Vanquis Banking Group
Preliminary results for the year ended 31 December 2022

Vanquis Banking Group plc ('the Group'), a leading specialist banking group with a focus on customers in the mid-cost and near-prime credit markets, today publishes its results for the twelve months to the end of December 2022, unless otherwise stated.

Malcolm Le May, Chief Executive Officer, commented:

"I am pleased to report that the Group's adjusted profit before tax for FY'22 is marginally ahead of market expectations. This excellent result reflects another year of important strategic change and progress for the Group and is the culmination of the hard work and dedication of colleagues across Vanquis Banking Group to whom the Board and I are extremely grateful.

We have delivered a substantial amount of progress since I took over as CEO in February 2018 and 2022 was another important year of strategic development for the Group. We reinforced our repositioning as a leading specialist banking group in the mid-cost and near-prime parts of the credit market with a focus on lower risk customers, which has resulted in credit risk across the Group reducing materially since 2019. The process of rebuilding the Group's loan books back to pre-pandemic levels is underway, as demonstrated by the excellent growth and momentum we delivered in the fourth quarter of 2022. Reflecting this strong performance, and the Group's strong financial foundations, the Board is proposing a final dividend of 10.3p per share. This equates to a total dividend of 15.3p and a pay-out ratio of 40% consistent with our dividend policy. The Group remains well positioned in growing addressable markets to deliver attractive and sustainable returns to shareholders over the medium-term whilst supporting our customers in this challenging macroeconomic environment."

Key financial results

	Twelve months ended 31 December	
	2022	**2021**
Continuing Operations:	**£m**	**£m**
Adjusted profit before tax:		
– Credit cards	178.5	173.9
– Vehicle finance	38.0	28.9
– Personal loans	(15.7)	(8.7)
– Central division:		
- Central costs	(29.9)	(18.2)
- Transformation and Change	(34.5)	(8.1)
- Bond interest including Tier 2	(9.8)	-
Adjusted profit before tax from continuing operations[1]	**126.6**	**167.8**
Amortisation of acquisition intangibles	(7.5)	(7.5)
Exceptional items – continuing operations	(9.0)	(18.1)
Statutory profit before tax from continuing operations	**110.1**	**142.2**
Loss for discontinued operations	(10.7)	(138.1)
Statutory profit before tax	**99.4**	**4.1**
Credit card receivables	1,182	1,063
Vehicle finance receivables	646	586
Personal loan receivables	76	28
Total Group receivables	**1,904**	**1,678**
Adjusted RORE[2]	22.2%	32.3%
Adjusted basic EPS from continuing operations[3] (p)	38.7	57.5
Basic EPS from continuing operations[3] (p)	32.8	53.7
Total dividend per share (p)	15.3	12.0

2022 Highlights

The Group's strong performance in 2022 built on the strategic foundations put in place in 2021

- The Group delivered strong loan book growth in each of its businesses, notwithstanding the challenging macroeconomic backdrop, underpinned by its rigorous risk management framework and strong capital position.
- The Group's Net Interest Margin increased by 0.5% from 20.5% in FY'21 to 21.0% in FY'22, reflecting a higher asset yield.
- Reflecting the Group's focus on lower risk customers, asset quality across the Group's loan books remained high and delinquency trends were stable.
- Group central costs increased during the period reflecting the roll out of the shared services model and investment in the growth and scalability of the businesses. Total Group operating costs increased reflecting underlying cost increases and ongoing business investment to improve scalability and operation leverage.
- Group statutory profit before tax from continuing operations of £110.1m (FY'21: £142.2m) reflecting the increase in central costs referred to above.
- Group adjusted profit before tax from continuing operations of £126.6m (FY'21: £167.8m) is a combination of better divisional profits year-on-year offset by increased losses from the nascent personal loans business and higher central costs as a result of the centralisation of Group functions.
- At the end of December 2022, the Group's capital and liquidity positions remained robust with regulatory capital of £679m (FY'21: £707m), equating to a CET1 ratio of 26.4% (FY'21: 29.1%) and a total capital ratio of 37.5% (FY'21: 40.6%). This equates to a surplus of £284m (FY'21: £344m) pre-C-SREP release of capital above the Group's Total Capital Requirement (TCR) and regulatory combined buffer (capital conservation buffer and countercyclical capital buffer). The Group held High-Quality Liquid Assets in the Bank of England reserve account of £421m at the end of December 2022 (FY'21: £415m) equating to significant levels of excess above its Liquidity Coverage Ratio (LCR) requirement.
- The Board is proposing a final dividend with respect of FY'22 of 10.3p per share, reflecting the Group's strong capital position and the Board's confidence in the Group's outlook, equating to a total dividend payable of 15.3p per share and a pay-out ratio of adjusted continuing earnings[4] of 40%.

2022 Achievements

- The Group successfully repositioned in the mid-cost and near-prime segments of the market, with a focus on lower risk customers, resulting in a materially lower credit risk profile.
- Announced the rebranding of the Group as Vanquis Banking Group plc shortly after the period end to better reflect the mix of lending and its strategic ambitions.
- Growth initiatives launched for each product including several new credit card price points, a broader product offering for the vehicle finance business and the open market launch and development in the personal loans business.
- Large exposure waiver obtained following Prudential Risk Authority (PRA) approval enabling Moneybarn to benefit from access to retail deposit funding via Vanquis Bank.
- In March 2023, the Group's TCR reduced by 6.4% to 11.9% (previously 18.3%) following the conclusion of the Group's C-SREP. The overall capital requirement reduced from 21.8% to 15.4%, which includes the current regulatory combined buffer of 3.5% but excludes confidential buffers set by the PRA and internal management buffers.

Credit card receivables grew by 11% year-on-year driven by new customer acquisition and spend

- The Group's credit card business reported adjusted PBT for the year of £178.5m (FY'21: £173.9m) which was a result of good loan book growth, benign impairment trends and cost reductions year-on-year.
- New customer bookings for the period were 225k (FY'21: 199k) reflecting an increased emphasis on customer acquisition initiatives and above the line marketing efforts. The total number of customers at the end of December stood at 1.54m (FY'21: 1.54m).
- At the end of December, spend on a per average active customer basis was approximately 6% higher year-on-year. When combined with higher customer bookings, and payments per active customer remaining stable, this resulted in receivables growth of approximately 11% to £1,182m (FY'21: £1,063m).
- The annualised cost of risk at the end of December was 1.3% (FY'21: 0.3%) reflecting lower average gross receivables year-on-year driven by growth in receivables being weighted towards Q4'22. As a result, the risk adjusted margin was broadly flat at 25.8% (FY'21: 26.0%).

- During 2023, the credit card business will continue to focus on its strategic ambitions which include growing its customer numbers and balances in a sustainable way and providing an enhanced digital experience.
- Shortly after the period end, Vanquis Bank won 'Best Benefits or Loyalty Scheme' and 'Best Customer Service' at the Card and Payment Awards and it also won the 'Changing Lives in the Community Award'.

Vehicle finance adjusted PBT grew significantly in FY'22 driven by strong loan book growth and cost controls

- The Group's vehicle finance business delivered adjusted PBT for the period of £38.0m (FY'21: £28.9m) which represents strong loan book growth year-on-year and lower interest expense.
- At the end of December, there were 100k vehicle finance customers (FY'21: 94k) and receivables of £646m (FY'21: £586m), representing receivables growth of 10%. Growth in customers and receivables year-on-year reflects the strong positioning of the business and its ability to draw upon the Group's access to capital and funding.
- Credit issued during FY'22 was £342m (FY'21: £287m), a significant increase year-on-year, reflecting new business volumes increasing to 42k (FY'21: 37k) with vehicle pricing remaining consistent year-on-year.
- The annualised cost of risk at the end of December decreased to 6.2% (FY'21: 6.6%) driven by lower arrears rates during the period reflecting the focus on attracting lower credit risk customers since 2019. As a result, the risk adjusted margin improved to 11.8% (FY'21: 9.9%).
- During 2023, the vehicle finance business will focus on growing its addressable market by introducing new products and services for customers including new asset classes and contract types.

Personal loans grew strongly in FY'22 with receivables and customer growth of 170% and 70% respectively

- 2022 was the first full year of operations for the personal loans business, following the successful launch of an initial pilot phase in H2'21.
- The Group's personal loans business delivered a loss before tax of £15.7m for the period (FY'21 loss before tax: £8.7m) reflecting growth in the business year-on-year and continued investment in the IT platform supporting it, known as Gateway.
- As of 31 December 2022, the business had 34k (FY'21: 20k) customers and total receivables of approximately £76m (FY'21: £28m).
- The new IT infrastructure platform will continue to support the personal loan product and is capable of housing multiple products over time. It will provide customers with a single, holistic view on its platform of all the Group's product offerings in the future.
- During 2023, the personal loans business will focus on continuing the migration of its loans offering onto the new Gateway platform, exploring new partnership agreements and assessing opportunities to evolve its pricing and product proposition.

Second charge mortgage pilot phase launched to diversify the product and credit risk profile of the Group

- After the period end, the Group announced that it has launched a pilot-phase for a new secured product offering of second charge mortgages, to be led by Neeraj Kapur (CFO), which is consistent with the Group's strategy of diversifying its range of products, reducing its credit risk profile over time and promoting financial inclusion.
- During the pilot phase, the Group will acquire existing second charge mortgage loans on a forward flow basis and will recognise the loans on its balance sheet as customer receivables. If the pilot phase is successful, the Group intends to start to originate its own flow of new loans directly to new and existing customers.

Outlook

- The positive momentum seen in Q4'22 has continued in early 2023, especially in the vehicle finance and personal loans businesses.
- The Group continues to see no discernible deterioration in asset quality in any of its loan books but will continue to monitor portfolios closely for any signs of customer distress.
- The Group plans to accelerate its receivables growth during FY'23, versus FY'22, whilst maintaining its focus on credit quality and risk management.
- The Group anticipates investing a similar level of business investment in FY'23 as it did in FY'22. As a result, Group costs are planned to be broadly flat in FY'23 year-on-year.
- As the Group replaces expensive legacy funding with deposit funding, it plans for a stable NIM in FY'23
- Over time, the Group intends to target a CET1 ratio of c.20% over time, prior to any optimisation of the capital stack with AT1, and will seek to achieve this target with organic receivables growth.

Enquiries:

Analysts and shareholders:

Owen Jones, Group Head of Investor Relations 07341 007842
Owen.jones@vanquisbankinggroup.com

Media:

Richard King, Vanquis Banking Group 07919 866876

Nick Cosgrove/Simone Selzer, Brunswick 0207 4045959
vanquisbankinggroup@brunswickgroup.com

[1] *Adjusted profit before taxation from continuing operations is stated before amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014; exceptional items and any losses incurred relating to CCD.*

[2] *Adjusted return on required equity (RORE) is defined as adjusted profit after tax for the 12 months ended 31 December as a percentage of average adjusted tangible equity for the 13 months ended 31 December. Adjusted tangible equity is stated as equity after deducting the Group's pension asset, net of deferred tax, the fair value of derivative financial instruments, net of deferred tax less intangible assets and goodwill.*

[3] *Adjusted basic EPS from continuing operations is defined as profit after tax stated before amortisation of acquisition intangibles, exceptional items and any losses incurred relating to CCD. Basic EPS from continuing operations is defined as profit after tax before any losses incurred relating to CCD.*

[4] *Adjusted continuing earnings is defined as profit after tax from continuing operations before amortisation of acquisition intangibles and any exceptional items including one-off provision releases.*

Note:

This report may contain certain "forward looking statements" regarding the financial position, business strategy or plans for future operations of Vanquis Banking Group. All statements other than statements of historical fact included in this document may be forward looking statements. Forward looking statements also often use words such as "believe", "expect", "estimate", "intend", "anticipate" and words of a similar meaning. By their nature, forward looking statements involve risk and uncertainty that could cause actual results to differ from those suggested by them. Much of the risk and uncertainty relates to factors that are beyond Vanquis Banking Group's ability to control or estimate precisely, such as future market conditions and the behaviours of other market participants, and therefore undue reliance should not be placed on such statements which speak only as at the date of this report. Vanquis Banking Group does not assume any obligation to, and does not intend to, revise or update these forward-looking statements, except as required pursuant to applicable law or regulation. No statement in this announcement is intended as a profit forecast or estimate for any period. No statement in this announcement should be interpreted to indicate a particular level of profit and, as a consequence, it should not be possible to derive a profit figure for any future period from this report.

Chief Executive Officer's review

Introduction

2022 was another important year for the Group and one that reinforced its strategic advantages of a well-capitalised balance sheet, access to retail deposit funding and a stable net interest margin. The collective efforts of all people and teams across the organisation has enabled the Group to build on the strong foundations put in place previously and I would like to thank them all for their efforts during the year.

The continued focus of the Board and executive management team on repositioning the Group in the mid-cost and near-prime segments of the credit market has enabled the Group to commence growing its loan books meaningfully during the year, notwithstanding the more challenging macroeconomic backdrop. During 2022, credit card receivables grew by approximately 11%, vehicle finance by approximately 10% and the Group's personal loans business grew its receivables by 170% illustrating its strong competitive position and underlying demand for credit from its target customers.

