ended 30 June | | |
|---|---|---|---|
| | 2019 | 2018 | *Change* |
| | £m | £m | *%* |
| Customer numbers ('000) | 70 | 57 | *22.8* |
| Period-end receivables | 461.3 | 360.0 | *28.1* |
| Average receivables[1] | 436.6 | 360.6 | *21.1* |
| Revenue | 77.2 | 61.2 | *26.1* |
| Impairment | (27.8) | (24.7) | *(12.6)* |
| Revenue less impairment | 49.4 | 36.5 | *35.3* |
| Annualised revenue yield[2] | 35.6% | 34.5% | |
| Annualised impairment rate[3] | 12.3% | 14.1% | |
| Annualised risk-adjusted margin[4] | 23.3% | 20.4% | |
| Costs | (20.2) | (16.1) | *(25.5)* |
| Interest | (13.7) | (9.8) | *(39.8)* |
| Adjusted profit before tax[5] | 15.5 | 10.6 | *46.2* |
| Annualised return on assets[6] | 11.5% | 9.5% | |

1 *Calculated as the average of month end receivables for the 6 months ended 30 June prior to the impact of the balance reduction adjustment of £1.8m (2018: £12.1m) in respect of the FCA investigation into affordability, forbearance and termination options.*

2 *Revenue as a percentage of average receivables for the 12 months ended 30 June.*

3 *Impairment as a percentage of average receivables for the 12 months ended 30 June.*

4 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June.*

5 *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £3.7m (2018: £3.7m).*

6 *Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June.*

Moneybarn has delivered a 46.2% increase in first half adjusted profit before tax to £15.5m (2018: £10.6m). This reflects strong growth in receivables together with the benefit from improved credit quality following the tightening of underwriting in 2017 and 2018 partly offset by the investment in strengthening the management team and collections and customer service resource.

The non-standard vehicle finance market remains competitive, particularly in the nearer prime segment of the market where there has been a number of smaller new entrants. However, demand for used cars has remained robust and, despite continued tight underwriting standards, new business volumes during the first half have been very strong. Continued development of core broker-introduced distribution channels, including revising affordability processes and a number of other operational developments, has resulted in a better customer experience and reinforced Moneybarn's primacy amongst its broker network. As a result, new business volumes were 34% higher than last year and customer numbers ended the first half at 70,000, up from 62,000 at December 2018 and showing growth of 22.8% from 57,000 at June 2018.

Moneybarn continues to explore opportunities to extend its product offering and distribution channels through: (i) using the Vanquis Bank app to offer bespoke Moneybarn products to Vanquis Bank customers which is now live; (ii) expansion of relationships with lead generators and quotation search partners such as Clearscore, leveraging Moneybarn's quotation search and digital onboarding capabilities; (iii) introduction of a re-solicitation programme to retain high-quality customers who currently settle early and move to other lenders; and (iv) introduction and development of new asset classes that resonate with Moneybarn's target customer base, such as light commercial vehicles, motorbikes and touring caravans.

The strong growth in new business volumes has resulted in receivables growth of 28.1% to £461.3m (2018: £360.0m). Receivables are stated after the remaining balance reduction provision of £1.8m (December 2018: £1.8m, June 2018: £12.1m) in respect of the FCA investigation into affordability, forbearance and termination options. In addition, the provision in respect of potential cash restitution, administration costs and an FCA fine has reduced from £7.5m to £7.0m during the first half, primarily reflecting costs in respect of communicating with customers in respect of balances which have been written down as part of the expected settlement with the FCA. The final settlement agreement is expected in the near future and is expected to be within the remaining provisions of £8.8m held by Moneybarn at 30 June 2019.

Revenue has increased by 26.1% compared with the growth in average receivables of 21.1%. The annualised revenue yield has increased to 35.6% to June 2019 from 34.5% to June 2018, reflecting a lower mix of near prime business due to increased competition in that segment of the market.

As previously reported, default rates through 2016 and 2017 showed a progressive increase principally reflecting: (i) the change in product proposition from lending up to the trade value of a vehicle to lending up to the retail value; and (ii) the strong growth in new business volumes as Moneybarn's peak in defaults is approximately 9 to 12 months following inception of a loan. As a result of the higher level of defaults being experienced, underwriting was tightened in the second quarter of 2017 on higher risk categories of business and a tier of lower value business which was only marginally profitable was also removed in the second quarter of 2018. Default rates and arrears levels stabilised through the second half of 2018 and have remained stable during the first half of 2019. As a result of these factors, the annualised impairment rate has reduced from 14.1% to June 2018 to 12.3% to June 2019.

The improvement in the impairment rate has resulted in Moneybarn's annualised risk-adjusted margin strengthening from 20.4% to June 2018 to 23.3% to June 2019.

Whilst headcount has only increased modestly to around 300 during the first half of 2019, the flow through from the investment in additional headcount in 2018 has resulted in cost growth of 25.5%, modestly higher than the growth in average receivables of 21.1%. Due to the strong growth in the business over recent years, Moneybarn has now outgrown its existing head office in Petersfield. Accordingly, the business will shortly be moving into new premises, very close to the existing site, which will accommodate up to 420 employees and support growth well into the medium term.

Interest costs have shown growth of 39.8% in the first half of 2019, higher than the growth in average receivables. This reflects an increase in Moneybarn's group funding rate as the cost of funding the non-bank segment of the group has increased following Vanquis Bank becoming fully funded through retail deposits during the second half of 2018.

Moneybarn has delivered an annualised return on assets of 11.5% to June 2019, up from 9.5% to June 2018, reflecting the strengthening of the annualised risk-adjusted margin partly offset by the impact of the investment in strengthening the management team and collections and customer service resource during 2018.

**CCD**

| | Six months ended 30 June 2019 £m | 2018 £m | *Change %* |
|---|---|---|---|
| Customer numbers ('000) | 531 | 765 | *(30.6)* |
| Period-end receivables | 245.4 | 293.7 | *(16.4)* |
| Average receivables[1] | 254.2 | 309.7 | *(17.9)* |
| Revenue | 152.1 | 179.4 | *(15.2)* |
| Impairment | (51.8) | (70.6) | *26.6* |
| Revenue less impairment | 100.3 | 108.8 | *(7.8)* |
| Annualised revenue yield[2] | 117.3% | 120.7% | |
| Annualised impairment rate[3] | 38.0% | 78.6% | |
| Annualised risk-adjusted margin[4] | 79.3% | 42.1% | |
| Costs | (110.3) | (124.0) | *11.0* |
| Interest | (5.1) | (8.0) | *36.3* |
| Adjusted loss before tax[5] | (15.1) | (23.2) | *34.9* |
| Annualised return on assets[6] | (5.5%) | (28.3%) | |

1 *Calculated as the average of month end receivables for the 6 months ended 30 June.*

2 *Revenue as a percentage of average receivables for the 12 months ended 30 June.*

3 *Impairment as a percentage of average receivables for the 12 months ended 30 June.*

4 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June.*

5 *Adjusted loss before tax is stated before exceptional costs of £10.0m in relation to the turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017 (2018: £18.1m).*

6 *Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 30 June.*

The ongoing turnaround of the home credit business continued to progress well in the first half of the year, with positive momentum on new customer recruitment, the implementation of further actions to right-size the cost base and support from the FCA in respect of the introduction of enhanced performance management of the field force.

CCD has reported a reduced adjusted loss before tax of £15.1m in the first half (2018: loss of £23.2m), broadly in line with management's internal plan, although average receivables have been impacted by the new home credit guidance within the high-cost credit review. Based on management's ongoing actions, the business is expecting to deliver a reduced loss in the second half of 2019 and a loss in the first half of 2020, consistent with the normal seasonality of the business. The business is then expecting to deliver a profit in the second half of 2020 and a break even result for 2020 as a whole.

CCD customer numbers ended the first half at 531,000, 30.6% lower than June 2018 (2018: 765,000) which included approximately 200,000 customers who ceased paying in the second half of 2017 following the change in operating model and who have now been removed from customer numbers. The focus for 2019 is on: (i) stabilising the rate of decline in the home credit customer base; and (ii) continuing to grow Satsuma customer numbers.

The improved momentum in new customer recruitment experienced in the fourth quarter of 2018 has continued in home credit during the first half of the year. The number of new UK home credit customers was approximately 15% higher than the first half of 2018. Despite the stronger growth, home credit customer numbers ended the first half at 403,000, a reduction from 444,000 at December 2018 and 482,000 at June 2018, as the number of new customers recruited was not at a level sufficient to stabilise the customer base during the seasonally quiet first half. New customer recruitment is expected to continue its upward trajectory during the seasonally busier second half of the year.

Satsuma continues to experience a good flow of lending volumes notwithstanding a number of further refinements in underwriting. New business and further lending volumes increased by approximately 19% and customer numbers ended the first half at 128,000, up 29.5% on June 2018. Satsuma delivered a break even result in the first half of 2019 and continues to trade in line with the Board's expectations.