The FY'22 results represent my last set of full year accounts as CEO before I hand over to my successor, Ian McLaughlin, during the summer, subject to regulatory approval. I am immensely proud to have been involved with the Group for the past nine years, firstly as Independent Non-Executive Director and Executive Chair, before becoming CEO five years ago. I believe it to be a fantastic organisation with a real sense of purpose and of how we can best serve our customers on their path to a better financial future. I would like to wish everyone across the Group, and Ian when he joins, all the best for the future.

Group financials

Turning to the financial results for 2022, the Group's statutory profit before tax from continuing operations was £110.1m (FY'21: £142.2m) reflecting higher central cost items year-on-year. The Group reported an adjusted profit before tax from continuing operations of £126.6m (FY'21: £167.8m), with strong receivables growth across credit cards, vehicle finance and personal loans. Whilst total income remained stable relative to 2021, volume growth led to higher impairment charges year-on-year, and the continued investment in the Group's IT, Operations and Change & Transformation agenda inflated costs relative to 2021.

Group central costs increased to £30m (FY'21: £18m) during the period reflecting the roll out of the shared services model, transformation & change spend increased to £35m (FY'21: £8m) and bond interest payments increased to £10m (FY'21: £nil), which includes the first full 12 months of Tier 2 interest. This strategic investment and centralisation of functions is designed to make the Group's future cost base more scalable and better able to capture the benefits of operational leverage. The investments are also designed to enhance the Group's strategic competitive positioning through new IT platforms and improved customer journeys. Total Group costs of £288m (FY'21: £264m) were within the indicated range set out in the Group's H1'22 results.

New customer bookings across credit cards, vehicle finance and personal loans for FY'22 amounted to 294k (FY'21: 249k) and, as a result, the Group had 1,675k customers (FY'21: 1,655k) at the end of 31 December. The Group saw positive momentum in its loan books during the second half of the year, particularly in vehicle finance and personal loans and, as a result, total receivables stood at £1,904m (FY'21: £1,678m) at the end of December.

At the end of December 2022, the Group's capital position remained robust with regulatory capital of £679m (FY'21: £707m), equating to a total capital ratio of 37.5% (FY'21: 40.6%). This equates to a surplus of £284m (FY'21: £344m) pre C-SREP release of capital above the Group's TCR and regulatory combined buffer.

CEO Succession

The Group announced that Ian McLaughlin, currently CEO of Bank of Ireland UK, would succeed me as CEO after a handover period during the summer, subject to regulatory approval. Ian is a highly experienced banking CEO who has a strong track record of delivering growth through improving customer service and enhancing distribution. He has in-depth experience across consumer finance, motor finance, savings, SME finance and mortgages. Prior to his current role at Bank of Ireland UK, Ian spent nearly 15 years working in senior positions at NatWest and Lloyds Banking Group.

Group name change

In recent years, the Group has evolved how, and to which customers, it provides credit. This has resulted in credit quality across the Group improving significantly, as illustrated by the Group's current average credit risk profile more than halving since 2019. During 2021, the Group's evolution continued and involved the closure of its home collected credit business, which carried the 'Provident' brand. The Group chose to focus on its credit cards, vehicle finance and personal loans operations in the mid-cost and near-prime parts of the market. Accordingly, the Group decided to change its name to Vanquis Banking Group plc in recognition of its new and future mix of lending products and its repositioning as a specialist banking group. The change of name from Provident Financial plc to Vanquis Banking Group plc became effective on 2 March 2023 and the Group's stock ticker on the LSE is now VANQ.

Product update

In January 2022, the Group announced that it had launched a pilot phase for a personal loans business. Then, with the H1'22 results, it announced that the personal loans business would be taken forward as a separately reported product. Since launch, the business has performed extremely well and has grown its receivables to approximately £76m as of 31 December 2022 and grown its customer numbers to approximately 34k. This progress illustrates the success of the product itself and the hard work of all the people behind the scenes who have helped to deliver the product for our customers.

As recently announced, the Group has launched another pilot phase for a new secured product offering of second charge mortgages. During the pilot phase, the Group will acquire existing second charge mortgage loans on a forward flow basis and will recognise the loans on its balance sheet as customer receivables. If the pilot phase is successful, the Group intends to start to originate its own flow of new loans directly to new and existing customers. The second charge mortgage market in the UK is a large and growing market, estimated at approximately £1.3bn and growing by between 15% and 17% per annum (Source: LEK). Second charge mortgages have the potential to improve customer outcomes and to promote financial inclusion, consistent with the Group's purpose and mission, whilst enabling the Group to provide attractive and sustainable returns to its shareholders.

Updated capital requirements

Shortly after the period end, the Group was notified that the Prudential Regulation Authority (PRA) had concluded its Capital Supervisory Review and Evaluation Process (C-SREP) of the Group's capital requirements, based on the Internal Capital Adequacy Assessment Process (ICAAP) undertaken during 2022. The outcome is that the TCR has reduced by more than a third, from 18.3% to 11.9%. Including the current regulatory combined buffer of 3.5% (capital conservation buffer of 2.5% and countercyclical capital buffer of 1.0%), the Group's overall capital requirement has reduced by 6.4% from 21.8% to 15.4%, which excludes confidential buffers set by the PRA and internal management buffers.

The reduction in capital requirements will support the Group's focus on organic loan book growth, which is further supported by the receipt of a large exposure waiver from the PRA in November 2022, enabling Moneybarn to access retail deposit funding via Vanquis Bank.

Environmental, Social and Corporate Governance (ESG)

During the course of 2022, the Group redefined its Mission and refreshed its Strategic Priorities. Vanquis Banking Group will work towards its Mission by focusing on the three strategic priorities of People and Culture, Customers and Community, and Growth and Sustainability. These priorities underline the commitment to continue responding to the needs of our key stakeholders and managing our ESG performance. For further details of our approach to managing and reporting our ESG performance, please refer to our 2022 Corporate Responsibility report.

During 2022, the Group continued to deliver on its commitment to tackle climate change and its net zero by 2040 ambition. This includes the Group accounting for all its material Scope 3 greenhouse gas (GHG) emissions and business activities and making good progress in agreeing carbon reduction targets which will be verified by the Science Based Target initiative by September 2023.

The Group remains committed to investing in the communities in which it operates and to do this is launching the Vanquis Banking Group Foundation in May 2023 with approximately £2.5m of funding. This will aim to improve the lives of children and young people by providing them with access to education, social and financial inclusion, and economic development opportunities. In 2022, Vanquis Banking Group started work on a new project to help families with the cost-of-living crisis in Bradford, Liverpool, Manchester and Blackpool. Working with longstanding community partners School-Home Support and the Dixons Academies Trust, the Group has allocated £100,000 of funding which has to date supported 1,000 school pupils with items of uniform including blazers, shoes, coats and PE kits.

Finally, I'm proud that we were able to support Bradford in its quest to be named the UK City of Culture in 2025. Vanquis Banking Group was named as the first official delivery partner for Bradford 2025 and this will see the Group support the development of the cultural programme and ensure that it leaves a legacy for years to come.

Outlook

Vanquis Banking Group demonstrated strong momentum across its loan books during the fourth quarter of 2022. This positive momentum has continued for the first two months of 2023, especially within vehicle finance and personal loans. In the credit card business, customer bookings tracked in-line with management expectations and delinquency trends remained consistent with the trend reported throughout 2022. The vehicle finance business delivered strong new business volumes in January and February, with no change to underwriting standards, and with stable arrears levels. Similarly, the personal loans business has had a strong start to the year with new business volumes up significantly year-on-year.

The Group plans to accelerate its receivables growth during FY'23 versus FY'22, notwithstanding the challenging macroeconomic backdrop, supported by its strong competitive position, well capitalised balance sheet and access to retail deposit funding. The Group also plans to deliver a stable NIM profile in FY'23, versus FY'22, as more expensive legacy funding is replaced by lower cost retail deposit funding.

In order to achieve sustainable growth in the future, the Group will continue to invest in its technological capabilities and plans to invest a similar amount in FY'23 as it did in FY'22 in areas such as its new IT platforms and enhancements to customer experiences and journeys. As a result, the Group plans to incur total costs in FY'23 that are broadly flat year-on-year. However, in part reflecting the benefits of loan book growth, the Group expects its underlying cost income ratio to improve during FY'23 towards its target of 40% in FY'24, notwithstanding the persistently high inflation at present.

The Board remains committed to delivering attractive and sustainable returns to its shareholders over the medium-term. This is predicated upon the Group's solid foundations which includes a customer-led digital strategy to offer a diverse and inclusive range of products and a strong well-capitalised balance sheet. The Group's capital management framework includes a CET1 ratio target of c.20% over time (prior to any optimisation of the capital stack with AT1), strong organic receivables growth, a progressive dividend policy with a pay-out ratio of c.40% of adjusted earnings, and the potential for selective bolt-on opportunities or one-off returns of any ongoing surplus capital to shareholders.

Malcolm Le May
Chief Executive Officer
30 March 2023

Financial review

Group performance

The Group's 2022 results are as follows:

	2022	2021
	£m	£m
Period-end receivables	1,904	1,678
Average gross receivables[1]	2,039	2,076
Interest income	486.9	473.9
Interest expense	(58.8)	(49.1)
Net interest income	**428.1**	**424.8**
Net fees and commission income	**44.2**	**57.4**
Other income	8.4	0.4
Total income	**480.7**	**482.6**
Impairment charges	(66.1)	(50.4)
Risk-adjusted income	**414.6**	**432.2**
Operating costs	(288.0)	(264.4)
Adjusted profit before tax – Continuing operations[2]	**126.6**	**167.8**
Amortisation of acquisition intangibles	(7.5)	(7.5)
Exceptional items – Continuing operations	(9.0)	(18.1)
Statutory profit before tax – Continuing operations[3]	**110.1**	**142.2**
Loss for discontinued operations	(10.7)	(138.1)
Group profit before tax	**99.4**	**4.1**
Tax – Continuing operations	(27.8)	(7.6)
Tax – discontinuing operations	5.8	(28.6)
Profit/(loss) after tax	**77.4**	**(32.1)**

[1] *Calculated as the average of month end gross receivables for the 13 months ended 31 December.*

[2] *Adjusted profit before tax from continuing operations is stated before amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014, exceptional items and any losses incurred relating to CCD.*

[3] *Statutory profit before tax from continuing operations is stated before any losses incurred relating to CCD.*

[4] *In line with our continued repositioning as a specialist banking group, the Group has taken the decision in the current year to change the presentation of our Income Statement to align with the wider banking industry. See page 22 in the statement of accounting policies for further details on the change in presentation. In line with these changes and to more closely align to our peers in the industry, the Group have implemented updated APM's to provide more relevant and reliable information for stakeholders. The changes to APM's are summarised at the end of this report and all presented APM's have been retrospectively re-presented in line with these changes. Unless stated below all other APM's are presented consistently with prior years.*

The Group reported an adjusted profit before tax from continuing operations of £126.6m (FY'21: £167.8m), which reflects an improvement year-on-year in divisional profits being offset by higher central costs as a result of increased Transformation & Change spend and the roll out of the shared services model. Including amortisation of intangibles, CCD discontinued operations and exceptional items, all of which reduced significantly versus FY'21, the Group PBT was £99.4m (FY'21: £4.1m).

The credit card business reported adjusted profit before tax for the period of £178.5m (FY'21: £173.9m) and receivables ended the period at £1,182m (FY'21: £1,063m). The vehicle finance business generated adjusted profit before tax of £38.0m (FY'21: £28.9m) and receivables ended the period at £646m (FY'21: £586m). CCD reported a loss before tax of £10.7m (FY'21: £138.1m).

On an adjusted continuing basis, the Group reported an adjusted basic EPS of 38.7p (FY'21: 57.5p) and a basic EPS of 32.8p for FY'22 (FY'21: 53.7p). On a statutory basis, the Group reported a basic earnings per share of 30.8p (FY'21: Loss per share 12.8p) for FY'22 reflecting the statutory profit after tax of £77.4m (FY'21 loss after tax: £32.1m).

Macroeconomic provision and cost of living

Macroeconomic provisions are recognised in credit cards, vehicle finance and personal loans to reflect an increased probability of default (PD) in addition to the core impairment provisions already recognised, based on future macroeconomic scenarios.

The macroeconomic provision for continuing operations considers the relationship between the hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment), debt to income ratio and default rates.

The provision reflects the potential for future changes under a range of forecasts, as analysis has clearly evidenced correlation between hazard rates, debt to income ratios and credit losses incurred.

The unemployment data has been compiled from a consensus of sources including the Bank of England, HM Treasury, the Office for Budget Responsibility (OBR), Bloomberg and a number of prime banks.

The table below shows the annual peak and average unemployment assumptions adopted and the weightings applied to each. The weightings have remained consistent with prior year.

The Group will continue to analyse and assess if there are any additional macroeconomic indicators which also correlate with credit losses.

	Base	Downside	Upside	Severe
Weighting	50%	35%	10%	5%
2023				
Peak	4.5	4.9	3.6	5.8
Average	4.1	4.2	3.4	4.6
2024				
Peak	4.8	6.4	3.9	8.5
Average	4.7	5.8	3.6	7.4

Management has placed a significant focus on the cost of living crisis and post-model overlays are recognised across all products. However, credit performance across the Group remains stable and internal analysis shows no obvious signs of stress from the cost of living crisis at this stage. The Group's customers are more agile in managing their finances during times of affordability constraints. A significant proportion of the Groups customers are also expected to benefit from wage increases during 2023 which will help alleviate financial stress.