Following agreement with the FCA, CCD has recently commenced testing of an enhancement to the home credit product in one area. Provident Direct leverages the capabilities in both home credit and Satsuma, with the relationship managed in the home by a CEM and payments collected remotely via CPA. The product enhancement should allow CCD to attract new and former customers of suitable credit quality who do not wish to have a weekly collections visit by a CEM and should also improve efficiency in the field force. The enhancement will be thoroughly tested through the second half of the year before being rolled out on a measured basis to ensure that it delivers positive customer outcomes whilst not resulting in a deterioration in collections performance.

Total CCD receivables were £245.4m at June 2019 (2018: £293.7m), 16.4% lower than June 2018, and comprised £202.5m in respect of the home credit business (2018: £262.3m) and £42.9m in respect of Satsuma (2018: £31.4m).

Home credit receivables have fallen by 22.8% in the first half of 2019 compared with the 16.4% reduction in customer numbers. This reflects average issue values being approximately 14% lower in the first half of 2019 following the introduction of the new high cost credit guidance issued by the FCA as part of its review of the high-cost credit sector which came into force between December 2018 and March 2019. The new guidance includes the requirement for CEMs to present customers with the option of taking out a concurrent loan or refinancing their existing loan when they require further credit. Experience to date shows that there has been a modest shift in the proportion of customers opting for concurrent loans, which are typically lower value and shorter in duration than refinanced loans.

Satsuma's receivables have shown 36.6% growth on June 2018, due to the 29.5% increase in customer numbers together with the continued development of further lending to good quality customers.

Revenue in CCD has fallen by 15.2% in the first half of 2019, a modestly lower rate than the 17.9% reduction in average receivables. The annualised revenue yield of 117.3% to June 2019 has increased from 115.5% to December 2018, reflecting a modest shift in mix to shorter term, higher yielding products.

Impairment in CCD has reduced by 26.6%, better than the rate of reduction in average receivables. This reflects the improvement in collections performance, despite higher new customer volumes, due to the stabilisation of operations and collections being a key area of focus. As a result, the annualised impairment rate of 38.0% to June 2019 is significantly lower than 78.6% to June 2018.

The collections performance of credit originated since the fourth quarter of 2017 continues to remain broadly in line with the levels achieved prior to the change of operating model in July 2017, where the CEM has issued the credit and has ownership of the customer relationship. However, the collections performance on credit originated prior to the fourth quarter of 2017, where the CEM typically did not originate the credit following the change in operating model, remains significantly lower than historic levels and has not shown any improvement. These balances now only represent approximately £11m of CCD's carrying value of receivables.

As previously reported, the FCA confirmed in early March 2019 that the business can implement enhanced performance management of CEMs based on a balanced scorecard supported by an element of variable performance-related pay. The scorecard was tested for impact on customer outcomes in one area during May and was expanded to a region in June, including the introduction of an element of variable pay. The business is adopting a measured approach to implementation and will continue to calibrate the balanced scorecard and the variable pay element to both enhance customer outcomes and improve performance. Full roll-out of the balanced scorecard to the whole of the UK will be completed during the second half of the year. The implementation of this full suite of performance measures is essential to improving the efficiency and effectiveness of the field organisation, both in terms of delivering consistently good customer outcomes and returning the business to profitability through growing receivables and improving collections performance.

CCD's annualised risk-adjusted margin has shown a significant improvement from 42.1% to June 2018 to 79.3% to June 2019, primarily reflecting the significant improvement in impairment.

As previously reported, in January 2019, CCD announced a voluntary redundancy programme in central support functions which has reduced central headcount by approximately 200. Together with actions already taken and the ongoing tight control of costs, this has resulted in an 11.0% reduction in the cost base to £110.3m (2018: £124.0m) during the first half of the year. Overall, there has been a reduction in roles within CCD approaching 1,000 over the last 18 months and cost efficiency remains a key priority in returning the business to profitability in the second half of 2020.

Interest costs in CCD have fallen by 36.3% to £5.1m in the first half of 2019 (2018: £8.0m). This is a larger reduction than the reduction in average receivables as CCD's funding rate has been reduced to reflect a more balanced allocation of funding costs between CCD and Moneybarn now that Vanquis Bank is fully funded with retail deposits.

**Central costs**

Central costs in the first half of 2019 were £10.5m, up from £9.7m in the first half of 2018. The increase primarily reflects unallocated interest costs taken centrally as a result of the costs of defending the unsolicited NSF offer. Notwithstanding the additional interest costs, as a result of tight cost control the group expects to maintain full-year central costs at a similar level to 2018 as previously communicated.

**Exceptional items**

Exceptional costs of £33.6m in the first half of 2019 comprise: (i) £23.6m of defence costs associated with NSF's unsolicited offer for the group; and (ii) £10.0m in relation to the turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017, including a voluntary redundancy programme within central support functions which resulted in a reduction in headcount of approximately 200.

In the first half of 2018, an exceptional charge of £36.6m was recognised comprising: (i) £18.1m in respect of intangible and tangible asset write-offs (£10.9m), redundancy costs (£4.5m) and consultancy costs (£3.3m) associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017 net of an exceptional pension credit of £0.6m (see note 9); and (ii) £18.5m in respect of the 8% premium plus fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019.

**Tax**

The tax rate for the first half of 2019 of 26.3% (2018: 27.1%) is the estimated effective tax rate on profit before tax, amortisation of acquisition intangibles and exceptional items for the 2019 financial year and is higher than the mainstream UK statutory corporation tax rate. This reflects the impact of the bank corporation tax surcharge of 8% which applies to Vanquis Bank profits in excess of £25m and places an additional tax cost on Vanquis Bank.

The tax credit (2018: tax credit) in respect of exceptional costs in 2019 (2018: exceptional costs) amounts to £2.0m (2018: £7.0m) and represents: (i) tax relief of £1.9m in respect of the exceptional restructuring costs in CCD (2018: £3.5m); and (ii) tax relief of £0.1m in respect of exceptional costs associated with the defence of the unsolicited offer from NSF (2018: £nil). The tax credit in the first half of 2018 also included £3.5m in respect of the premium and fees paid on redemption of £222.5m of the £250m senior bonds.

Despite changing the operating model of the UK home credit business from a self-employed agent model to an employed workforce in July 2017, the group continues to be subject to status claims brought against it by either former agents in the UK or agents in the Republic of Ireland, or tax authorities challenging the historic employment status of the group's agents. To date the group has successfully defended these claims and challenges although there can be no guarantee that future claims or challenges will be successfully defended.

**Dividends**

The group's dividend policy is to maintain a dividend cover ratio of at least 1.4 times as the home credit business recovers and moves into profitability. This will reflect the group's current risk appetite of maintaining regulatory capital headroom in excess of £50m and the remaining transitional impact of IFRS 9 on regulatory capital of £175m over the next 4 years.

The Board is recommending the payment of an interim dividend of 9.0p per share (2018: nil). The interim dividend will be paid on 26 September 2019 to shareholders who are on the register of members on 16 August 2019. As previously announced, the timing of the payment of the interim dividend has been brought forward from November to September.

**Funding and capital**

The group's current funding strategy is to maintain committed facilities to meet contractual maturities and fund growth for at least the following 12 months and maintain access to three main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; and (iii) retail deposits which now fully funds the ring-fenced Vanquis Bank.

The group successfully refinanced its revolving syndicated bank facility on 24 July 2019 with four leading UK banks. This was 2 to 3 months later than originally envisaged reflecting a temporary pause in the dialogue with the banks during the NSF offer period. The facility has reduced from £450m to £235m, reflecting: (i) a reduction in the requirement of the group for a revolving facility as Vanquis Bank is now fully funded with retail deposits and the home credit business is significantly smaller than when the previous facility was established; and (ii) the exit of two non-UK banks from the syndicate. The new facility has a maturity of July 2022 and an interest rate of 300 bps plus LIBOR, up from 225 bps plus LIBOR in the previous facility. The covenant package and limits remain unchanged but will be assessed under IFRS 9 rather than under IAS 39 in the old facility.

The flow of retail deposits within Vanquis Bank has continued in line with its internal funding plan and, at 30 June 2019, Vanquis Bank had retail deposit funding of £1,472.3m, up from £1,431.7m at 31 December 2018, which reflects the modest level of Vanquis Bank receivables growth.

Headroom on the group's committed debt facilities was £319m at 30 June 2019. Together with the ongoing retail deposits programme and the recent refinancing of the revolving syndicated bank facility, this is sufficient to fund contractual debt maturities and projected growth in the group until September 2020. The group is actively exploring additional funding options including: (i) discussing with the PRA the potential to fund the group's other businesses with retail deposits; (ii) funding the Moneybarn receivables book through a securitisation; (iii) issuing further bonds or private placements; and/or (iv) issuing a tier 2 instrument.

The group's funding rate during the first half of 2019 was 4.5%, a modest increase from 4.3% in the first half of 2018 notwithstanding that Vanquis Bank is now fully funded with retail deposits. The modest increase primarily reflects the significant amount of headroom of over £300m being carried on the group's revolving credit facility during the first half of the year.

On 5 April 2019, Fitch Ratings reaffirmed the group's credit rating at BBB- with a negative outlook.

The group's minimum regulatory capital requirement set by the PRA, together with the capital conservation buffer (2.5%) and counter cyclical buffer (1.0%), represents a TCR of 25.5%. The Board expects to maintain headroom in excess of £50m against this requirement and a capital structure to support ongoing access to funding from the bank and debt capital markets.