Management judgement has been used to determine appropriate amounts to be held as cost of living post-model overlays taking into account the total level of provisioning held across the portfolio including the macroeconomic provision. Scenario modelling techniques have been used to support the amount of post-model overlays recognised for a potential cost of living impact.

A breakdown of the in-model and post-model overlays is included within note 8.

Credit Cards

	Twelve months ended 31 December		
	2022 £m	2021 £m	*Change*
Total customer numbers ('000)	1,541	1,541	*-%*
Active customer numbers ('000)	1,221	1,266	*(3.6%)*
Period-end receivables	1,182	1,063	*11.2%*
Average gross receivables[1]	1,332	1,379	*(3.4%)*
Interest income	**333.2**	**328.8**	***1.3%***
Interest expense	(22.4)	(24.9)	*(10.0%)*
Net interest income	**310.8**	**303.9**	***2.3%***
Net fee and commission income	**44.2**	**57.4**	***(23.0%)***
Other income	5.1	0.4	*1175.0%*
Total income	**360.1**	**361.7**	***(0.4%)***
Impairment charges	(16.8)	(3.7)	*354.1%*
Risk-adjusted income	**343.3**	**358.0**	***(4.1%)***
Operating costs	(164.8)	(184.1)	*(10.5%)*
Adjusted profit before tax[2]	**178.5**	**173.9**	***2.6%***
Annualised asset yield[3]	25.0%	23.8%	*1.2%*
Annualised cost of risk[4]	(1.3%)	(0.3%)	*(1.0%)*
Annualised return on equity[5]	32.1%	42.7%	*(10.6%)*

1 *Calculated as the average of month end gross receivables for the 13 months ended 31 December.*
2 *Adjusted profit before tax is stated before £0.2m of exceptional redundancy costs in 2022 and exceptional redundancy costs of £1.0m in 2021.*
3 *Interest income as a percentage of average gross receivables for the 13 months ended 31 December.*
4 *Impairment charges as a percentage of average gross receivables for the 13 months ended 31 December.*
5 *Adjusted profit after tax as a percentage of average equity for the 13 months ended 31 December.*

The Group's credit card business is a leading specialist lender in the large and established credit card market with strong capital and liquidity positions. For FY'22, the business reported adjusted profit before tax of £178.5m (FY'21: £173.9m) and receivables at the end of the period of approximately £1,182m (FY'21: £1,063m). Shortly after the period end, Vanquis Bank won 'Best Benefits or Loyalty Scheme' and 'Best Customer Service' at the Card and Payment Awards and it also won the 'Changing Lives in the Community Award'.

New customer bookings for the year were 225k, up from 199k in FY'21, as a result of new customer acquisition initiatives including a broader range of price points and improved Balance Transfer offerings. Credit card customer numbers were broadly flat at 1,541k as of December (FY'21: 1,541k) versus a decline the year before. Active customer numbers, defined as customers with activity on their card in the last month, were 1,221k (FY'21: 1,266k).

During 2022, credit line increases amounting to approximately £318m (FY'21: £170m) were issued to customers as part of Management's strategy to rebuild the loan book on a prudent basis whilst supporting our customers' additional credit requirements. At the end of December, the average utilisation rate was approximately 48%, which remains below levels seen pre-Covid. The business has launched several initiatives designed to improve the utilisation rate including the launch of Android Wallet during H2'22. Receivables ended the period at £1,182m (FY'21: £1,063m), representing growth of 11% year-on-year.

The credit card business generated interest income of £333.2m during the year, versus £328.8m in 2021. There was an improvement in the asset yield to 25.0% (FY'21: 23.8%), which reflects the combination of higher interest income and lower average balances year-on-year.

Funding costs decreased to £22.4m during the year, versus £24.9m in FY'21, reflecting lower retail deposit balances held year-on-year, as the amount of deposits held was normalised post-Covid. Net fee and commission income reduced in FY'22 to £44.2m (FY'21: £57.4m) reflecting the cessation of the ROP product.

The impairment charge for FY'22 was £16.8m (FY'21: £3.7m), an increase year-on-year reflecting lower average gross receivables driven by growth in receivables being weighted towards Q4'22, which equated to an annualised cost of risk of 1.3% (FY'21: 0.3%). The higher impairment charge offset the higher asset yield to produce a risk-adjusted margin which was flat year-on-year at 25.8% (FY'21: 26.0%).

Costs decreased to £164.8m during the year versus £184.1m in FY'21 reflecting lower salary costs, an improved profile with some supplier arrangements and some centralisation of functional costs.

The credit card business grew its loan book by 11% during 2022, the highest level of growth since 2017, and it has maintained its strong capital and liquidity positions. It remains focused on enhancing its customer and digital propositions, including a new Vanquis mobile app, and improving its range of services for customers. During 2023, the credit card business will continue to focus on its strategic ambitions which include growing its customer numbers and balances in a sustainable way and providing an enhanced digital experience.

Vehicle Finance

	Twelve months ended 31 December		
	2022 £m	2021 £m	*Change*
Total customer numbers ('000)	100.0	93.9	*6.5%*
Period-end receivables	646.1	586.2	*10.2%*
Average gross receivables[1]	656.6	671.1	*(2.2%)*
Interest income	**140.6**	**137.9**	***2.0%***
Interest expense	(22.1)	(27.1)	*(18.5%)*
Net interest income	**118.5**	**110.8**	***6.9%***
Total income	**118.5**	**110.8**	***6.9%***
Impairment charges	(40.8)	(44.6)	*(8.5%)*
Risk-adjusted income	**77.7**	**66.2**	***17.4%***
Operating costs	(39.7)	(37.3)	*6.4%*
Adjusted profit before tax[2]	**38.0**	**28.9**	*31.5%*
Annualised asset yield[3]	21.4%	20.5%	*0.9%*
Annualised cost of risk[4]	(6.2%)	(6.6%)	*0.4%*
Annualised return on assets[5]	3.6%	3.0%	0.6%

[1] *Calculated as the average of month end gross receivables for the 13 months ended 31 December.*

[2] *Adjusted profit before tax is stated before £0.2m of exceptional redundancy costs in 2022 and exceptional Senior bond buy-back costs of £1.4m in 2021.*

[3] *Interest income as a percentage of average gross receivables for the 13 months ended 31 December.*

[4] *Impairment charges as a percentage of average gross receivables for the 13 months ended 31 December.*

[5] *Adjusted profit after tax as a percentage of average total assets for the 13 months ended 31 December.*

The Group's vehicle finance business is one of the leading suppliers of vehicle finance to non-prime customers in the UK. For the twelve months to the end of 31 December 2022, Moneybarn generated adjusted profit before tax of £38.0m (FY'21: £28.9m) and receivables at the period end were £646m (FY'21: £586m), representing growth of 10% year-on-year.

New business volumes in FY'22 grew by 14% versus FY'21 at 42k (FY'21: 37k) notwithstanding the challenging macroeconomic backdrop. As a result, the vehicle finance business ended the year with 100k customers for the first time in its history (FY'21: 93.9k). As a result of its focus on higher quality customers on average, and the robust pricing environment seen in the used-car market throughout 2022, the average loan size increased to approximately £9k whilst maintaining average loan to values consistent with 2021, which drove total credit issued to over £342m after unwinds (FY'21: £287m).

At the end of December, receivables stood at £646.1m (FY'21: £586.2m), driven by the improvement in business volumes year-on-year, particularly during the second half of the year.

Interest income during FY'22 increased to £140.6m (FY'21: £137.9m) reflecting the growth in the loan book year-on-year. The annualised asset yield increased year-on-year to 21.4% versus 20.5% in FY'21 reflecting the fall in average gross receivables year-on-year as a result of the timing of new business volumes being weighted to the second half of the year.

Interest costs decreased during the year to £22.1m from £27.1m in FY'21 reflecting a lower cost of funding received from the Group during the period, including the intercompany loan from Vanquis Bank. As a result, the net interest margin improved at the end of December stood at 18.0% versus 16.5% a year earlier.

Impairment fell year-on-year to £40.8m (FY'21: £44.6m) as a result of the business' focus on lower risk customers in recent years coupled with a small amount of provision release. As a consequence, the annualised cost of risk decreased to 6.2% from 6.6% in FY'21. This resulted in the risk-adjusted margin improving to 11.8% (FY'21: 9.9%).

Costs increased during the course of the year to £39.7m (FY'21: £37.3m), albeit by a much-reduced rate versus the previous year, reflecting the increase in lending volumes year-on-year and the additional service costs associated with the higher volumes.

During 2023, the vehicle finance business will focus on growing its addressable market by introducing new products and services for customers including new asset classes and contract types.

Personal Loans

	Twelve months ended 31 December		
	2022 £m	2021 £m	*Change*
Total customer numbers ('000)	34.4	19.9	*72.9%*
Period-end receivables	76.3	28.1	*171.5%*
Average gross receivables[1]	50.9	25.6	*98.8%*
Interest income	**13.1**	**7.2**	***81.9%***
Interest expense	(1.2)	(0.8)	*50.0%*
Net interest income	**11.9**	**6.4**	***85.9%***
Total income	**11.9**	**6.4**	***85.9%***
Impairment charges	(8.5)	(2.1)	*304.8%*
Risk-adjusted income	**3.4**	**4.3**	***(20.9%)***
Operating costs	(19.1)	(13.0)	*46.9%*
Loss before tax	**(15.7)**	**(8.7)**	*80.5%*
Annualised asset yield[2]	25.7%	28.1%	*(2.4%)*
Annualised cost of risk[3]	(16.7%)	(8.2%)	*(8.5%)*

[1] *Calculated as the average of month end gross receivables for the 13 months ended 31 December.*

[2] *Interest income as a percentage of average gross receivables for the 13 months ended 31 December.*

[3] *Impairment charges as a percentage of average gross receivables for the 13 months ended 31 December.*

Vanquis Banking Group established a personal loans business during 2021 to diversify its product offering to new and existing customers. Its products are positioned within the mid-cost credit segment of the market, and loans range from between £1k - £5k over one to four years. The typical personal loan customer will be similar in nature to existing credit card and vehicle finance customers with similar average credit scores. The business grew both customer numbers and receivables strongly during FY'22 reflecting the successful launch of the business and its market position.

New business volumes during FY'22 were 27k, versus 12.8k in FY'21, reflecting the business' first 12 months as an open market operator. As a result of these new customer bookings, the businesses ended the year with 34.4k customers versus 19.9k at the end of FY'21. At the end of December, receivables stood at £76.3m versus £28.1m at the end of FY'21, driven by new business volumes increasing significantly year-on-year.

The personal loans business generated interest income of £13.1m during the year (FY'21: £7.2m) driven by higher average receivables year-on-year as the business grew strongly throughout the period. The asset yield for the year was 25.7% versus 28.1% in FY'21 reflecting the growth in the loan book during the period.

The impairment charge for FY'22 increased to £8.5m, from £2.1m in FY'21, as the business began to gain scale and book new customer loans. This equated to an annualised cost of risk for the year of 16.7% (FY'21: 8.2%), which resulted in the risk-adjusted margin falling to 6.7% versus 16.8% for the prior year.

Interest costs for the year increased to £1.2m, versus £0.8m in 2021, reflecting higher average balances being carried, equating to an interest margin of 2.4% versus 3.1% in FY'21. Costs increased during the course of the year to £19.1m (FY'21: £13.0m) reflecting higher new business volumes and the ongoing investment in the new IT infrastructure platform known as Gateway.

During 2023, the personal loans business will focus on continuing the migration of its loans offering onto the new Gateway platform, exploring new partnership agreements and assessing opportunities to evolve its pricing and product proposition.

Discontinued Operations

Consumer Credit Division

	Year ended 31 December		
	2022 £m	2021 £m	*Change*
Interest income	-	**68.0**	*(100.0%)*
Interest expense	(6.2)	(12.1)	*(48.8%)*
Net interest income	**(6.2)**	**55.9**	***(112.0%)***
Total income	**(6.2)**	**55.9**	***(112.0%)***
Impairment charges	-	(59.6)	*(100.0%)*
Risk-adjusted income	**(6.2)**	**(3.7)**	***67.6%***
Operating costs	(9.1)	(91.8)	*(90.1%)*
Adjusted loss before tax[1]	**(15.3)**	**(95.5)**	*(83.9%)*

[1] *Adjusted loss before tax is stated before an exceptional credit of £4.6m (FY'21: Exceptional costs: £42.6m)*

The Consumer Credit Division ('CCD') comprised Provident home credit and Satsuma loans. The Group announced in 2021 that it had decided to place the division into a managed run-off, as the business faced a mounting number of operational and regulatory headwinds. The business was closed as at the end of December 2021.

For FY'22, CCD reported an adjusted loss before tax of £15.3m, versus an adjusted loss before tax of £95.5m in 2021. The decreased loss for the period reflects the business being placed into a managed run-off in 2021.

Central costs

Group central costs increased to £30m (FY'21: £18m) during the period reflecting the roll out of the shared services model, transformation & change spend increased to £35m (FY'21: £8m) and additional bond interest payments of £10m (FY'21: £nil), which includes the first full 12 months of Tier 2 interest. This strategic investment and centralisation of functions is designed to make the Group's future cost base more scalable and better able to capture the benefits of operational leverage. The investments are also designed to enhance the Group's strategic competitive positioning through new IT platforms and improved customer journeys. Total Group costs of £288m (FY'21: £264m) were within the indicated range given with the H1'22 results.