The group's CET 1 ratio on an accrued profits basis at 30 June 2019 was 28.2% compared with the group's TCR of 25.5%. On this basis, the regulatory capital headroom was 2.7%, equivalent to approximately £60m based on the group's risk weighted assets of £2.3bn. This is consistent with the Board's current risk appetite of maintaining a regulatory capital buffer in excess of £50m. The reduction in headroom from £100m at 31 December 2018 reflects: (i) the anticipated second year transitional impact of IFRS 9 of £18m; (ii) the impact of the implementation of IFRS 16 'Leases' from 1 January 2019 of £26m; and (iii) the exceptional costs of £33.6m arising in respect of the costs of defending the unsolicited offer from NSF and redundancies in CCD. These adverse impacts were partly offset by profits from underlying operations less accrued dividends.

As previously reported, the impact from the adoption of IFRS 9 on the group's net assets of £184.0m is being phased into regulatory capital on a transitional basis over five years as follows: 5% taken at the start of 2018 (£9m), 15% taken on 1 January 2019 (£18m), 30% in 2020 (£28m), 50% in 2021 (£37m), 75% (£46m) in 2022 and 100% (£46m) from the start of 2023. The impact of the IFRS 9 transitional arrangements on CET 1 as at 30 June 2019 was £156.4m. For illustrative purposes, after adjusting for the impact on risk weighted assets, the CET 1 ratio at 30 June 2019 would reduce from 28.3% to 21.8% if the IFRS 9 transitional arrangements did not apply.

The group's next capital review (C-SREP) with the PRA is scheduled for the first quarter of 2020. The group continues to actively explore a number of options to improve capital efficiency. These include, but are not limited to, potential reductions in capital requirements for pensions and Pillar 2A add-ons. The Board also continues to monitor its risk appetite in respect of the appropriate level of regulatory capital headroom in light of the group's ongoing recovery.

**Board committee changes**

The group is pleased to announce that it formally established the Customer, Culture and Ethics Committee (the 'Committee') with effect from 1 April 2019. The Committee, which is a committee of the Board, is responsible for providing oversight of the group's review, delivery and embedding of its culture, offerings and business processes to ensure that they are focused on achieving fair customer outcomes. The Committee will also support the Board's compliance with the evolving corporate governance requirements. As initially announced on 31 July 2018, the Committee will be chaired by Non-executive director, Elizabeth Chambers.

Following the formal appointment of Robert East, the Board has also reviewed its committee composition and has agreed changes to Board committee membership with effect from 1 July 2019. The Board committee membership with effect from 1 July 2019 is:

| **Remuneration Committee**[1] | **Customer, Culture and Ethics Committee**[1] | **Audit Committee**[1,2] | **Group Risk Committee**[1,2] | **Nomination Committee** | **Disclosure Committee** |
|---|---|---|---|---|---|
| Andrea Blance (Chair) | Libby Chambers (Chair) | Paul Hewitt (Chair) | Angela Knight (Chair) | Patrick Snowball (Chair) | Malcolm Le May (Chair) |
| Graham Lindsay | Robert East | Angela Knight | Paul Hewitt | Andrea Blance | Simon Thomas |
| Angela Knight | Graham Lindsay | Andrea Blance | Libby Chambers | Libby Chambers | Charley Davies |
| | | | | Angela Knight | |
| | | | | Graham Lindsay | |
| | | | | Paul Hewitt | |
| | | | | Robert East | |

[1] *Malcolm Le May attends meetings by way of invitation.*
[2] *Simon Thomas attends meetings by way of invitation.*

Charley Davies joined the group on 1 April 2019 as Company Secretary and General Counsel of both the group and Vanquis Bank.

**Regulation**

**Enhanced supervision by the FCA**

As a consequence of: (i) the disruption to the home credit business following the migration to the new operating model in July 2017 and the subsequent implementation of the recovery plan in response to the disruption; (ii) the FCA's investigation into Vanquis Bank's ROP product; and (iii) the FCA's ongoing investigation into Moneybarn, the group continues to be subject to enhanced supervision by the FCA as notified by the FCA Watchlist Letter. The FCA Watchlist Letter requires that the group: (i) provides the FCA with a draft of an executable wind-down plan for the group and each of the entities within the group; (ii) successfully executes the recovery plan in home credit; and (iii) completes a successful turnaround of CCD so that CCD is financially stable, and the group can meet its funding requirements to 2020. Firms placed under enhanced supervision may be required to provide formal commitments, where appropriate, to the FCA to tackle the underlying concerns raised by the FCA and the FCA may also exercise other wide-ranging powers.

**FCA review of high-cost credit**

On 18 December 2018, the FCA published CP18/43 in respect of its review of high-cost credit, including final rules and guidance in respect of home-collected credit. The rules introduced a package of reforms to raise standards in disclosure and sales practices to prevent home credit firms from offering new loans or refinancing existing loans during home visits without the customer specifically requesting it. CCD made the necessary changes to its processes to ensure compliance with the new rules in advance of the new rules coming into force on 19 March 2019. This included the requirement for CEMs to explain all available options to a customer who wishes to borrow, including refinancing their existing loan or taking out a concurrent loan. The changes made to the home credit operating model over the last two years, including the recording of all sales interactions with customers, means that the business can evidence compliance with the revised requirements.

**FCA credit card market study**

In February 2018, the FCA published PS18/4 setting out its final policy rules in respect of persistent debt and earlier intervention remedies from its Credit Card Market Study. The overall objective of the package of remedies is to reduce the number of customers in problem credit card debt and put borrowers in greater control of their borrowing. In particular, the rules require credit card firms to undertake particular measures in respect of customers defined as being in persistent debt. The FCA define persistent debt as where, over a period of 18 months, a customer pays more in interest, fees and charges than they have repaid of the principal. At 18 months, firms are required to prompt customers in persistent debt to change their repayment behaviour if they can afford to. At 27 months firms are required to send another reminder if payments indicate a customer is still likely to be in persistent debt at the 36-month point. Customers need to be made aware that, if they do not change their repayment behaviour, their card may be suspended, which may be reported to credit reference agencies. The customer should also receive contact details for debt advice services. At 36 months firms need to intervene again if a customer remains in persistent debt. Firms need to help the customer by proposing ways of repaying more quickly over a reasonable period, usually between 3 and 4 years.

The proposals in PS18/4 came into force on 1 March 2018 and firms had 6 months to be fully compliant. Approximately, 15% of Vanquis Bank's customers currently meet the FCA's definition of persistent debt and the first 36-month checkpoint for persistent debt customers is in March 2020. Vanquis Bank increased its minimum payment rates in the second half of 2018 and has introduced a number of further measures in the first half of 2019, including recommended payments and the testing of a number of communication strategies, to encourage increased monthly repayments and reduce the number of customers meeting the FCA's definition of being in persistent debt.

**FCA review of creditworthiness in consumer credit**

In July 2018, the FCA published its policy statement (CP18/19) entitled 'Assessing creditworthiness in consumer credit' in which the FCA set out the changes to its existing rules and guidance in this area. The FCA has amended its rules and guidance with regards to creditworthiness (which the FCA stated comprises both credit risk and affordability) and in particular, the rules introduce a new explicit definition of 'affordability risk', in which the FCA sets out the factors to be considered by firms when assessing if credit is likely to be affordable for the borrower. The rules require a more detailed creditworthiness assessment including affordability at the outset. In particular, this applies to Vanquis Bank in respect of all new non-prime credit card customers and for significant individual or cumulative credit line increases thereafter.

The final rules and guidance from PS18/19 came into effect on 1 November 2018. All of the group's businesses have taken the necessary measures to meet the affordability principles arising from this review and the impact has been reflected in new business volumes and credit line increases during the first half of 2019.

**FCA review of the motor finance market**

In the FCA's Business Plan for 2017/18 the FCA stated that it was looking at the motor finance market to ensure that it works well and to assess whether consumers are at risk of harm. The FCA published an update on this work on 15 March 2018 and then published its final findings on 4 March 2019. The FCA's final findings indicated that they have concerns regarding four areas of the motor finance market: (i) commission arrangements, in particular non-flat rate structures; (ii) sufficient, timely and transparent information, mainly in respect of broker practice and information about DIC type commission arrangements; (iii) lender controls in respect of the oversight of dealers and brokers; and (iv) affordability assessments, whereby the FCA reference the additional clarity given in PS18/19 last year around affordability checks, and the expectation that all lenders have implemented the appropriate additional practices.

Moneybarn has flat fee commission structures and has never given discretion to brokers in setting the interest or commission levels. Customers are made aware of the existence of a payment of commission in Moneybarn's pre-contractual paperwork that all brokers must provide to the customer and evidence that the customer has received it. Moneybarn has an active physical audit programme for all of its brokers and was the first in the market to have such an audit process in place. Like all of the group's other businesses, Moneybarn made all necessary changes to its processes required by PS18/19 in advance of the 1 November 2018 deadline and there has been no further updates since then from the FCA.