Exceptional items

An exceptional cost of £9.0m was recognised for continuing operations in FY'22. This includes: (i) corporate costs incurred centrally (£3.8m); (ii) additional Scheme costs (£3.7m); and (iii) redundancy costs (£1.5m). This compares to an exceptional cost of £18.1m in 2021 as a result of: (i) corporate costs including CCD closure (£11.5m); (ii) additional Scheme costs (£5m); (iii) Senior bond buy-back costs (£3.9m); offset by (iv) a pension credit (£2.3m).

Tax

The tax charge for 2022 represents an effective tax rate of 25.2% (FY'21: 5.3%) on profit before tax which results in a tax charge of £27.8m being recognised in the year for continuing operations (FY'21: £7.6m) which principally reflects:

i. the mainstream corporation tax rate of 19.0% on the Group's profit before tax from continuing operations generating a tax charge of £29.4m (FY'21: tax charge of £23.7m);

ii. the mainstream corporation tax rate of 19.0% on Group exceptional items from continuing operations generating a tax credit of £0.2m (FY'21: tax credit of £15.3m); and

iii. the mainstream corporation tax rate of 19.0% on the amortisation of acquisition intangibles generating a tax credit of £1.4m (FY'21: tax credit of £0.8m).

The effective tax rate is principally the result of:

i. the adverse impact of the bank corporation tax surcharge of £8.4m (FY'21: £12.2m);

ii. an adverse impact of £3.2m (FY'21: £nil) of revaluing deferred tax assets and liabilities in credit cards and personal loans for the changes enacted in 2022 which with effect from 1 April 2023 reduce the bank corporation tax surcharge rate from 8% to 3% and increase the bank corporation tax allowance, being the threshold below which banking profits are not subject to the surcharge, from £25m to £100m. In 2021, the revaluation of deferred tax assets and liabilities for the increase in the mainstream corporation tax rate from 19.0% to 25.0% with effect from 1 April 2023 gave rise to a beneficial impact on the tax charge of £5.0m;

iii. the beneficial impact of tax losses of discontinued operations being surrendered as group relief to continuing operations at a discounted price which gives rise to a tax credit of £3.3m (FY'21: tax credit of £6.5m);

iv. an adverse impact of £0.9m in respect of non-deductible expenses, principally exceptional project related costs (FY'21: adverse impact of £0.5m);

v. the beneficial impact of adjustments in respect of prior years of £3.6m (FY'21: adverse impact of £0.5m) which comprise a release of £4.4m following the agreement of historic tax liabilities net of a tax charge of £0.8m in respect of prior year project costs for which tax deductions may not be available. In 2021, the adverse impact of £0.5m related to adjustments to prior year deferred tax on share scheme awards;

vi. an adverse impact of £1.0m (FY'21: beneficial impact of £7.8m) related to prior year transfer pricing adjustments between continuing and discontinued operations, as well as adjustments related to prior year tax losses of the discontinued operation which were surrendered as group relief to the continuing operation at a discounted price; and

vii. in 2021, the beneficial impact of the release of the exceptional complaints provision in CCD following the implementation of the Scheme of Arrangement which was taxable in discontinued operations but which on consolidation was recognised in continuing operations.

Dividends

The Board is proposing a final dividend with respect of FY'22 of 10.3p per share, reflecting the Group's strong capital position and the Board's confidence in the Group's outlook, equating to a total dividend payable of 15.3p per share and a pay-out ratio of adjusted continuing earnings of 40%. The dividend will be payable to those shareholders on the register as at close of business on 21 April 2023, with an ex-dividend date of 20 April 2023, and will be paid on 7 June 2023.

Funding and capital

The Group has strong capital and liquidity positions:

- The Group is holding £421m of high-quality liquid resources with the Bank of England and has a Liquidity Coverage Ratio of 1,139%, amounting to £384m above the Group's regulatory Liquidity Coverage Ratio requirement. Additionally, the Group has £50m of undrawn commitments on its secured funding lines, excluding any confidential and management buffers.

- The Group's balance sheet position at the end of December remained robust, with regulatory capital of £679m, a CET1 ratio of 26.4% and a total capital ratio of 37.5%, versus requirements of 13.8% and 21.8% respectively[1]. Total capital includes the Group's £200m Tier 2 capital instrument.

In 2022, the Group continued to deliver on a number of its funding objectives: (i) in line with the Group's strategy to reduce its reliance on Revolving Credit Facilities (RCF) as a source of funds the Group took the decision to repay the RCF early on 30 March 2022 (the Group did not require the funding and did not plan to renew the facility on maturity); (ii) the Group has placed all surplus funds on deposit with the Bank of England via Vanquis Bank; (iii) the £70m loan from Vanquis Bank to Vanquis Banking Group plc was repaid early on 30 June; (iv) Vanquis Bank extended a £70m loan to Moneybarn under the existing Large Exposure Limit on 30 June 2022 (that was not waiver dependent); (v) completed the annual update of the Euro Medium Term Note (EMTN) programme in October 2022; and (vi) the Group received approval from the Prudential Regulation Authority (PRA) for a Core UK Group large exposure waiver to allow the use of retail deposits held at Vanquis Bank to fund Moneybarn No.1 Limited (see below).

On 1 November 2022, the Group received notice from the PRA that it had approved the Group's application for a Core UK Group large exposure waiver which will enable Moneybarn No.1 Limited, the Group's vehicle finance subsidiary, to access retail deposit funding via Vanquis Bank with immediate effect. This enables the Group's transition to a traditional bank funding model in which the Group's funding will consist of; (i) retail deposits; (ii) securitisation of the credit cards and vehicle finance books; and (iii) liquidity and funding facilities at the Bank of England. The Group retains access to wholesale market funding and debt capital via its EMTN programme. Vanquis Bank expects to further diversify its retail deposit funding mix through more cost-effective behaviouralised deposits and ISAs.

Moneybarn No.1 Limited has been partially funded by the bond market historically and the large exposure waiver will allow the Group's maturities in 2023, which amount to approximately £160m, to be refinanced using retail deposits as planned. This enables the transition towards having a funding model which is predominantly retail deposit funded whilst maintaining the appropriate diversity of liquidity sources.

The Group continues to adopt a prudent approach to managing its funding and liquidity resources within risk appetite, and will continue to optimise these resources when new opportunities become available to the Group.

At 31 December 2022, the Group's CET1 ratio was 26.4% (FY'21: 29.1%) and the Total Capital Ratio was 37.5% (FY'21: 40.6%). CET1 decreased from £507m to £479m during 2022 and total own funds decreased from £707m to £679m. The continuing operations of the Group were CET1 generative in 2022. The regulatory capital headroom above the minimum regulatory requirement of 21.8% was £284m at the period end pre the C-SREP release of capital. The decrease in headroom from £344m at 31 December 2021 (versus the TCR and combined buffer) predominantly reflects; (i) the scheduled further unwind of the IFRS 9 transitional relief in regulatory capital; and (ii) higher risk-weighted exposures in respect of customer receivables. These items are partly offset by the underlying profit excluding discontinued operations.

As previously reported, the Group has elected to phase in the impact of adopting IFRS 9 over the five-year period ending 31 December 2022 by applying add back factors of 95%, 85%, 70%, 50% and 25% for years one to five, respectively, to the initial IFRS 9 transition adjustment. This is in addition to any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period. The PRA ratified additional capital mitigation proposed by the Basel Committee, in response to Covid-19, with these measures coming into force from 27 June 2020. The new measures allow for the impact on regulatory capital of any increase in ECL in the non-credit impaired book arising from 1 January 2020 to be phased in over the five year period to 31 December 2024 (FY'20: 100%, 2021: 100%, 2022: 75%, 2023: 50%, 2024: 25%). The impact of the IFRS 9 transitional arrangements on CET1 as at 31 December 2022 was £54m.

The Group has in place a Capital Principal Risk Policy, which sets out the framework in which the Group aims to maintain a secure funding and capital structure and establishes defined capital risk appetite. Adherence to the policy ensures that the Group maintains minimum capital levels and that the capital held at business division levels is adequate to support the businesses' underlying requirements and is sufficient to support growth in that business. Internal capital is allocated to business lines and risk categories, calibrated to maximise return on equity while remaining within the risk appetite.

[1] Excluding any confidential and management buffers and pre C-SREP reduction.

The distribution of dividends is aligned with the Group's growth targets, whilst continuing to meet the required capital levels in line with regulatory requirements and internal risk appetite. The policy requires subsidiaries, including Vanquis Bank, to maintain sufficient capital to meet regulatory requirements, manage for 12 months growth and investment whilst maintaining a management buffer. Thereafter and where applicable Vanquis Bank is required to distribute a dividend to the Group.

Principal Risks and Uncertainties

Group Principal Risks are those risks most critical to the alignment of the Group Strategy. Principal risk categories and associated risk appetite statements are reviewed and approved by the Board on an annual basis, effectively defining Vanquis Banking Group's overall risk appetite.

Capital Risk
This is defined as the risk that the Group fails to maintain the minimum regulatory capital requirements and a management buffer on a consolidated basis to cover risk exposures and withstand a severe stress as identified as part of the Internal Capital Adequacy Assessment Process (ICAAP). The Group and Bank operate within a defined capital risk appetite, with thresholds reported to and monitored by Group Boards. Additional metrics and thresholds have been developed for the Group and Vanquis Bank. All thresholds have been calibrated above the Recovery & Resolution Plan (RRP) triggers in order to provide advance warning of threshold breaches.

Funding and Liquidity Risk
This is defined as the risk that the Group has insufficient financial resources to meet its obligations (cash or collateral requirements) as they fall due, resulting in the failure to meet regulatory liquidity requirements, or is only able to secure such resources at excessive cost. The Group's current funding strategy seeks to maintain a secure funding structure by maintaining access to the liquid retail deposits market and committed facilities to meet the Group's liquidity and funding requirements. The Group maintains access to diversified sources of funding comprising: (i) retail deposits; (ii) securitisation of the cards and vehicle finance books; (iii) liquidity and funding facilities at the Bank of England; and (iv) access to wholesale market funding and debt capital via its EMTN programme.

Market Interest Rate Risk in the Banking Book (IRRBB) Risk
This is defined as the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, specifically interest rates, currency rates or equity prices. The Group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Credit Risk
This is defined as the risk of unexpected credit losses arising through either adverse macroeconomic factors or parties with whom the Group has contracted failing to meet their financial obligations. Credit Risk appetite has been refreshed with metrics and thresholds grouped by product lines to enable more focused monitoring and management action to remain within appetite on a timely basis. Regular reporting is in place which allows daily monitoring of new business quality, collections performance and concentration analysis. Extensive work has been undertaken to enhance credit worthiness and affordability procedures.

Strategic Execution Risk
This is defined as the risk of making and/or executing poor strategic decisions related to acquisitions, products, distribution, etc. as a result of ineffective governance arrangements, processes and controls. In January 2022 we created an aligned board structure across Vanquis Banking Group and Vanquis Bank designed to make us more efficient and provide better, more coordinated customer service. Board Governance Manual and Delegated Authorities Matrix (DAM) are in place to provide a framework for key decision making at all levels across the Group. Executive Director scorecards are in place with reward incentives based on a combination of financial and non-financial measures.

Climate Risk
This is defined as the physical risk of the impacts of climate change and the business risk posed to the Group and its counterparties related to non-compliance costs and financial loss associated with the process of adjusting to a low carbon economy. The Group continues to develop an approach to Climate risk management through the Climate Risk Committee and risk management activities to identify the physical and transition climate related risks that have implications for the Group's business model and stakeholders.

Legal and Governance Risk

This is defined as the risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with legal and governance requirements as a result of ineffective arrangements, processes and controls. The Group operates in a highly regulated environment and in a sector where its customers are more vulnerable and need careful management. At all levels, the Group has worked hard to build and maintain positive relationships with our key regulators. Any regulatory actions are managed and monitored closely to ensure these are delivered fully and within the spirit of any feedback received.

Financial Crime Risk

This is defined as the risk that the Group's products and services are used to facilitate financial crime against the Group, customers or third parties. The Group operates a strong and risk-proportionate set of systems and controls to detect and prevent financial crime. The Group is committed to complying with applicable legislation for the management of Financial Crime Risk, ensuring that it meets the minimum requirements and expectations of the regulatory bodies and those set by legislation for managing Financial Crime Risk effectively.

Conduct and Regulatory Risk

Conduct Risk is defined as the risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could lead to unfair customer outcomes or regulatory censure. Regulatory Risk is defined as the risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with laws or regulations (including handbooks, codes of conduct, statutory and regulatory guidance). Conduct and Regulatory risk remains a key focus for the Group with detailed risk appetite statements, metrics and thresholds in place in relation to the fair treatment and management of our customers. Conduct Risk frameworks and governance have been enhanced which clearly identify intended customer outcomes and the associated monitoring, testing, data sources and management information required.

People Risk

This is defined as the risk that we have insufficient operational capacity and colleagues with the right skills in meeting our financial, customer and regulatory responsibilities. In managing our people risk, we ensure we have adequate controls across the whole colleague life cycle covering the onboarding, development and management of our colleagues. This extends to ensuring we have sufficient operational capacity and colleagues with the right skills in meeting our financial, customer and regulatory responsibilities.

Technology and Information Security Risk

This is defined as the risk arising from compromised or inadequate technology, security and data that could affect the confidentiality, integrity or availability of the Group's data or systems. This risk is managed in conjunction with Operational Risk with additional and particular focus on cyber and technology infrastructure. Extensive work within the First Line Controls Review programme is on track and there is sufficient oversight in place to ensure early detection of further potential delay.

Operational Risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The three lines of defence model throughout the Group ensures there are clear lines of accountability between management who own the risks, oversight by the risk function and independent assurance provided by Internal Audit.

Model Risk

This is defined as the risk of financial losses where models fail to perform as expected due to poor governance (including design and operation). A Group model risk management framework and model risk policy is embedded with a model inventory in place to ensure periodic review and strict change control. Critical IFRS9 models within credit cards and vehicle finance have been externally validated.

Consolidated financial statements

Consolidated income statement for the year ended 31 December

	Note	2022	2021
Continuing operations		£m	£m
Interest income	3	486.9	473.9
Interest expense		(58.8)	(53.0)
Net interest income		428.1	420.9
Fee and commission income	3	47.0	60.3
Fee and commission expense		(2.8)	(2.9)
Net fee and commission income		44.2	57.4
Other income and net fair value gains		8.4	0.4
Total income		480.7	478.7
Impairment charges	8	(66.1)	(50.4)
Risk-adjusted income		414.6	428.3
Operating costs		(304.5)	(286.1)
Profit before taxation from continuing operations	3	110.1	142.2
Profit before tax, amortisation of acquisition intangibles and exceptional items	3	126.6	167.8
Amortisation of acquisition intangibles	3	(7.5)	(7.5)
Exceptional items	3	(9.0)	(18.1)
Tax charge	5	(27.8)	(7.6)
Profit for the year from continuing operations		82.3	134.6
Loss after tax from discontinued operations	4	(4.9)	(166.7)
Profit/(loss) for the year attributable to equity shareholders		77.4	(32.1)

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2022	2021
		£m	£m
Profit/(loss) for the year attributable to equity shareholders		77.4	(32.1)
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	11	(84.2)	27.1
– fair value movements transferred to income statement	9	-	(5.2)
– tax on items taken directly to other comprehensive income	5	16.0	(3.8)
– impact of change in UK tax rate on items in other comprehensive income	5	5.0	(6.4)
Other comprehensive (expense)/income for the year		(63.2)	11.7
Total comprehensive income/(expense) for the year		14.2	(20.4)

Earnings/(loss) per share

	Note	2022	2021
		pence	pence
Basic	6	30.8	(12.8)
Diluted	6	30.5	(12.8)

The above earnings/(loss) per share is on a Group basis including discontinued operations.

Dividends per share

	Note	2022	2021
		pence	pence
Interim dividend	7	5.0	12.0
Final dividend	7	10.3	-

The total cost of dividends paid in the year was £42.8m (2021: £nil).

Consolidated balance sheets

	Note	31 December 2022 £m	31 December 2021 £m
ASSETS			
Cash and cash equivalents		464.9	717.7
Amounts receivable from customers	8	1,896.1	1,677.7
Trade and other receivables		50.6	18.8
Investments held at fair value through profit and loss	9	10.7	9.1
Current tax asset		1.8	-
Property, plant and equipment		8.3	8.4
Right of use assets		32.4	47.9
Goodwill		71.2	71.2
Other intangible assets	10	63.3	52.3
Retirement benefit asset	11	30.7	112.2
Derivative financial instruments		11.3	3.1
Deferred tax assets	5	14.5	6.9
TOTAL ASSETS	3	2,655.8	2,725.3
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		62.8	95.6
Current tax liabilities		-	3.8
Provisions	12	5.2	72.1
Lease liabilities		49.3	58.9
Retail deposits		1,100.6	1,018.5
Bank and other borrowings		815.4	845.2
Derivative financial instruments		15.3	-
Total liabilities		2,048.6	2,094.1
Equity attributable to owners of the parent			
Share capital		52.6	52.6
Share premium		273.5	273.3
Merger reserves		278.2	278.2
Other reserves		12.4	9.8
Retained earnings		(9.5)	17.3
Total equity	3	607.2	631.2
TOTAL LIABILITIES AND EQUITY		2,655.8	2,725.3

Consolidated statement of changes in shareholders' equity

	Share capital	Share premium	Merger reserve	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2021	52.6	273.2	278.2	14.6	29.1	647.7
Loss for the year	-	-	-	-	(32.1)	(32.1)
Other comprehensive income/(expense):						
– actuarial movements on retirement benefit asset (note 11)	-	-	-	-	27.1	27.1
– fair value movement transferred to income statement (note 9)	-	-	-	(5.2)	-	(5.2)
– tax on items taken directly to other comprehensive income (note 5)	-	-	-	1.4	(5.2)	(3.8)
– impact of change in UK tax rate (note 5)	-	-	-	-	(6.4)	(6.4)
Other comprehensive (expense)/income for the year	-	-	-	(3.8)	15.5	11.7
Total comprehensive expense for the year	-	-	-	(3.8)	(16.6)	(20.4)
Issue of share capital	-	0.1	-	-	-	0.1
Share-based payment charge	-	-	-	3.8	-	3.8
Transfer of share-based payment reserve on vesting of share awards	-	-	-	(4.8)	4.8	-
At 31 December 2021	52.6	273.3	278.2	9.8	17.3	631.2
At 1 January 2022	52.6	273.3	278.2	9.8	17.3	631.2
Profit for the year	-	-	-	-	77.4	77.4
Other comprehensive expense:						
– actuarial movements on retirement benefit asset (note 11)	-	-	-	-	(84.2)	(84.2)
– tax on items taken directly to other comprehensive income (note 5)	-	-	-	-	16.0	16.0
– impact of change in UK tax rate (note 5)	-	-	-	-	5.0	5.0
Other comprehensive expense for the year	-	-	-	-	(63.2)	(63.2)
Total comprehensive income for the year	-	-	-	-	14.2	14.2
Dividends	-	-	-	-	(42.8)	(42.8)
Purchase of own shares	-	-	-	-	(0.7)	(0.7)
Issue of share capital	-	0.2	-	-	-	0.2
Share-based payment charge	-	-	-	5.1	-	5.1
Transfer of share-based payment reserve on vesting of share awards	-	-	-	(2.5)	2.5	-
At 31 December 2022	52.6	273.5	278.2	12.4	(9.5)	607.2

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings are shown after directly writing off cumulative goodwill of £1.6m. In addition, cumulative goodwill of £2.3m has been written off against the merger reserve in previous years.

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 full merger reserve is now considered distributable.

Consolidated statement of cash flows for the year ended 31 December

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Cash (used in)/generated from operations	13	(144.3)	240.5
Finance costs paid		(47.2)	(71.3)
Tax paid		(13.4)	(6.1)
Net cash (used in)/generated from operating activities		(204.9)	163.1
Cash flows from investing activities			
Purchase of intangible assets	10	(29.2)	(24.8)
Purchase of property, plant and equipment		(3.6)	(1.3)
Proceeds from disposal of property, plant and equipment		-	3.8
Net cash used in investing activities		(32.8)	(22.3)
Cash flows from financing activities			
Proceeds from bank and other borrowings		485.5	746.0
Repayment of bank and other borrowings		(443.9)	(1,081.5)
Payment of lease liabilities		(10.8)	(9.6)
Dividends paid to Company shareholders		(42.8)	-
Purchase of shares for share awards		(0.7)	-
Proceeds from issue of share capital		0.2	0.1
Net cash used in financing activities		(12.5)	(345.0)
Net decrease in cash, cash equivalents and overdrafts		(250.2)	(204.2)
Cash, cash equivalents and overdrafts at beginning of year		714.1	918.3
Cash, cash equivalents and overdrafts at end of year		463.9	714.1
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		464.9	717.7
Overdrafts (held in bank and other borrowings)		(1.0)	(3.6)
Total cash, cash equivalents and overdrafts		463.9	714.1

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

Notes to the financial information

1. Basis of preparation

The preliminary announcement has been prepared in accordance with the Listing Rules of the FCA and is based on the 2022 financial statements which have been prepared under International Financial Reporting Standards (IFRS) as adopted by the UK, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006.

The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 December 2022 or the year ended 31 December 2021 but is derived from those accounts. Statutory accounts for the year ended 31 December 2021 have been delivered to the Registrar of Companies, and those for the year ended 31 December 2022 will be delivered to the Registrar of Companies before the Company's annual general meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

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

In assessing whether the Group is a going concern, the directors have reviewed the Group's corporate plan as approved in December 2022, In doing so, the Board reviewed detailed forecasts for the three year period to December 2025 and also considered less detailed forecasts for 2026 and 2027. These higher level outer year forecasts do not contain any information which would cause different conclusions to be reached over the longer-term viability of the Group. The assessment included consideration of the Group's principal risks and uncertainties, with a focus on capital and liquidity.

The directors have also reviewed the Group's stress testing projections which are based on a severe but plausible scenario. The stress test scenario envisages that the UK economy enters a period of stagflation in 2023 with inflation rising to approximately 17% and the UK Bank Rate rising to 6%. As a result, the UK unemployment rate rises to approximately 8.5%, this shows that the Group is able to maintain sufficient capital headroom above minimum requirements. The directors have reviewed the Group's reverse stress testing projections to the point of non-viability, which concluded that the Group's viability only comes into question under an unprecedented macroeconomic scenario.

2. Accounting policies

Group principal accounting policies under IFRS have been consistently applied to all the years presented.

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

3. Segment reporting

	Interest income		Fee and Commission income		Profit/(loss) before tax	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Credit cards	333.2	328.8	47.0	60.3	178.5	173.9
Vehicle finance	140.6	137.9	-	-	38.0	28.9
Personal loans	13.1	7.2	-	-	(15.7)	(8.7)
Central costs	-	-	-	-	(74.2)	(26.3)
Total group before amortisation of acquisition intangibles and exceptional items	486.9	473.9	47.0	60.3	126.6	167.8
Amortisation of acquisition intangibles (note 10)	-	-	-	-	(7.5)	(7.5)
Exceptional items	-	-	-	-	(9.0)	(18.1)
Total Group – continuing operations	486.9	473.9	47.0	60.3	110.1	142.2
CCD – discontinued operations (note 4)	-	68.0	-	-	(15.3)	(95.5)
CCD – discontinued operations exceptional items (note 4)	-	-	-	-	4.6	(42.6)
Total Group	486.9	541.9	47.0	60.3	99.4	4.1

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The amortisation charge in 2022 amounted to £7.5m (2021: £7.5m).

Revenue between business segments in not material.

Exceptional items for continuing operations represent a net exceptional charge of £9.0m in 2022 (2021: £18.1m) and comprise:

	2022 £m	2021 £m
Corporate costs including CCD closure	(3.8)	(10.5)
CCD Scheme of Arrangement costs (note 12)	(3.7)	(5.0)
Redundancy costs	(1.5)	(1.0)
Costs in respect of the redemption of bonds	-	(3.9)
Pension credit (note 11)	-	2.3
Total exceptional items	(9.0)	(18.1)

	Segment assets		Segment net assets/(liabilities)	
	2022 £m	2021 £m	2022 £m	2021 £m
Credit cards and personal loans	1,795.6	1,639.1	384.9	374.5
Vehicle finance	762.6	698.3	172.9	105.8
Central	504.8	546.5	432.1	446.0
Continuing operations before intra-group elimination	3,063.0	2,883.9	989.9	926.3
Discontinued operations	-	0.3	(382.7)	(295.1)
Intra-Group elimination	(407.2)	(158.9)	-	-
Total Group	2,655.8	2,725.3	607.2	631.2

The presentation of segment net assets reflects the statutory assets, liabilities and net assets 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. Credit cards and personal loans are both recognised within Vanquis Bank Limited and are therefore combined for balance sheet reporting purposes.

4. Discontinued operations

The Group closed its CCD business comprising Home Credit and Satsuma loans during 2021 and in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' these businesses are presented as discontinued operations.

The results from discontinued operations, which are included in the Group income statement, are set out below.