**Irish Consumer Credit Bill on a cap on moneylenders' rates**

In November 2018, a report entitled: 'Interest Rate Restrictions on Credit for Low-income Borrowers' was published by the Social Finance Foundation, an Irish government funded body set up in 2007 to provide funding for community organisations and social enterprises. The report was part-funded by the Central Bank of Ireland (CBI) and called for a rate-cap to be introduced on interest and other charges and for the development of the credit union sector to provide alternative sources of credit for moneylending customers.

Following publication of the report, a private members' bill which seeks to cap moneylenders' rates at 36% APR was then debated in the Irish Parliament. The draft bill then passed its second reading and will now enter the Finance Committee stage. No date for the Finance Committee hearing has yet been published. Private members' bills are generally voted down by the Irish Government although the Irish Government's position is not clear in the case of this private members' bill.

The group's operations in the Republic of Ireland are in respect of the home credit business which has approximately 60,000 customers.

**Irresponsible lending complaints and the Financial Ombudsman Service (FOS)**

There continues to be heightened claims management company activity around non-standard lending sectors, particularly in respect of irresponsible lending in high-cost credit and more recently in home credit. As a result, CCD has seen a modest increase in the number of such complaints and referrals to the FOS. CCD continues to robustly defend inappropriate or unsubstantiated claims and work closely with the FOS in this regard.

## Principal risks and uncertainties

The principal risks and uncertainties affecting the group are largely consistent with those set out in the 2018 Annual Report and Financial Statements and comprise the following risks: credit risk, capital risk, liquidity and funding risk, IT risk, operational risk, regulatory and conduct risk and challenge to agent self-employed status. A full assessment of the risks and uncertainties, together with the controls and processes which are in place to monitor and mitigate the risks where possible, are set out on pages 44 to 54 of the 2018 Annual Report & Financial Statements which is available on the group's website, www.providentfinancial.com.

The most relevant risks and uncertainties for the remaining six months of the 2019 financial year are in respect of: (i) regulation, including the ongoing interaction with the FCA, PRA, CBI and FOS; (ii) challenges to self-employed status of agents prior to the change in the home credit operating model in July 2017; and (iii) the execution risk relating to the ongoing turnaround of the home credit business. An update on these matters has been provided within the Interim Report.

## Related party transactions

There have been no changes in the nature of the related party transactions as described in note 29 to the 2018 Annual Report and Financial Statements and there have been no new related party transactions which have had a material effect on the financial position or performance of the group in the six months ended 30 June 2019.

## Unaudited condensed interim financial statements

### Consolidated income statement

| | Note | Six months ended 30 June 2019 £m | 2018 £m |
|---|---|---|---|
| **Revenue** | 4 | 523.9 | 572.5 |
| Finance costs | | (36.5) | (54.7) |
| Impairment charges | | (176.2) | (212.6) |
| Administrative and operating costs | | (273.6) | (270.6) |
| **Total costs** | | (486.3) | (537.9) |
| **Profit before tax** | 4 | 37.6 | 34.6 |
| Profit before tax, amortisation of acquisition intangibles and exceptional items | 4 | 74.9 | 74.9 |
| Amortisation of acquisition intangibles | 4 | (3.7) | (3.7) |
| Exceptional items | 4 | (33.6) | (36.6) |
| Tax charge | 5 | (17.0) | (12.6) |
| **Profit for the period attributable to equity shareholders** | | 20.6 | 22.0 |

All of the above activities relate to continuing operations.

### Consolidated statement of comprehensive income

| | Note | Six months ended 30 June 2019 £m | 2018 £m |
|---|---|---|---|
| **Profit for the period attributable to equity shareholders** | | 20.6 | 22.0 |
| Items that will not be reclassified subsequently to the income statement: | | | |
| – actuarial movements on retirement benefit asset | 9 | (15.7) | 3.6 |
| – tax on items that will not be reclassified subsequently to the income statement | | 3.0 | (0.7) |
| – impact of change in UK tax rate on items that will not be reclassified subsequently to the income statement | | (0.3) | 0.1 |
| Items that may be reclassified subsequently to the income statement: | | | |
| – fair value movement in investments | 10 | 3.9 | 1.9 |
| – exchange differences on translation of foreign operations | | 0.1 | - |
| – tax on items that may be reclassified subsequently to the income statement | | (1.0) | (0.5) |
| Other comprehensive (expense)/income for the period | | (10.0) | 4.4 |
| **Total comprehensive income for the period** | | 10.6 | 26.4 |

| **Earnings per share** | Note | Six months ended 30 June 2019 pence | 2018 pence |
|---|---|---|---|
| Basic | 6 | 8.1 | 9.8 |
| Diluted | 6 | 8.1 | 9.8 |

| **Dividends per share** | | Six months ended 30 June 2019 pence | 2018 pence |
|---|---|---|---|
| Interim dividend | 7 | 9.0 | - |
| Paid in the period* | 7 | 10.0 | - |

* Dividends paid in the period were £25.1m (2018: £nil).

## Consolidated balance sheet

| | Note | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | | 71.2 | 71.2 | 71.2 |
| Other intangible assets | | 51.1 | 55.0 | 62.8 |
| Property, plant and equipment | | 22.3 | 24.6 | 27.6 |
| Right of use assets | 3 | 79.8 | - | - |
| Financial assets: | | | | |
| – amounts receivable from customers | 8 | 383.3 | 349.6 | 328.2 |
| Retirement benefit asset | 9 | 70.3 | 83.9 | 111.5 |
| Deferred tax asset | | 38.7 | 38.3 | 14.3 |
| | | 716.7 | 622.6 | 615.6 |
| **Current assets** | | | | |
| Financial assets: | | | | |
| – investment held as fair value through other comprehensive income | 10 | 21.1 | 47.8 | 48.2 |
| – amounts receivable from customers | 8 | 1,761.5 | 1,813.3 | 1,757.9 |
| – cash and cash equivalents | | 440.0 | 387.9 | 518.3 |
| – trade and other receivables | | 73.2 | 49.6 | 59.8 |
| Deferred tax asset | | - | - | 4.9 |
| | | 2,295.8 | 2,298.6 | 2,389.1 |
| **Total assets** | 4 | 3,012.5 | 2,921.2 | 3,004.7 |
| | | | | |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Financial liabilities: | | | | |
| – retail deposits | | (375.9) | (339.3) | (327.0) |
| – bank and other borrowings | | (83.8) | (49.8) | (18.2) |
| Total borrowings | | (459.7) | (389.1) | (345.2) |
| – trade and other payables | | (92.3) | (91.8) | (114.6) |
| – lease liabilities | 3 | (13.6) | - | - |
| Current tax liabilities | | (30.6) | (24.6) | (8.1) |
| Provisions | 12 | (35.6) | (53.2) | (97.9) |
| | | (631.8) | (558.7) | (565.8) |
| **Non-current liabilities** | | | | |
| Financial liabilities: | | | | |
| – retail deposits | | (1,096.4) | (1,092.4) | (1,163.6) |
| – bank and other borrowings | | (533.5) | (574.0) | (597.4) |
| Total borrowings | | (1,629.9) | (1,666.4) | (1,761.0) |
| – lease liabilities | 3 | (72.7) | - | - |
| **Total liabilities** | | (2,334.4) | (2,225.1) | (2,326.8) |
| **NET ASSETS** | 4 | 678.1 | 696.1 | 677.9 |
| | | | | |
| **SHAREHOLDERS’ EQUITY** | | | | |
| Share capital | | 52.5 | 52.5 | 52.5 |
| Share premium | | 273.2 | 273.2 | 273.1 |
| Other reserves | | 295.6 | 292.1 | 291.5 |
| Retained earnings | | 56.8 | 78.3 | 60.8 |
| **TOTAL EQUITY** | | 678.1 | 696.1 | 677.9 |