	2022 £m	2021 £m
Interest income	-	68.0
Interest expense	(6.2)	(12.1)
Net interest income	(6.2)	55.9
Total income	(6.2)	55.9
Impairment charges	-	(59.6)
Risk-adjusted income	(6.2)	(3.7)
Operating costs:		
- other	(9.1)	(91.8)
- exceptional items	4.6	(42.6)
Loss before taxation	(10.7)	(138.1)
Tax credit/(charge)	5.8	(28.6)
Loss from discontinued operations	(4.9)	(166.7)
Basic loss per share (p)	(2.0)	(66.5)
Diluted loss per share (p)	(2.0)	(66.5)

5. Tax charge

The tax charge/(credit) in the income statement is as follows:

	2022			2021		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Current tax: - UK	14.4	(5.8)	8.6	12.6	(3.3)	9.3
Deferred tax: - UK	10.2	-	10.2	-	31.9	31.9
Impact of change in UK tax rate	3.2	-	3.2	(5.0)	-	(5.0)
Total tax charge/(credit)	27.8	(5.8)	22.0	7.6	28.6	36.2

	2022						
	Continuing operations				Discontinued operations		
	Adjusted PBT £m	Exceptional items £m	Amortisation £m	Total £m	Adjusted PBT £m	Exceptional items £m	Total £m
Profit/(loss) before taxation	126.6	(9.0)	(7.5)	110.1	(15.3)	4.6	(10.7)
Profit/(loss) before tax multiplied by standard rate of corporation tax in the UK of 19%	24.1	(1.7)	(1.4)	21.0	(2.9)	0.9	(2.0)
Effects of:							
– impact of change in UK tax rate (note (a))	3.2	-	-	3.2	-	-	-
– impact of bank corporation tax surcharge (note (b))	8.4	-	-	8.4	-	-	-
– impact of lower tax rates and losses overseas (note (c))	-	-	-	-	(0.1)	(0.1)	(0.2)
– write off of deferred tax assets (note (d))	0.2	-	-	0.2	-	-	-
– adjustments in respect of prior years (note (e))	(4.4)	0.8	-	(3.6)	(6.5)	0.4	(6.1)
– prior year adjustments related to transfer pricing and losses (note (f))	1.0	-	-	1.0	(1.0)	-	(1.0)
– transfer pricing adjustments (note (g))	-	-	-	-	-	-	-
– discount on payment for losses of discontinued operations (note (h))	(3.3)	-	-	(3.3)	3.3	-	3.3
– non-deductible general expenses (i)	0.2	0.7	-	0.9	0.6	(0.4)	0.2
	29.4	(0.2)	(1.4)	27.8	(6.6)	0.8	(5.8)

5. Tax charge (continued)

	2021						
	Continuing operations				Discontinued operations		
	Adjusted PBT £m	Exceptional items £m	Amortisation £m	Total £m	Adjusted PBT £m	Exceptional items £m	Total £m
Profit/(loss) before taxation	167.8	(18.1)	(7.5)	142.2	(95.5)	(42.6)	(138.1)
Profit/(loss) before tax multiplied by standard rate of corporation tax in the UK of 19%	31.8	(3.4)	(1.4)	27.0	(18.1)	(8.1)	(26.2)
Effects of:							
– impact of change in UK tax rate (note (a))	(5.8)	0.2	0.6	(5.0)	-	-	-
– impact of bank corporation tax surcharge (note (b))	12.3	(0.1)	-	12.2	-	-	-
– impact of lower tax rates and losses overseas (note (c))	-	-	-	-	2.7	0.8	3.5
– write off of deferred tax assets (note (d))	(0.3)	-	-	(0.3)	23.4	-	23.4
– adjustments in respect of prior years (note (e))	0.5	-	-	0.5	0.5	-	0.5
– prior year adjustments related to transfer pricing and losses (note (f))	(7.8)	-	-	(7.8)	7.8	-	7.8
– non-deductible general expenses	0.1	0.4	-	0.5	0.1	-	0.1
– transfer pricing adjustments (note (g))	(0.6)	-	-	(0.6)	0.6	-	0.6
– discount on payment for losses of discontinued operations (note (h))	(6.5)	-	-	(6.5)	6.5	-	6.5
– benefit of capital losses offset against capital gain (note (i))	-	-	-	-	-	-	-
– reversal of exceptional complaints provision (note (j))	-	(12.4)	-	(12.4)	-	12.4	12.4
	23.7	(15.3)	(0.8)	7.6	23.5	5.1	28.6

5. Tax charge (continued)

(a) Impact of change of UK tax rate

In 2021, changes were enacted to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023. At 31 December 2021, deferred tax balances were remeasured at 25%, and in the case of credit cards and loans, at the combined mainstream corporation tax rate (25%) and bank corporation tax surcharge rate (8%) of 33% to the extent that the temporary differences on which deferred tax had been calculated were expected to reverse, or the tax loss was expected to be utilised, after 1 April 2023.

In 2022, further changes were enacted which, with effect from 1 April 2023, reduce the bank corporation tax surcharge rate from 8% to 3% and increase the bank corporation tax surcharge allowance, being the threshold below which banking profits are not subject to the surcharge, from £25m to £100m.

To the extent the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2023, deferred tax balances at 31 December 2022 and movements in deferred tax balances during the year have therefore been measured at 25% (2021: 25%) and, in the case of credit cards and personal loans, at the combined mainstream corporation tax rate (25%) and bank corporation tax surcharge rate (3%) of 28% (2021: 33%) except to the extent the temporary differences reverse when profits from credit cards and personal loans are expected to be below the bank surcharge threshold, in which case deferred tax balances have been measured at the combined rate of 25% (2021: 33%).

A tax charge of £3.2m (2021: credit of £5.0m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax credit of £5.0m (2021: charge of £6.4m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income. Of the tax charge of £3.2m (2021: credit of £5.0m) taken to the income statement, £3.2m (2021: £5.0m) relates to continuing operations and £nil (2021: £nil) to discontinued operations.

There was a £nil impact in 2022 (2021: £nil) on discontinued operations from the change in tax rates as no deferred tax balances were recognised in discontinued operations at 31 December 2022 (2021: £nil).

(b) Impact of bank corporation tax surcharge

The adverse impact of the bank corporation tax surcharge amounts to £8.4m (2021: £12.2m) and represents tax at the bank corporation tax surcharge rate of 8% on credit cards and personal loans taxable profits in excess of £25m where taxable profits are calculated ignoring the benefit of losses elsewhere in the Group, including capital losses.

The only entity subject to bank corporation tax surcharge in the Group is Vanquis Bank Limited which sits within continuing operations.

(c) Impact of lower tax rates and losses overseas

Prior to its closure in 2021, the home credit business in the Republic of Ireland was subject to tax at the Republic of Ireland statutory tax rate of 12.5% rather than the UK statutory mainstream corporation tax rate of 19.0%. In 2021, the home credit business in the Republic of Ireland made a loss which can only be relieved against future profits of the business in the Republic of Ireland at the 12.5% statutory rate rather than the 19.0% UK statutory tax rate. In light of the closure of the business, no deferred tax asset was recognised in respect of this loss giving rise to a total adverse impact on the Group tax charge of £3.5m, all of which relates to discontinued operations.

In 2022, no tax liability arises on the release of various provisions and accruals following the closure of the Irish business giving a favourable impact on the tax charge of £0.2m (2021: adverse impact of £3.5m), all of which relates to discontinued operations.

(d) Write off of deferred tax assets

In 2021 deferred tax assets written off comprised: (a) £23.6m of deferred tax assets related to discontinued operations for which future tax relief was considered unlikely to be available following the closure of the business; net of (b) a deferred tax credit of £0.5m related to the deferred tax asset in respect of share scheme awards which had previously been written off on the basis that future deductions were expected to be lower than previously anticipated. Of the £0.5m deferred tax credit, £0.3m related to continuing operations and £0.2m related to discontinued operations. The £23.6m deferred tax assets related to discontinued operations which were written off in 2021, related to tax losses carried forward and other temporary differences for which, following the closure of the business, it was considered unlikely that future tax relief would be available.

In 2022, the tax charge in respect of deferred tax assets written off amounts to £0.2m and relates to share scheme awards where future deductions are expected to be lower than previously anticipated. It relates entirely to continuing operations.

5. Tax charge (continued)

(e) Adjustments in respect of prior years
The tax credit of £9.7m in respect of prior years (2021: tax charge of £1.0m) comprises: (a) a net release of tax liabilities in respect of prior years of continuing operations of £3.6m following agreement of certain historical tax matters with HMRC; (b) a £7.5m reinstatement of deferred tax assets in respect of certain losses and temporary differences of discontinued operations which were written off in 2021 but for which tax relief is considered to be available in 2022; and (c) a £1.4m tax charge in respect of a reduction in tax losses of the discontinued operations available for group relief in prior years.

In 2021, the £1.0m tax charge in respect of prior years primarily comprised adjustments related to prior year deferred tax on share scheme awards and the impact of resolving historical tax liabilities, of which £0.5m related to discontinued operations and £0.5m related to continuing operations.

(f) Prior year adjustments related to transfer pricing and losses
These comprise a £1.0m credit (2021: £7.8m charge) related to discontinued operations net of a £1.0m charge (2021: £7.8m credit) related to continuing operations and relate to transfer pricing adjustments between the continuing operations and discontinued operations in prior years, as well as adjustments related to prior year tax losses of the discontinued operation which were surrendered as group relief to the continuing operation and which the continuing operation paid for at a discounted price.

(g) Transfer pricing adjustments
In 2021, these comprised a £0.6m credit related to continuing operations and a £0.6m charge related to discontinued operations, and represented the impact of transfer pricing adjustments between the profits of continuing and discontinued operations. They have a £nil overall impact on the tax charge. There are no such adjustments in 2022.

(h) Discount on payment for losses of discontinued operations
This comprises a credit of £3.3m (2021: credit of £6.5m) related to continuing operations and a charge of £3.3m (2021: charge of £6.5m) related to discontinued operations, and relates to tax losses of the discontinued operation which have been surrendered as group relief to the continuing operation and which the continuing operation has paid for at a discounted price. The overall impact on the tax charge is £nil (2021: £nil).

(i) Non-deductible general expenses
In 2022, these primarily comprise: (a) in the case of discontinued operations, costs for which tax deductions may not be available post closure of the business net of the release of the provision for costs associated with the FCA investigation into affordable lending in CCD, part of which is non-taxable; and (b) in the case of the continuing operations, the cost of certain projects for which it is considered a tax deduction may not be available.

(j) Exceptional complaints provision
In 2021, the release of the exceptional complaints provision in CCD following the implementation of the Scheme of Arrangement gave rise to a tax charge in CCD of £12.4m. As the release of the provision was recognised as part of continuing rather than discontinued operations, this gave rise to a tax reconciling difference in 2021 of £12.4m between continuing and discontinued operations.

These adjustments had a £nil overall impact on the 2021 tax charge.

In 2021, a tax deduction was claimed for the £70m costs of the Scheme of Arrangement incurred by Vanquis Banking Group plc which was also recognised as part of continuing operations.

Tax on exceptional items:
The tax charge in respect of exceptional items amounts to £0.6m (2021: tax credit of £10.2m) and comprises a £0.2m credit (2021: £15.3m credit) relating to continuing operations and a £0.8m charge (2021: £5.1m charge) related to discontinued operations.

5. Tax charge (continued)

In 2022:

– The £0.2m tax credit relating to continuing operations represents a tax credit in respect of all exceptional costs of the continuing operations with the exception of certain project costs for which it is considered tax deductions may not be available.
– The £0.8m tax charge relating to discontinued operations represents the tax charge on the release of certain provisions and accruals for which tax deductions were previously claimed with the exception of those relating to the Irish branch which are non-taxable.

In 2021:

– The £15.3m tax credit relating to continuing operations represents: (i) a tax credit in respect of all exceptional costs of the continuing operations with the exception of certain project costs for which it is considered tax deductions may not be available; and (ii) the tax reconciling difference between continuing and discontinued operations referred to in note (j) above.
– The £5.1m tax charge relating to discontinued operations represents the tax reconciling difference between continuing and discontinued operations referred to in note (j) above net of a tax credit for the exceptional closure costs of the discontinued operations with the exception of those costs related to the Irish branch for which no effective tax relief is available.

The tax credit/(charge) on items taken directly to other comprehensive income is as follows:

	2022 £m	2021 £m
Deferred tax credit on fair value movement in investment	-	1.4
Deferred tax credit/(charge) on actuarial movements on retirement benefit asset	16.0	(5.2)
Tax credit/(charge) on items taken directly to other comprehensive income prior to impact of change in UK tax rate	16.0	(3.8)
Impact of change in UK tax rate	5.0	(6.4)
Total tax credit/(charge) on items taken directly to other comprehensive income	21.0	(10.2)

The tax credit/(charge) on items taken directly to other comprehensive income relates entirely to continuing operations.

The movement in the deferred tax balance during the year can be analysed as follows:

	2022			2021		
Asset/(liability)	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
At 1 January	6.9	-	6.9	12.1	31.9	44.0
Charge to the income statement	(10.2)	-	(10.2)	-	(31.9)	(31.9)
Credit/(charge) on other comprehensive income prior to impact of change in UK tax rate	16.0	-	16.0	(3.8)	-	(3.8)
Impact of change in UK tax rate:						
- (charge)/credit to the income statement	(3.2)	-	(3.2)	5.0	-	5.0
- credit/(charge) to other comprehensive income	5.0	-	5.0	(6.4)	-	(6.4)
At 31 December	14.5	-	14.5	6.9	-	6.9

6. Earnings/(loss) per share

Basic earnings/(loss) per share (E/LPS) is calculated by dividing the profit/(loss) for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year less the number of shares held by the Employee Benefit Trust which are used to satisfy the share awards such as DBP, PSP, LTIS, RSP and CSOP.

Diluted E/LPS calculates the effect on E/LPS 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 Deferred Bonus Plan (DBP) (previously the Performance Share Plan (PSP)), the Long Term Incentive Scheme (LTIS), the Restricted Share Plan (RSP) and the Company Share Option Plan (CSOP), 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 Company'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. The Group also presents an adjusted EPS, prior to the amortisation of acquisition intangibles and exceptional items.