**Consolidated statement of changes in shareholders' equity**

| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| **At 31 December 2017** | 30.7 | 273.0 | 13.4 | 218.0 | 535.1 |
| Impact of adoption of IFRS 9 'Financial instruments' | - | - | - | (184.0) | (184.0) |
| **At 1 January 2018** | 30.7 | 273.0 | 13.4 | 34.0 | 351.1 |
| Profit for the period | - | - | - | 22.0 | 22.0 |
| Other comprehensive income/(expense): | | | | | |
| – fair value movement in investments | - | - | 1.9 | - | 1.9 |
| – actuarial movements on retirement benefit asset (note 9) | - | - | - | 3.6 | 3.6 |
| – tax on items taken directly to other comprehensive income | - | - | (0.5) | (0.7) | (1.2) |
| – impact of change in UK tax rate | - | - | - | 0.1 | 0.1 |
| Other comprehensive income for the period | - | - | 1.4 | 3.0 | 4.4 |
| Total comprehensive income for the period | - | - | 1.4 | 25.0 | 26.4 |
| Transactions with owners: | | | | | |
| – proceeds from rights issue | 21.8 | - | 278.2 | - | 300.0 |
| – issue of share capital | - | 0.1 | - | - | 0.1 |
| – share-based payment charge | - | - | 0.3 | - | 0.3 |
| – transfer of share-based payment reserve | - | - | (1.8) | 1.8 | - |
| **At 30 June 2018 and 1 July 2018** | 52.5 | 273.1 | 291.5 | 60.8 | 677.9 |
| Profit for the period | - | - | - | 38.3 | 38.3 |
| Other comprehensive income/(expense): | | | | | |
| – fair value movement in investments | - | - | 0.3 | - | 0.3 |
| – actuarial movements on retirement benefit asset (note 9) | - | - | - | (25.3) | (25.3) |
| – tax on items taken directly to other comprehensive income | - | - | - | 4.8 | 4.8 |
| – impact of change in UK tax rate | - | - | (0.2) | (0.6) | (0.8) |
| Other comprehensive income/(expense) for the period | - | - | 0.1 | (21.1) | (21.0) |
| Total comprehensive income for the period | - | - | 0.1 | 17.2 | 17.3 |
| Transactions with owners: | | | | | |
| – issue of share capital | - | 0.1 | - | - | 0.1 |
| – share-based payment charge | - | - | 0.8 | - | 0.8 |
| – transfer of share-based payment reserve | - | - | (0.3) | 0.3 | - |
| **At 31 December 2018** | 52.5 | 273.2 | 292.1 | 78.3 | 696.1 |
| Impact of adoption of IFRS 16 'Leases' (note 3) | - | - | - | (5.6) | (5.6) |
| **At 1 January 2019** | 52.5 | 273.2 | 292.1 | 72.7 | 690.5 |
| Profit for the period | - | - | - | 20.6 | 20.6 |
| Other comprehensive income/(expense): | | | | | |
| – fair value movement in investments | - | - | 3.9 | - | 3.9 |
| – actuarial movements on retirement benefit asset (note 9) | - | - | - | (15.7) | (15.7) |
| – exchange differences on translation of foreign operations | - | - | - | 0.1 | 0.1 |
| – tax on items taken directly to other comprehensive income | - | - | (1.0) | 3.0 | 2.0 |
| – impact of change in UK tax rate | - | - | - | (0.3) | (0.3) |
| Other comprehensive income/(expense) for the period | - | - | 2.9 | (12.9) | (10.0) |
| Total comprehensive income for the period | - | - | 2.9 | 7.7 | 10.6 |
| Transactions with owners: | | | | | |
| – share-based payment charge | - | - | 2.1 | - | 2.1 |
| – transfer of share-based payment reserve | - | - | (1.5) | 1.5 | - |
| – dividends | - | - | - | (25.1) | (25.1) |
| **At 30 June 2019** | 52.5 | 273.2 | 295.6 | 56.8 | 678.1 |

The rights issue in April 2018 was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. The resulting merger reserve of £278.2m is included within other reserves, of which £228.2m is distributable as the capital was retained for the purposes of the company with the remaining £50.0m not distributable as it was used to inject capital into Vanquis Bank.

**Consolidated statement of cash flows**

| | Note | Six months ended 30 June 2019 £m | 2018 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 13 | 67.4 | 89.8 |
| Finance costs paid | | (31.3) | (35.2) |
| Premium and fees paid on refinancing of senior bonds | 4 | - | (18.5) |
| Tax paid | | (8.1) | (7.0) |
| **Net cash generated from operating activities** | | 28.0 | 29.1 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | | (2.5) | (3.9) |
| Purchase of property, plant and equipment | | (3.7) | (2.3) |
| Proceeds from disposal of property, plant and equipment | | 1.1 | 0.3 |
| Sale/(purchase) of government gilts | | 30.6 | (0.5) |
| **Net cash generated from/(used in) investing activities** | | 25.5 | (6.4) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from bank and other borrowings | | 157.5 | 593.7 |
| Repayment of bank and other borrowings | | (125.7) | (681.1) |
| Payment of lease liabilities | | (6.8) | - |
| Dividends paid to company shareholders | 7 | (25.1) | - |
| Net proceeds from rights issue | | - | 300.0 |
| Proceeds from issue of share capital | | - | 0.1 |
| **Net cash (used in)/generated from financing activities** | | (0.1) | 212.7 |
| | | | |
| **Net increase in cash, cash equivalents and overdrafts** | | 53.4 | 235.4 |
| Cash, cash equivalents and overdrafts at beginning of period | | 380.9 | 279.8 |
| **Cash, cash equivalents and overdrafts at end of period** | | 434.3 | 515.2 |
| | | | |
| **Cash, cash equivalents and overdrafts at end of period comprise:** | | | |
| Cash at bank and in hand | | 440.0 | 518.3 |
| Overdrafts (held in bank and other borrowings) | | (5.7) | (3.1) |
| **Total cash, cash equivalents and overdrafts** | | 434.3 | 515.2 |

Cash at bank and in hand includes £423.3m (2018: £495.0m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. As at 30 June 2019, £143.3m (2018: £282.1m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

**Notes to the unaudited condensed interim financial statements**

**1. General information**

The company is a public limited company, incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU. The company is listed on the London Stock Exchange.

The unaudited condensed interim financial statements do not constitute the statutory financial statements of the group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2018 were approved by the board of directors on 13 March 2019 and have been delivered to the Registrar of Companies. The report of the auditor on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

The unaudited condensed interim financial statements for the six months ended 30 June 2019 have been reviewed, not audited, and were approved by the board of directors on 30 July 2019.

**2. Basis of preparation**

The unaudited condensed interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The unaudited condensed interim financial statements should be read in conjunction with the statutory financial statements for the year ended 31 December 2018 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors have reviewed the group's budgets, plans and cash flow forecasts for 2019 and 2020 together with outline projections for the three subsequent years. Based on this review, they are satisfied that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the unaudited condensed interim financial statements.

**3. Accounting policies**

The accounting policies applied in preparing the unaudited condensed interim financial statements are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2018 with the exception of the adoption of IFRS 16 'Leases' from 1 January 2019.

Taxes on profits in interim periods are accrued using the tax rate that will be applicable to expected total annual profits.

**The impact of new standards adopted by the group from 1 January 2019**

<u>IFRS 16</u>
IFRS 16 'Leases' has been adopted by the group from the mandatory adoption date of 1 January 2019. IFRS 16 replaces IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors.

The standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions between operating leases and finance leases are removed for lessee accounting, and will be replaced by a model where a right-of-use asset and a corresponding liability are recognised for all leases where the Group is the lessee, except for short-term assets and leases of low value assets.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated amortisation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of future minimum lease payments. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The classification of cash flows will be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as operating and financing cash flows respectively.

## 3. Accounting policies (continued)

The adoption of IFRS 16 into the group's opening balance sheet on 1 January 2019 resulted in an increase in assets of £81.9m and liabilities of £89.0m, which net of deferred tax of £1.5m, resulted in a reduction in net assets of £5.6m. The group has taken the modified retrospective approach, as permitted by IFRS 16, comparative information has therefore not been restated.

**The impact of new standards not yet effective and not adopted by the group from 1 January 2019**

There are no new standards not yet effective and not adopted by the group from 1 January 2019 which are expected to have a material impact on the group.

**Disclosure reclassification**

Historically, interest accruals on borrowings and retail deposits were presented within trade and other payables in the balance sheet. As part of the preparation of the financial statements for the year ended 31 December 2018, interest accruals were disclosed as part of the principal balances to which they relate within borrowings, replicating the presentation of interest on customer receivables. Accordingly, prior year comparatives for the six months ended 30 June 2018 have been reclassified.

The impact on the financial statements is presentational only and there is no impact on the income statement or the statement of cash flows.

## 4. Segment reporting

| | Revenue | | Profit/(loss) before tax | |
|---|---|---|---|---|
| | Six months ended 30 June | | Six months ended 30 June | |
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Vanquis Bank | 294.6 | 331.9 | 85.0 | 97.2 |
| Moneybarn | 77.2 | 61.2 | 15.5 | 10.6 |
| CCD | 152.1 | 179.4 | (15.1) | (23.2) |
| Central costs | - | - | (10.5) | (9.7) |
| **Total group before amortisation of acquisition intangibles and exceptional items** | 523.9 | 572.5 | 74.9 | 74.9 |
| Amortisation of acquisition intangibles | - | - | (3.7) | (3.7) |
| Exceptional items | - | - | (33.6) | (36.6) |
| **Total group** | 523.9 | 572.5 | 37.6 | 34.6 |

All of the above activities relate to continuing operations.

Revenue between business segments is not significant.

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. The amortisation charge in the first half of 2019 amounted to £3.7m (2018: £3.7m).

Exceptional costs in the first half of 2019 comprise: (i) £23.6m of defence costs associated with Non-Standard Finance plc's (NSF's) unsolicited offer for the group; and (ii) £10.0m in relation to the ongoing turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017 (2018: £18.1m), including a voluntary redundancy programme within central support functions which resulted in a reduction in headcount of approximately 200. The redundancy costs are stated net of an exceptional pension credit of £0.5m (see note 9).