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 E/LPS for continuing operations and the Group are set out below:

		2022			2021	
Continuing operations	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	82.3	250.9	32.8	134.6	250.7	53.7
Dilutive effect of share options and awards	-	2.8	(0.4)	-	1.3	(0.3)
Diluted earnings per share	82.3	253.7	32.4	134.6	252.0	53.4

		2022			2021	
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Loss £m	Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	77.4	250.9	30.8	(32.1)	250.7	(12.8)
Dilutive effect of share options and awards	-	2.8	(0.3)	-	-	-
Diluted earnings/(loss) per share	77.4	253.7	30.5	(32.1)	250.7	(12.8)

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 3). This is presented to show the adjusted earnings per share generated by the continuing and Group operations. A reconciliation of continuing and Group basic/diluted earnings/(loss) per share to adjusted basic and diluted earnings per share is as follows:

6. Earnings/(loss) per share (continued)

Continuing operations	Earnings £m	2022 Weighted average number of shares m	Per share amount pence	Earnings £m	2021 Weighted average number of shares m	Per share amount pence
Basic earnings per share	82.3	250.9	32.8	134.6	250.7	53.7
Amortisation of acquisition intangibles, net of tax	6.1	-	2.4	6.7	-	2.7
Exceptional items, net of tax	8.8	-	3.5	2.8	-	1.1
Adjusted basic earnings per share	97.2	250.9	38.7	144.1	250.7	57.5
Diluted earnings per share	82.3	253.7	32.4	134.6	252.0	53.4
Amortisation of acquisition intangibles, net of tax	6.1	-	2.4	6.7	-	2.7
Exceptional items, net of tax	8.8	-	3.5	2.8	-	1.1
Adjusted diluted earnings per share	97.2	253.7	38.3	144.1	252.0	57.2

Group	Earnings £m	2022 Weighted average number of shares m	Per share amount pence	Loss £m	2021 Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	77.4	250.9	30.8	(32.1)	250.7	(12.8)
Amortisation of acquisition intangibles, net of tax	6.1	-	2.4	6.7	-	2.7
Exceptional items, net of tax	5.0	-	2.0	50.5	-	20.1
Adjusted basic earnings per share	88.5	250.9	35.2	25.1	250.7	10.0
Diluted earnings/(loss) per share	77.4	253.7	30.5	(32.1)	252.0	(12.7)
Amortisation of acquisition intangibles, net of tax	6.1	-	2.4	6.7	-	2.7
Exceptional items, net of tax	5.0	-	2.0	50.5	-	20.0
Adjusted diluted earnings per share	88.5	253.7	34.9	25.1	252.0	10.0

7. Dividends

	2022 £m	2021 £m
2021 interim – 12p per share	30.1	-
2022 interim – 5p per share	12.7	-
	42.8	-

The directors are recommending a final dividend in respect of the financial year ended 31 December 2022 of 10.3p per share which will amount to an estimated dividend of £26.1m. If approved, this dividend will be paid on 7 June 2023 to shareholders who were on the register of members at 21 April 2023.

8. Amounts receivable from customers

	2022 £m	2021 £m
Credit cards	1,181.6	1,063.4
Vehicle finance	646.1	586.2
Personal loans	76.3	28.1
Total	1,904.0	1,677.7
Fair value adjustment for portfolio hedged risk	(7.9)	-
Total group	1,896.1	1,677.7

The fair value adjustment for the portfolio hedge risk relates to the unamortised hedged accounting adjustment in relation to discontinued balance guaranteed swap. In 2021 this was presented within trade and other receivables (£3.6m).

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

	2022			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Credit cards	1,116.6	148.7	186.7	1,452.0
Vehicle finance	351.0	169.3	452.0	972.3
Personal loans	78.1	2.1	5.3	85.5
Total group	1,545.7	320.1	644.0	2,509.8
Allowance account				
Credit cards	(93.2)	(58.2)	(119.0)	(270.4)
Vehicle finance	(15.9)	(25.8)	(284.5)	(326.2)
Personal loans	(5.0)	(0.7)	(3.5)	(9.2)
Total group	(114.1)	(84.7)	(407.0)	(605.8)
Net receivables				
Credit cards	1,023.4	90.5	67.7	1,181.6
Vehicle finance	335.1	143.5	167.5	646.1
Personal loans	73.1	1.4	1.8	76.3
Total group	1,431.6	235.4	237.0	1,904.0

	2021			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Credit cards	883.8	340.9	192.5	1,417.2
Vehicle finance	350.2	112.9	378.6	841.7
Personal loans	29.9	1.8	2.0	33.7
Total group	1,263.9	455.6	573.1	2,292.6
Allowance account				
Credit cards	(99.7)	(102.1)	(152.0)	(353.8)
Vehicle finance	(14.3)	(15.8)	(225.4)	(255.5)
Personal loans	(3.5)	(0.8)	(1.3)	(5.6)
Total group	(117.5)	(118.7)	(378.7)	(614.9)
Net receivables				
Credit cards	784.1	238.8	40.5	1,063.4
Vehicle finance	335.9	97.1	153.2	586.2
Personal loans	26.4	1.0	0.7	28.1
Total group	1,146.4	336.9	194.4	1,677.7

8. Amounts receivable from customers (continued)

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

	2022					2021				
	Credit cards	Vehicle finance	Personal loans	CCD	Total	Credit cards	Vehicle finance	Personal loans	CCD	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Brought forward	29.4	32.4	0.2	-	62.0	32.9	27.9	-	0.4	61.2
Capitalised	11.9	30.2	1.8	-	43.9	10.0	23.3	0.2	0.2	33.7
Amortised	(11.0)	(18.3)	(0.7)	-	(30.0)	(13.5)	(18.8)	-	(0.6)	(32.9)
Carried forward	30.3	44.3	1.3	-	75.9	29.4	32.4	0.2	-	62.0

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

Credit Cards	2022 £m	2021 £m
Core model	254.1	299.8
In-model overlays	-	27.9
Post-model overlays	16.3	26.1
Total allowance account	270.4	353.8

Description	2022 £m	2021 £m
In-model overlays:		
Covid-19 overlay (note (a))	-	27.9
Total in-model overlays	-	27.9
Post-model overlays:		
Cost of living (note b))	10.0	7.8
Persistent debt (note (c))	2.8	5.8
Affordability (note (d))	0.3	5.0
Recoveries (note (e))	2.5	7.4
Other	0.7	0.1
Total post-model overlays	16.3	26.1
Total overlays	16.3	54.0

(a) Impact of Covid-19

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

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

8. Amounts receivable from customers (continued)

(b) Cost of living

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

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

(c) Persistent debt

A post-model overlay was calculated to refine provisioning for those customers who have entered PD36. These customers have been split into two categories: those who have responded to communications and agreed to pay down their outstanding balance; and those who are making minimum payments but have not responded to communications. The core model does not consider this refinement and therefore a post-model overlay is required.

(d) Affordability

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

(e) Recoveries

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

A breakdown of the in-model and post-model overlays for vehicle finance is shown below:

Vehicle finance	2022 £m	2021 £m
Core model	328.7	257.5
In-model overlays	-	-
Post-model overlays	(2.5)	(2.0)
Total allowance account	326.2	255.5

Description	2022 £m	2021 £m
In-model overlays:		
Total in-model overlays	**-**	**-**
Post-model overlays:		
Cost of living (note (a))	0.5	-
Fraud (note (b))	(3.0)	(2.0)
Total post-model overlays	(2.5)	(2.0)
Total overlays	(2.5)	(2.0)

8. Amounts receivable from customers (continued)

(a) Cost of living

Refer to credit cards cost of living overlays section for economic update.

The credit acquisition and affordability models were updated in early 2022 by a blended average of 8.75% reflecting the rise in inflation, energy prices and other bills compared to income. Vehicle finance implemented a new IFRS 9 suite of models with revised behavioural PDs during late 2021 and therefore a significant number of variables indicating financial distress are already incorporated within this model.

However, considering the broader macro-economic environment and the observations made above, the management opinion is that a cost of living overlay of £0.5m should be recognised. This was derived by taking the cohort of up-to-date accounts in stage 2 and modelling a higher probability of default to replicate a situation reflective of these falling into arrears.

(b) Fraud
The fraud overlay represents the cohort of live accounts within the vehicle finance portfolio that have been identified as fraud customers. There is a corresponding adjustment within gross receivables for these accounts.

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

Personal loans	2022 £m	2021 £m
Core model	8.6	3.9
In-model overlays	-	-
Post-model overlays	0.6	1.7
Total allowance account	9.2	5.6

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

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

8. Amounts receivable from customers (continued)

(b) Covid-19 overlay

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

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

	2022 £m	2021 £m
Credit cards	16.8	3.7
Vehicle finance	40.8	44.6
Personal loans	8.5	2.1
Total impairment charge – continuing operations	66.1	50.4
CCD – discontinued operations	-	59.6
Total impairment charge	66.1	110.0

9. Investments

	2022 £m	2021 £m
Visa Inc. shares	10.7	9.1

Visa Inc. shares

The Visa Inc shares represent preferred stock in Visa Inc held by Vanquis Bank Limited following completion of Visa Inc's acquisition of Visa Europe Limited on 21 June 2016. In consideration for Vanquis Bank Limited's interest in Visa Europe Limited, Vanquis Bank Limited 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 which was received in 2019.

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

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

10. Other intangible assets

	2022			2021		
	Acquisition intangibles £m	Computer software £m	Total £m	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	75.0	43.5	118.5	75.0	77.9	152.9
Additions	-	29.2	29.2	-	24.8	24.8
Disposals	-	(4.2)	(4.2)	-	(59.2)	(59.2)
At 31 December	75.0	68.5	143.5	75.0	43.5	118.5
Accumulated amortisation and impairment						
At 1 January	55.0	11.2	66.2	47.5	60.1	107.6
Charged to the income statement – continuing operations	7.5	8.5	16.0	7.5	7.1	14.6
Charged to the income statement – discontinued operations	-	-	-	-	3.6	3.6
Disposals	-	(2.0)	(2.0)	-	(59.6)	(59.6)
At 31 December	62.5	17.7	80.2	55.0	11.2	66.2
Net book value						
At 31 December	12.5	50.8	63.3	20.0	32.3	52.3
At 1 January	20.0	32.3	52.3	27.5	17.8	45.3

Acquisition intangibles represent the fair value of the broker relationships arising on acquisition of vehicle finance product in August 2014. The intangible asset was calculated based on the discounted cash flows associated with vehicle finance core broker relationships and is being amortised over an estimated useful life of 10 years.

Research and development expenditure recognised within operating costs during 2022 was £1.0m.

Additions to computer software in the year of £29.2m (2021: £24.8m) comprise £28.4m (2021: £24.2m) of internally generated assets and £0.8m (2021: £0.6m) of externally purchased software.

The £28.4m (2021: £24.2m) of internally generated assets predominantly relates to the development of systems and applications for the credit cards and personal loans businesses.

The charge for continuing operations includes amortisation of £16.0m (2021: £13.3m) and impairment of £nil (2021: £1.3m). The charge for discontinued operations in 2021 included amortisation £1.0m and impairment of £2.6m.

11. 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 it is now also closed to future accrual.

The scheme provides pension benefits which were accrued on a final salary and, more recently, on a cash balance basis. With effect from 1 August 2021 it was fully closed to future accrual and benefits are no longer linked to final salary, although accrued benefits are subject to statutory inflationary increases.

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 2021 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of the 2021 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.

11. Retirement benefit asset (continued)

The group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid. As a result, the Group recognises surplus assets under IAS 19.

The Group is exposed to a number of risks, the most significant of which are as follows:

- Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match liabilities.
- Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.
- Inflation risk – some of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a long-term de-risking strategy, the scheme has increased its portfolio in inflation matched assets.
- Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

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

	2022 £m	2021 £m
Fair value of scheme assets	520.7	898.8
Present value of defined benefit obligation	(490.0)	(786.6)
Net retirement benefit asset recognised in the balance sheet	30.7	112.2

The amounts recognised in the income statement were as follows:

	2022 £m	2021 £m
Current service cost	(1.6)	(2.1)
Interest on scheme liabilities	(14.4)	(11.8)
Interest on scheme assets	16.5	13.0
Net credit/(charge) recognised in the income statement before exceptional past service credit/(charge)	0.5	(0.9)
Exceptional past service credit – Plan amendment (note 3)	-	1.5
Exceptional past service credit – Curtailment credit (note 3)	-	0.8
Exceptional past service credit	-	2.3
Net credit recognised in the income statement	0.5	1.4

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

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

	2022 £m	2021 £m
Fair value of scheme assets at 1 January	898.8	933.0
Interest on scheme assets	16.5	13.0
Actuarial movements on scheme assets	(366.2)	(20.2)
Contributions by the Group	2.2	4.0
Net benefits paid out	(30.6)	(31.0)
Fair value of scheme assets at 31 December	520.7	898.8

11. Retirement benefit asset (continued)

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

	2022 £m	2021 £m
Present value of defined benefit obligation at 1 January	(786.6)	(853.3)
Current service cost	(1.6)	(2.1)
Interest on scheme liabilities	(14.4)	(11.8)
Exceptional past service credit – Plan amendment (note 3)	-	1.5
Exceptional past service credit – Curtailment credit (note 3)	-	0.8
Actuarial movement – experience	(6.6)	(10.3)
Actuarial movement – demographic assumptions	5.4	12.9
Actuarial movement – financial assumptions	283.2	44.7
Net benefits paid out	30.6	31.0
Present value of defined benefit obligation at 31 December	(490.0)	(786.6)

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

	2022 %	2021 %
Price inflation – RPI	3.25	3.40
Price inflation – CPI	2.75	3.00
Rate of increase to pensions in payment	3.05	3.00
Inflationary increases to pensions in deferment	2.75	3.00
Discount rate	4.80	1.85

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 3 tables (2021: SAPS series 2 tables):

- female non-pensioners: 105% of the 'Middle' table (2021: 101% of the 'All' table);
- male non-pensioners: 105% of the 'Middle' table (2021: 96% of the 'All' table);
- female pensioners: 102% of the 'Middle' table (2021: 101% of the 'All' table); and
- male pensioners: 99% of the 'All' table (2021: 96% of the 'All' table).