## 4. Segment reporting (continued)

In the first half of 2018, an exceptional charge of £36.6m was recognised comprising: (i) £18.1m in respect of intangible and tangible asset write-offs (£10.9m), redundancy costs (£4.5m) and consultancy costs (£3.3m) associated with the turnaround of the home credit business, net of an exceptional pension credit of £0.6m (see note 9); and (ii) £18.5m in respect of the 8% premium plus fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019.

| | Segment assets | | | Net assets/(liabilities) | | |
|---|---|---|---|---|---|---|
| | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m |
| Vanquis Bank | 2,010.3 | 1,958.7 | 2,041.5 | 384.5 | 381.3 | 307.9 |
| Moneybarn | 512.2 | 438.9 | 393.6 | 29.4 | 17.0 | 14.5 |
| CCD | 294.4 | 342.6 | 353.8 | (28.7) | (9.5) | 40.1 |
| Central | 377.2 | 368.7 | 393.1 | 292.9 | 307.3 | 315.4 |
| **Total before intra-group elimination** | 3,194.1 | 3,108.9 | 3,182.0 | 678.1 | 696.1 | 677.9 |
| Intra-group elimination | (181.6) | (187.7) | (177.3) | - | - | - |
| **Total group** | 3,012.5 | 2,921.2 | 3,004.7 | 678.1 | 696.1 | 677.9 |

Historically, segment net assets reflected the statutory basis of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing of the borrowings of CCD to reflect the group's target capital ratio. Due to the significant losses incurred by CCD in 2017 and 2018, CCD's statutory net assets are now considerably lower than the group's target capital ratio. As a result, as part of the preparation of the 2018 financial statements the presentation of segment net assets was adjusted to show the statutory assets, liabilities and net assets/(liabilities) of each of the group's divisions. This results in an intra group elimination reflecting the difference between the central intercompany funding provided to the divisions and the external funding raised centrally. Comparatives for the six months ended 30 June 2018 have been restated onto a similar basis which has resulted in CCD's net assets at 30 June 2018 reducing from £169.8m to £40.1m and central net assets increasing from £185.7m to £315.4m.

The group's businesses operate in the UK and Republic of Ireland.

## 5. Tax charge

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the financial year of 26.3% (2018: 27.1%), to the profit before tax, amortisation of acquisition intangibles and exceptional items for the period. The tax rate reflects the impact of the bank corporation tax surcharge of 8% which came into force on 1 January 2016 and applies to Vanquis Bank profits in excess of £25m.

The tax credit (2018: tax credit) in respect of exceptional costs in 2019 (2018: exceptional costs) amounts to £2.0m (2018: £7.0m) and represents: (i) tax relief of £1.9m in respect of the exceptional restructuring costs in CCD (2018: £3.5m); and (ii) tax relief of £0.1m in respect of exceptional costs associated with the defence of the unsolicited offer from NSF (2018: £nil). The tax credit in the first half of 2018 also included £3.5m in respect of the premium and fees paid on redemption of £222.5m of the £250m senior bonds.

## 6. Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares in the period prior to the rights issue in April 2018 has been adjusted to take account of the bonus element of the rights issue of 1.367 in accordance with IAS 33: 'Earnings per share'.

Diluted earnings per share calculates the effect on earnings per share assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

(i) For share awards outstanding under performance-related share incentive schemes such as the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS), the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met as at that date.
(ii) For share options outstanding under non-performance related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the group's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares.

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share.

Reconciliations of basic and diluted earnings per share are set out below:

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | | 2019 | | | 2018 | |
| | Earnings £m | Weighted average number of shares m | Per share amount pence | Earnings £m | Weighted average number of shares m | Per share amount pence |
| **Basic earnings per share** | 20.6 | 253.3 | 8.1 | 22.0 | 225.3 | 9.8 |
| Dilutive effect of share options and awards | - | 1.2 | - | - | 0.3 | - |
| **Diluted earnings per share** | 20.6 | 254.5 | 8.1 | 22.0 | 225.6 | 9.8 |

The directors have elected to show an adjusted earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 and prior to exceptional items (see note 4). This is presented to show the earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted earnings per share to adjusted basic and diluted earnings per share is as follows:

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | | 2019 | | | 2018 | |
| | Earnings £m | Weighted average number of shares m | Per share amount pence | Earnings £m | Weighted average number of shares m | Per share amount pence |
| **Basic earnings per share** | 20.6 | 253.3 | 8.1 | 22.0 | 225.3 | 9.8 |
| Amortisation of acquisition intangibles, net of tax | 3.0 | - | 1.2 | 3.0 | - | 1.3 |
| Exceptional items, net of tax | 31.6 | - | 12.5 | 29.6 | - | 13.1 |
| **Adjusted basic earnings per share** | 55.2 | 253.3 | 21.8 | 54.6 | 225.3 | 24.2 |
| **Diluted earnings per share** | 20.6 | 254.5 | 8.1 | 22.0 | 225.6 | 9.8 |
| Amortisation of acquisition intangibles, net of tax | 3.0 | - | 1.2 | 3.0 | - | 1.3 |
| Exceptional items, net of tax | 31.6 | - | 12.4 | 29.6 | - | 13.1 |
| **Adjusted diluted earnings per share** | 55.2 | 254.5 | 21.7 | 54.6 | 225.6 | 24.2 |

## 7. Dividends

| | Six months ended 30 June 2019 £m | 2018 £m |
|---|---|---|
| 2018 final - 10.0p per share | 25.1 | - |
| **Total dividends paid** | 25.1 | - |

The directors have declared an interim dividend in respect of the six months ended 30 June 2019 9.0p per share (2018: nil) which will amount to an estimated dividend payment of £22.8m (2018: £nil). This dividend will be paid on 26 September 2019 to shareholders who are on the register of members at 16 August 2019. This dividend is not reflected in the balance sheet as at 30 June 2019 as it will be paid after the balance sheet date.

## 8. Amounts receivable from customers

| | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m |
|---|---|---|---|
| Vanquis Bank | 1,438.1 | 1,473.8 | 1,432.4 |
| Moneybarn | 461.3 | 396.6 | 360.0 |
| CCD | 245.4 | 292.5 | 293.7 |
| **Total group** | 2,144.8 | 2,162.9 | 2,086.1 |
| Analysed as: | | | |
| – due in more than one year | 383.3 | 349.6 | 328.2 |
| – due within one year | 1,761.5 | 1,813.3 | 1,757.9 |
| **Total group** | 2,144.8 | 2,162.9 | 2,086.1 |

Vanquis Bank receivables comprise £1,413.9m (31 December 2018: £1,447.8m, 30 June 2018: £1,407.3m) in respect of credit cards and £24.2m (31 December 2018: £26.0m, 30 June 2018: £25.1m) in respect of loans. The balance at 30 June 2019 is stated net of a balance reduction provision of £1.2m (31 December 2018: £3.7m, 30 June 2018: £69.3m) following the resolution of the FCA investigation into ROP on 27 February 2018.

Moneybarn receivables are stated net of a balance reduction provision of £1.8m (31 December 2018: £1.8m, 30 June 2018: £12.1m) in respect of the FCA investigation into affordability, forbearance and termination options.

CCD receivables comprise £201.8m in respect of the home credit business (31 December 2018: £251.9m, 30 June 2018: £260.6m), £42.9m in respect of Satsuma (31 December 2018: £39.5m, 30 June 2018: £31.4m) and £0.7m in respect of the collect-out of glo (31 December 2018: £1.1m, 30 June 2018: £1.7m).

## 8. Amounts receivable from customers (continued)

An analysis of receivables by IFRS 9 stages is set out below:

| | 30 June 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £m | £m | £m | £m |
| **Gross receivables** | | | | |
| Vanquis Bank | 1,263.9 | 215.5 | 430.1 | 1,909.5 |
| Moneybarn | 322.3 | 143.7 | 161.2 | 627.2 |
| CCD | 137.1 | 43.7 | 500.6 | 681.4 |
| **Total group** | 1,723.3 | 402.9 | 1,091.9 | 3,218.1 |
| | | | | |
| **Allowance account** | | | | |
| Vanquis Bank | (122.5) | (97.7) | (251.2) | (471.4) |
| Moneybarn | (10.4) | (29.9) | (125.6) | (165.9) |
| CCD | (9.0) | (11.1) | (415.9) | (436.0) |
| **Total group** | (141.9) | (138.7) | (792.7) | (1,073.3) |
| | | | | |
| **Net receivables** | | | | |
| Vanquis Bank | 1,141.4 | 117.8 | 178.9 | 1,438.1 |
| Moneybarn | 311.9 | 113.8 | 35.6 | 461.3 |
| CCD | 128.1 | 32.6 | 84.7 | 245.4 |
| **Total group** | 1,581.4 | 264.2 | 299.2 | 2,144.8 |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £m | £m | £m | £m |
| **Gross receivables** | | | | |
| Vanquis Bank | 1,288.4 | 172.8 | 515.3 | 1,976.5 |
| Moneybarn | 282.1 | 125.9 | 126.5 | 534.5 |
| CCD | 183.6 | 48.4 | 493.6 | 725.6 |
| **Total group** | 1,754.1 | 347.1 | 1,135.4 | 3,236.6 |
| | | | | |
| **Allowance account** | | | | |
| Vanquis Bank | (187.0) | (58.7) | (257.0) | (502.7) |
| Moneybarn | (9.2) | (28.4) | (100.3) | (137.9) |
| CCD | (12.0) | (12.9) | (408.2) | (433.1) |
| **Total group** | (208.2) | (100.0) | (765.5) | (1,073.7) |
| | | | | |
| **Net receivables** | | | | |
| Vanquis Bank | 1,101.4 | 114.1 | 258.3 | 1,473.8 |
| Moneybarn | 272.9 | 97.5 | 26.2 | 396.6 |
| CCD | 171.6 | 35.5 | 85.4 | 292.5 |
| **Total group** | 1,545.9 | 247.1 | 369.9 | 2,162.9 |

## 8. Amounts receivable from customers (continued)

| | 30 June 2018 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £m | £m | £m | £m |
| **Gross receivables** | | | | |
| Vanquis Bank | 1,419.7 | 99.4 | 378.9 | 1,898.0 |
| Moneybarn | 277.2 | 103.8 | 95.5 | 476.5 |
| CCD | 170.9 | 58.5 | 484.9 | 714.3 |
| **Total group** | 1,867.8 | 261.7 | 959.3 | 3,088.8 |
| **Allowance account** | | | | |
| Vanquis Bank | (146.6) | (53.2) | (265.8) | (465.6) |
| Moneybarn | (10.1) | (32.2) | (74.2) | (116.5) |
| CCD | (11.0) | (15.1) | (394.5) | (420.6) |
| **Total group** | (167.7) | (100.5) | (734.5) | (1,002.7) |
| **Net receivables** | | | | |
| Vanquis Bank | 1,273.1 | 46.2 | 113.1 | 1,432.4 |
| Moneybarn | 267.1 | 71.6 | 21.3 | 360.0 |
| CCD | 159.9 | 43.4 | 90.4 | 293.7 |
| **Total group** | 1,700.1 | 161.2 | 224.8 | 2,086.1 |

The impairment charge in respect of amounts receivable from customers can be analysed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | 2019 | 2018 |
| | £m | £m |
| Vanquis Bank | 96.6 | 117.3 |
| Moneybarn | 27.8 | 24.7 |
| CCD | 51.8 | 70.6 |
| **Total group** | 176.2 | 212.6 |

## 9. Retirement benefit asset

The group operates a defined benefit pension scheme: the Provident Financial Staff Pension Scheme. The scheme is of the funded, defined benefit type and has been substantially closed to new members since 1 January 2003.

All future benefits in the scheme are now provided on a 'cash balance' basis, with a defined amount being made available at retirement, based on a percentage of salary that is revalued up to retirement with reference to increases in price inflation. This retirement account is then used to purchase an annuity on the open market. The scheme provides pension benefits which were accrued in the past on a final salary basis, but which are no longer linked to final salary. The scheme also provides death benefits.

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2015 by a qualified independent actuary. A valuation as at 1 June 2018 is currently in progress but is not yet finalised. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the preliminary results of the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

The group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid.

The net retirement benefit asset recognised in the balance sheet of the group is as follows:

| | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m |
|---|---|---|---|
| Fair value of scheme assets | 844.1 | 788.3 | 813.2 |
| Present value of defined benefit obligation | (773.8) | (704.4) | (701.7) |
| **Net retirement benefit asset recognised in the balance sheet** | 70.3 | 83.9 | 111.5 |

The amounts recognised in the income statement were as follows:

| | Six months ended 30 June 2019 £m | Six months ended 30 June 2018 £m |
|---|---|---|
| Current service cost | (1.1) | (1.3) |
| Interest on scheme liabilities | (9.8) | (8.6) |
| Interest on scheme assets | 11.0 | 9.9 |
| **Net credit recognised in the income statement before exceptional curtailment credit** | 0.1 | - |
| Exceptional curtailment credit (note 4) | 0.5 | 0.6 |
| **Net credit recognised in the income statement** | 0.6 | 0.6 |

The net credit recognised in the income statement has been included within administrative and operating costs.

Movements in the fair value of scheme assets were as follows:

| | Six months ended 30 June 2019 £m | Six months ended 30 June 2018 £m |
|---|---|---|
| Fair value of scheme assets at 1 January | 788.3 | 835.5 |
| Interest on scheme assets | 11.0 | 9.9 |
| Actuarial movements on scheme assets | 63.6 | (16.4) |
| Contributions by the group | 1.5 | 5.0 |
| Net benefits paid out | (20.3) | (20.8) |
| **Fair value of scheme assets at 30 June** | 844.1 | 813.2 |

**9. Retirement benefit asset (continued)**

Movements in the present value of the defined benefit obligation were as follows:

| | Six months ended 30 June 2019 £m | 2018 £m |
|---|---|---|
| Present value of defined benefit obligation at 1 January | (704.4) | (733.2) |
| Current service cost | (1.1) | (1.3) |
| Interest on scheme liabilities | (9.8) | (8.6) |
| Exceptional curtailment credit (note 4) | 0.5 | 0.6 |
| Actuarial movements on scheme liabilities | (79.3) | 20.0 |
| Net benefits paid out | 20.3 | 20.8 |
| **Present value of defined benefit obligation at 30 June** | (773.8) | (701.7) |

The principal actuarial assumptions used at the balance sheet date were as follows:

| | 30 June 2019 % | 31 December 2018 % | 30 June 2018 % |
|---|---|---|---|
| Price inflation – RPI | 3.30 | 3.30 | 3.10 |
| Price inflation – CPI | 2.20 | 2.20 | 2.00 |
| Rate of increase to pensions in payment | 3.00 | 3.00 | 2.90 |
| Inflationary increases to pensions in deferment | 2.20 | 2.20 | 2.00 |
| Discount rate | 2.20 | 2.80 | 2.50 |

A 0.1% change in the discount and inflation rates would change the present value of the defined benefit obligation by approximately £13m (31 December 2018: £12m, 30 June 2018: £13m) and £6m (31 December 2018: £5m, 30 June 2018: £6m) respectively.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 2 tables (31 December 2018: series 2 tables, 30 June 2018: series 1 tables), with multipliers of 96% (31 December 2018: 96%, 30 June 2018: 105%) and 101% (31 December 2018: 101%, 30 June 2018: 115%) respectively for males and females. The 4% downwards (31 December 2018: 4% downwards, 30 June 2018: 5% upwards) adjustment to mortality rates for males and a 1% upwards (31 December 2018: 1% upwards, 30 June 2018: 15% upwards) adjustment for females reflects higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes following an updated study of the scheme's membership. Future improvements in mortality are based on the latest available Continuous Mortality Investigation (CMI) model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

| | Male | | | Female | | |
|---|---|---|---|---|---|---|
| | 30 June 2019 Years | 31 December 2018 Years | 30 June 2018 Years | 30 June 2019 Years | 31 December 2018 Years | 30 June 2018 years |
| Current pensioner aged 65 | 22.3 | 22.2 | 21.5 | 23.8 | 23.8 | 23.0 |
| Current member aged 45 from age 65 | 23.7 | 23.6 | 22.9 | 25.4 | 25.3 | 24.6 |

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £30m (31 December 2018: £30m, 30 June 2018: £28m).

An analysis of amounts recognised in the statement of comprehensive income is set out below:

| | Six months ended 30 June 2019 £m | 2018 £m |
|---|---|---|
| Actuarial movements on scheme assets | 63.6 | (16.4) |
| Actuarial movements on scheme liabilities | (79.3) | 20.0 |
| **Actuarial movements recognised in the statement of comprehensive income in the period** | (15.7) | 3.6 |

## 10. Investments

| | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m |
|---|---|---|---|
| Government gilts | 5.1 | 35.7 | 36.4 |
| Visa Inc. shares | 16.0 | 12.1 | 11.8 |
| | 21.1 | 47.8 | 48.2 |

**Government gilts**
Government gilts comprise UK government gilts which form part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime. Vanquis Bank's total liquid assets buffer and other liquid resources, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £428.4m (31 December 2018: £420.6m, 30 June 2018: £531.4m). This includes £423.3m (31 December 2018: £384.9m, 30 June 2018: £495.0m) held in cash and cash equivalents.

**Visa Inc. shares**
The Visa shares represents preferred stock in Visa Inc. held by Vanquis Bank following completion of Visa Inc.'s acquisition of Visa Europe Limited on 21 June 2016. In consideration for Vanquis Bank's interest in Visa Europe Limited, Vanquis Bank received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m due on the third anniversary of the completion date. The preferred stock is convertible into Class A common stock of Visa Inc. at a future date, subject to certain conditions.

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 30 June 2019 of £16.0m (31 December 2018: £12.1m, 30 June 2018: £11.8m) is held at fair value through OCI. The deferred cash consideration of £1.5m, previously held within debtors (31 December 2018: £1.3m, 30 June 2018: £1.2m), was received in June 2019. The increase in the fair value of the investment during the six month period of £3.9m (2018: £1.9m) in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates has been recognised in the statement of comprehensive income.