The above multipliers and table types were chosen following a study of the scheme's membership. Where the multiplier is greater than 100%, this reflects a shorter life expectancy within the scheme compared to average pension schemes, with the opposite being true where the multiplier is less than 100%. Also, the use of the 'Middle' table typically leads to slightly lower life expectancy compared to using the corresponding 'All' table.

Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2021 model with a long-term improvement trend of 1.00% per annum and a modest allowance (5%) for the experience during 2020 and 2021 (where mortality was higher due to coronavirus, which leads to lower assumed future improvements in mortality). All other available parameters for the mortality improvements model were adopted at the default (core) level. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
	2022 years	2021 years	2022 years	2021 years
Current pensioner aged 65	21.7	21.7	23.3	23.4
Current member aged 45 from age 65	21.6	22.7	24.3	24.6

If the discount rate decreased by 2% (2021: 0.5%), the net retirement benefit asset would have been increased by approximately £160m (2021: £64m).

11. Retirement benefit asset (continued)

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

	2022 £m	2021 £m
Actuarial movements on scheme assets	(366.2)	(20.2)
Actuarial movements on scheme liabilities	282.0	47.3
Actuarial movements recognised in the statement of comprehensive income in the year	(84.2)	27.1
Cumulative movement recognised in other comprehensive income	(154.7)	(70.5)

12. Provisions

	2022			2021		
	Scheme £m	Others £m	Total £m	Scheme £m	Others £m	Total £m
At 1 January	53.5	18.6	72.1	65.0	26.0	91.0
Created in the year	2.6	1.1	3.7	5.0	17.4	22.4
Reclassified in the year	-	1.6	1.6	-	-	-
Utilised in the year	(54.9)	(9.1)	(64.0)	(16.5)	(24.8)	(41.3)
Released in the year	-	(8.2)	(8.2)	-	-	-
At 31 December	1.2	4.0	5.2	53.5	18.6	72.1

The Scheme of Arrangement (the Scheme): £1.2m (2021: £53.5m)
The Scheme of Arrangement was sanctioned on 30 July 2021 and will remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline of February 2022. The objective of the Scheme was to ensure: all customers with redress claims are treated fairly; and outstanding claims are treated consistently for all customers who submit a claim under the Scheme. The Group will fund legitimate Scheme claims with £50m and will cover further Scheme-related costs. These were estimated at approximately £20m at 31 December 2021 with an additional £2.6m being recognised in 2022 for additional expected costs in supporting the delivery of the Scheme.

Customer settlements in relation to the Scheme of Arrangement commenced in H2'22 and £54.9m of provision has been utilised.

Other provisions include:

FCA investigation into CCD: £nil (2021: £4.1m)
CCD was informed in Q1'21 that the FCA had opened an enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of an FOS decision into the complaint handling process, in the period between February 2020 and February 2021. Analysis of lending during the period of investigation resulted in a provision of £5m being recognised in H1'21 which reflected the current best estimate of the settlement, £0.9m of this was utilised in the second half of 2021. On 7 July, the Group received notification from the FCA that its investigation has closed and that no further action will be taken. Consequently this provision was released during H1'22.

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

Customer compliance: £2.0m (2021: £3.4m)
The customer compliance provision relates to general customer compliance matters.

Discontinued operations: £nil (2021: £9.0m)
A number of smaller provisions were recognised in 2021 in relation to the closure of the CCD business which now have been fully utilised. These were calculated based on estimated costs at the 2021 year end.

13. Reconciliation of loss after tax to cash generated from operations

	2022 £m	2021 £m
Profit/(loss) after taxation	77.4	(32.1)
Adjusted for:		
– tax charge/(credit)	22.0	36.2
– finance costs	65.0	61.2
– exceptional costs on redemption of bonds	-	3.9
– share-based payment charge	5.1	3.8
– retirement benefit (credit)/charge prior to exceptional pension credit	(0.5)	0.9
– exceptional pension credit	-	(2.3)
– amortisation of intangible assets	16.0	18.2
– provisions created in the year	3.7	22.4
– provisions released in the year	(3.6)	-
– provisions utilised in the year	(64.0)	(41.3)
– exceptional release of provisions	(4.6)	-
– depreciation of property, plant and equipment and right of use assets	12.1	15.3
– loss/(profit) on disposal of property, plant and equipment	0.9	(0.3)
– loss/(profit) on disposal of intangible assets	2.2	(0.4)
– profit on lease disposal	-	(1.2)
– hedge ineffectiveness	(3.7)	(0.2)
– proceeds from derivatives	11.8	-
– cumulative fair value movements on Visa shares transferred to income statement	-	(5.2)
– current year fair value movements on Visa shares	(1.6)	0.1
– contributions into the retirement benefit scheme	(2.2)	(4.0)
Changes in operating assets and liabilities		
– amounts receivable from customers	(226.3)	122.1
– trade and other receivables	(22.8)	12.7
– trade and other payables	(31.2)	30.7
Cash (used in)/generated from operations	(144.3)	240.5

14. Contingent liabilities

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 third parties. This extends to legal and regulatory reviews, challenges, investigations and enforcement actions combined with tax authorities taking a view that is different to the view the Group has taken on the tax treatment in its tax returns, both in the UK and overseas. All such material matters are periodically assessed, with the assistance of external professional advisors, 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 for management's best estimate of the amount required at the relevant balance sheet date. In some cases it may not be possible to form a view, for example because the facts are unclear or because further time is needed to properly 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.

15. Post balance sheet events

Concluding in early 2023, the PRA have conducted a Capital Supervisory Review and Evaluation Process (C-SREP) of the Group's capital requirements, based on the ICAAP approved in September 2022. The outcome is that the Group's Total Capital Requirement own funds requirements has reduced by more than a third, from 18.3% to 11.9%. Including the current regulatory combined buffer of 3.5% (capital conservation buffer of 2.5% and countercyclical capital buffer of 1.0%), the Group's overall capital requirement has reduced by 6.4% from 21.8% to 15.4% (excluding any confidential and management buffers). The reduction in capital requirements partly reflects the Group's successful repositioning as a specialist banking group focused on lower risk customers, the receipt of the Core UK Group Waiver in November 2022, which enables the Group to leverage its retail deposit funding capabilities to fund its other lending products, and the significant amount of work undertaken to strengthen the Group-wide risk management framework.

Directors' responsibility statement

Each of Patrick Snowball, Chairman; Malcolm Le May, Chief Executive Officer; Neeraj Kapur, Chief Finance Officer; Andrea Blance, Senior Independent Director; Angela Knight, Non-Executive Director; Paul Hewitt, Non-Executive Director; Elizabeth Chambers, Non-Executive Director; Margot James, Non-Executive Director and Graham Lindsay, Non-Executive Director, Michele Greene, Non-Executive Director confirms that, to the best of his or her knowledge that:

(i) the group financial statements which have been prepared in accordance with IFRS as adopted by the UK, give a true and fair view of the assets, liabilities, financial position and profit of the group, the company and the undertakings included in the consolidation taken as a whole; and
(ii) the Strategic Report contained in the 2022 Annual Report and Financial Statements includes a fair review of the development and performance of the business and the position of the company and group, and the undertakings included in the consolidation taken as a whole, and a description of the principal risks and uncertainties they face.

Alternative performance measures

In line with our continued repositioning as a specialist banking group, the Group has taken the decision in the current year to change the presentation of our Income Statement to align with the wider banking industry. See page 22 in the statement of accounting policies for further details on the change in presentation. In line with these changes and to more closely align to our peers in the industry, the Group have implemented updated APM's to provide more relevant and reliable information for stakeholders. The changes to APM's are summarised below and all presented APM's have been retrospectively re-presented in line with these changes. Unless stated below all other APM's are presented consistently with prior years.

New terminology	**Previous terminology**
Net interest margin (£) – Interest income less interest expense, excluding exceptional items for 12 months ended 31 December	Net interest margin (£) – Total revenue less interest expense, excluding exceptional items for 12 months ended 31 December
Risk-adjusted income (£) – Total income, excluding exceptional items less impairment charges	Risk-adjusted margin (£) – Net interest margin, excluding exceptional items less impairment
New APM	**Previous APM**
Average gross receivables - Average of gross customer interest earning balances for the 13 months ended 31 December	Average receivables – Average of net reported receivables for the 12 months ended 31 December
Net interest margin (NIM) - Interest income less interest expense, excluding exceptional items for the 12 months ended 31 December as a percentage of average gross receivables	Net interest margin (NIM) - Revenue less funding costs, excluding exceptional items for the 12 months ended 31 December as a percentage of average net receivables
Risk-adjusted margin - Total income, excluding exceptional items less impairment charge for the 12 months ended 31 December as a percentage of average gross receivables	Risk-adjusted net interest margin - NIM less impairment, excluding exceptional items for the 12 months ended 31 December as a percentage of average net receivables
Asset yield - Interest income for the 12 months ended 31 December as a percentage of average gross receivables	Revenue yield – Revenue for the 12 months ended 31 December as a percentage of average net receivables
Interest margin - Interest expense, excluding exceptional items for the 12 months ended 31 December as a percentage of average gross receivables	Interest margin - Finance costs for the 12 months ended 31 December as a percentage of average net receivables

Cost of risk - Impairment charges for the 12 months ended 31 December as a percentage of average gross receivables	Impairment rate/cost of risk - Impairment charge for the 12 months ended 31 December as a percentage of average net receivables
Cost:income ratio - Operating costs, excluding exceptional items as a percentage of total income, excluding exceptional items for the 12 months ended 31 December	Cost:income ratio - Operating costs, excluding exceptional items as a percentage of net interest margin, excluding exceptional items for the 12 months ended 31 December
Adjusted return on assets (ROA) - Adjusted profit after tax for the 12 months ended 31 December as a percentage of average total assets for the 13 months ended 31 December	Adjusted return on assets (ROA) - Adjusted profit before interest after tax for the 12 months ended 31 December as a percentage of average net receivables.
Adjusted return on equity (ROE) – Adjusted profit after tax net of fair value gains for the 12 months ended 31 December as a percentage of average adjusted equity for the 13 months ended 31 December. Adjusted equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments, net of deferred tax	Adjusted return on equity (ROE) - Adjusted profit after tax for the 12 months ended 31 December as a percentage of average opening and closing adjusted equity. Adjusted equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments, net of deferred tax
Adjusted return on tangible equity (ROTE) – Adjusted profit after tax net of fair value gains for the 12 months ended 31 December as a percentage of average adjusted tangible equity for the 13 months ended 31 December. Adjusted tangible equity is stated as equity after deducting the Group's pension asset, net of deferred tax, the fair value of derivative financial instruments, net of deferred tax less intangible assets and goodwill	Adjusted return on tangible equity (ROTE) - Adjusted profit after tax for the 12 months ended 31 December as a percentage of average opening and closing tangible equity. Average tangible equity reflects average equity over the period less intangible assets and goodwill
Adjusted return on required equity (RORE) - Adjusted profit after tax for the 12 months ended 31 December as a percentage of the Group's average PRA regulatory capital requirement including PRA buffers for the 13 months ended 31 December	Adjusted return on required equity (RORE) - Adjusted profit after tax for the 12 months ended 31 December as a percentage of the Group's average opening and closing PRA regulatory capital requirement including PRA buffers for the period

APM	2022		2021	
	New	Previous	New	Previous
Net interest margin	21.0%	28.1%	20.5%	30.0%
Risk-adjusted margin	20.3%	24.2%	20.8%	26.9%
Asset yield	23.9%	31.5%	22.8%	33.1%
Interest margin/cost of funds	2.9%	3.4%	2.4%	3.0%
Cost of risk	3.2%	3.8%	2.4%	3.1%
Cost:income ratio	59.9%	60.1%	54.8%	55.1%
Adjusted return on assets (ROA)	3.8%	7.9%	5.3%	11.5%
Adjusted return on equity (ROE)	17.1%	17.2%	25.6%	25.5%
Adjusted return on tangible equity (ROTE)	22.2%	19.8%	32.2%	27.7%
Adjusted return on required equity (RORE)	22.2%	21.4%	32.3%	32.6%

Information for shareholders

1. The 2022 Annual Report and Financial Statements together with the notice of the annual general meeting will be posted to shareholders on or around 18 April 2023.

2. The annual general meeting will be held on 25 May 2023 at the offices of Clifford Chance LLP, 10 Upper Bank Street, Canary Wharf, London, E14 5JJ.