## 11. Fair value disclosures

The group holds the following financial instruments at fair value:

| | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m |
|---|---|---|---|
| **Financial assets** | | | |
| Government gilts | 5.1 | 35.7 | 36.4 |
| Visa Inc. shares | 16.0 | 12.1 | 11.8 |
| Trade and other receivables – deferred consideration | - | 1.3 | 1.2 |
| **Total** | 21.1 | 49.1 | 49.4 |

Except as detailed in the following table, the directors consider that the carrying value of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values:

| | Carrying value | | | Fair value | | |
|---|---|---|---|---|---|---|
| | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m |
| **Financial assets** | | | | | | |
| Amounts receivable from customers | 2,144.8 | 2,162.9 | 2,086.1 | 3,233.8 | 3,329.2 | 3,200.0 |
| **Financial liabilities** | | | | | | |
| Retail deposits | (1,472.3) | (1,431.7) | (1,490.6) | (1,468.3) | (1,441.0) | (1,487.0) |
| Bank and other borrowings | (617.3) | (623.8) | (615.6) | (619.6) | (658.8) | (622.6) |
| Total | (2,089.6) | (2,055.5) | (2,106.2) | (2,087.9) | (2,099.8) | (2,109.6) |

## 12. Provisions

| | 30 June 2019 £m | 31 December 2018 £m | 30 June 2018 £m |
|---|---|---|---|
| At 1 January | 53.2 | 104.6 | 104.6 |
| Used during the period | (17.6) | (62.2) | (6.7) |
| Reclassification from balance reduction provisions | - | 10.8 | - |
| At the period end | 35.6 | 53.2 | 97.9 |

**Vanquis Bank**

On 27 February 2018, Vanquis Bank agreed a settlement with the FCA into the investigation into ROP. The investigation concluded that Vanquis Bank did not adequately disclose in its sales calls that the charges for ROP would be treated as a purchase transaction and therefore potentially incur interest. The total estimated cost of settlement amounted to £172.1m and was reflected in the 2017 financial statements, of which £75.4m was reflected as a balance adjustment provision to receivables with the remaining £96.7m reflected as a provision. The provision comprised: (i) cash settlements to customers of £51.7m; (ii) higher expected forward flow of ROP complaints more generally in respect of which compensation may need to be paid of £30.7m; (iii) administration costs of £12.3m; and (iv) the fine levied by the FCA of just under £2.0m.

The ROP refund programme was completed in the first half of 2019 with over 1.3 million current and former ROP customers refunded. As a result, the provision has reduced from £45.7m to £28.6m, primarily reflecting cash settlements and administration costs of £17.1m. The remaining provision mainly comprises the expected forward flow of ROP complaints more generally in respect of which compensation may need to be paid and sundry other costs. The balance reduction provision has also reduced from £3.7m at the end of 2018 to £1.2m at June 2019 (see note 8).

**Moneybarn**

Moneybarn continues to cooperate with the FCA with its ongoing investigation into affordability, forbearance and termination options. Management's best estimate of the potential liability in respect of the investigation of £20.0m was reflected in the 2017 financial statements and comprised a £12.1m balance adjustment provision to receivables with the remaining £7.9m reflected as a provision in respect of potential cash restitution, administration costs and an FCA fine.

Moneybarn has used £0.5m of the provision in 2019 in respect of refund activity. The balance reduction adjustment provision remains unchanged from December 2018 at £1.8m (see note 8). In March 2019, Moneybarn agreed with the FCA the overall settlement to be paid in respect of the investigation. The cost is expected to be within the provisions held at the end of 2018 but this will not be reflected until receipt of the final settlement agreement from the FCA.

## 13. Reconciliation of profit after tax to cash generated from operations

| | Six months ended 30 June 2019 £m | 2018 £m |
|---|---|---|
| **Profit after tax** | 20.6 | 22.0 |
| Adjusted for: | | |
| – tax charge | 17.0 | 12.6 |
| – finance costs | 36.5 | 36.2 |
| – exceptional premium and fees paid on refinancing of senior bonds (note 4) | - | 18.5 |
| – share-based payment charge | 2.1 | 0.3 |
| – retirement benefit credit before exceptional curtailment credit (note 9) | (0.1) | - |
| – exceptional pension curtailment credit (note 9) | (0.5) | (0.6) |
| – amortisation of intangible assets | 7.6 | 10.3 |
| – depreciation of property, plant and equipment and right of use assets | 8.8 | 4.6 |
| – exceptional loss on write off of property, plant and equipment and intangible assets (note 4) | - | 10.9 |
| Changes in operating assets and liabilities: | | |
| – amounts receivable from customers | 18.0 | (14.8) |
| – trade and other receivables | (23.5) | (15.9) |
| – trade and other payables | - | 17.4 |
| – contributions into the retirement benefit scheme (note 9) | (1.5) | (5.0) |
| – provisions (note 12) | (17.6) | (6.7) |
| **Cash generated from operations** | 67.4 | 89.8 |

## 14. Contingent liabilities

**Threatened proceedings in respect of the company's alleged failure to previously disclose certain matters contained in the company's public announcement on 22 August 2017**

On 26 January 2018, the company received a letter on behalf of an institutional investor (which has a number of subsidiary investment funds) in connection with certain matters disclosed in its public announcement on 22 August 2017. On that date, as part of a trading update, the company announced, among other things, that Vanquis Bank was cooperating with an investigation by the FCA into ROP, had agreed with the FCA to enter into a voluntary requirement to suspend all new sales of ROP in April 2016 and had agreed with the PRA, pending the outcome of the FCA investigation, not to pay dividends to, or enter into certain transactions outside the normal course of business with, the group without the PRA's consent. The institutional investor asserted that the company is liable to compensate it and its subsidiary investment funds for losses suffered as a result of the fact that certain matters disclosed in the trading update were not publicly announced earlier or disclosed to them by the company in investor meetings. The institutional investor did not quantify the losses that it alleged had been incurred, although it alleged that it and its subsidiary investment funds held significant positions in the company's shares at the time. The institutional investor also asserted that the company's earlier public announcements were false or misleading or, alternatively, the delay in disclosing those matters publicly was dishonest pursuant to Section 90A of the Financial Services and Markets Act 2000, and the company made actionable misstatements during those investor meetings.

The company has not received any further correspondence on this matter and continues to believe the claims by the institutional investor are unmeritorious and the prospects of the claims being upheld to be limited. The company has responded to the claims and, should further correspondence be received, intends to defend its position vigorously and to the fullest extent possible. In the event these claims, or claims brought by any other investors in connection with these, or other, announcements or investor meetings, were upheld, the compensation which the company may be required to pay could have a material adverse effect on the group's business, financial condition, results of operations, cash flows and prospects.

**14. Contingent liabilities (continued)**

**Challenge to self-employed status of UK home credit agents**

Based on recent discussions, it is understood that HMRC are undertaking an industry wide review of the self-employed status of agents, in particular the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014.

In July 2017, the group changed its home credit operating model in the UK from a self-employed agent model to an employed workforce to take direct control of all aspects of the customer relationship. Policies and procedures were in place in the UK up to the transition to the new operating model to ensure that the relationship between the business and the agents it engaged were such that self-employed status was maintained. Compliance with policies was routinely evidenced and tested.

To date, the group has successfully defended claims and challenges against the historic employment status of the group's UK home credit agents although there can be no guarantee that future claims or challenges will be successfully defended. Were the group to be unsuccessful in defending such claims, it may be required to pay additional taxes, in particular national insurance contributions, to HMRC.

As discussions with HMRC are only in the preliminary stages, it is not practicable to determine the possible financial effect should the group be unsuccessful in defending the claims.

**Other legal actions and regulatory matters**

In addition, during the ordinary course of business the group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, agents, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However, the group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

**Statement of directors' responsibilities**

The directors confirm that, to the best of their knowledge, the unaudited condensed interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- An indication of important events that have occurred during the first six months of the financial year and their impact on the unaudited condensed interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions that have occurred in the first six months of the financial year and any material changes in the related party transactions described in the last annual report and financial statements.

A list of current directors is maintained on the Provident Financial website: www.providentfinancial.com. Graham Lindsay and Robert East were appointed to the Board on 1 April 2019 and 26 June 2019 respectively. John Straw did not seek re-election as a director at the AGM on 21 May 2019. There have been no other changes in directors during the six months ended 30 June 2019.

The maintenance and integrity of the Provident Financial website is the responsibility of the directors. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accept no responsibility for any changes that may have occurred to the unaudited condensed interim financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of unaudited condensed interim financial statements may differ from legislation in other jurisdictions.

By order of the board

Malcolm Le May – Chief Executive Officer

Simon Thomas – Chief Financial Officer

30 July 2019

**INDEPENDENT REVIEW REPORT TO PROVIDENT FINANCIAL PLC**

We have been engaged by the company to review the condensed interim financial statements in the interim report for the six months ended 30 June 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and related notes 1 to 14. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

**Directors' responsibilities**

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed interim financial statements included in this interim report have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed interim financial statements in the interim report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements in the interim report for the six months ended 30 June 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Deloitte LLP**
Statutory Auditor
Birmingham, United Kingdom
30 July 2019

**Information for shareholders**

1. The interim report will be posted to shareholders on 8 August 2019.

2. The shares will be marked ex-dividend on 15 August 2019.

3. The interim dividend will be paid on 26 September 2019 to shareholders on the register at the close of business on 16 August 2019. Dividend warrants/vouchers will be posted on 24 September 2019.

4. The last date for elections to participate in the PFG Dividend Re-investment Plan for the interim dividend is 5 September 2019.