Provident Financial plc
Interim results for the six months ended 30 June 2013

Provident Financial plc is the market-leading provider of home credit in the UK and Ireland and the market-leading provider of credit cards to non-standard consumers in the UK. Its operations consist of the Consumer Credit Division (CCD) and Vanquis Bank.

Highlights

Group performance supports further dividend increase

- First half pre-tax profit before exceptional restructuring cost up 7.0% to £76.5m[1] (2012 restated[2]: £71.5m).
- Adjusted earnings per share up 7.9% to 43.5p[1] (2012 restated[2]: 40.3p).
- Customer numbers up 5.5% to 2.7m (2012: 2.6m) and average receivables up 13.3% to £1,441.7m (2012: £1,273.0m).
- Interim dividend per share up 7.6% to 31.0p (2012: 28.8p).
- Annualised capital generated[3] of £116.7m, in excess of dividends payable of £108.3m.

Strong funding and capital position

- Group now fully funded into 2016.
- Gearing stable at 3.1 times (2012: 3.1 times).

CCD experiencing challenging market conditions

- Pre-tax profit of £36.1m[1] (2012 restated[2]: £49.3m).
- Customer numbers and average receivables down by 5.8% and 3.6% respectively with credit issued tempered by persistent inflationary pressure on household disposable incomes and weak consumer confidence.
- Gross cost savings of £10m secured for second half of year, rising to £18m in 2014, including benefit from recent field restructuring completed at a one-off cost of £4.5m.
- Investment in business development initiatives fully protected.

Strong growth and returns in Vanquis Bank

- UK pre-tax profit up by 70.7% to £50.2m (2012: £29.4m).
- UK customer and average receivables growth of 29.1% and 40.3% respectively, reflecting continued strong momentum from addressing the under-served non-standard credit card market.
- UK risk-adjusted margin[4] of 34.4% (2012: 34.9%), well ahead of minimum target of 30% with arrears levels remaining stable at record lows.
- Pilot credit card operation in Poland developing well with a cost of £3.6m in first half (2012: £1.2m) and a firm business plan to be established during second half of year.

Key financial results

	H1 2013	H1 2012 (restated)	Change
Customer numbers	2.7m	2.6m	5.5%
Average receivables	£1,441.7m	£1,273.0m	13.3%
Profit before tax and exceptional items[1]	£76.5m	£71.5m	7.0%
Profit before tax	£72.0m	£71.5m	0.7%
Adjusted earnings per share[1]	43.5p	40.3p	7.9%
Basic earnings per share	41.0p	40.3p	1.7%
Interim dividend per share	31.0p	28.8p	7.6%

Peter Crook, Chief Executive, commented:

"I am pleased to announce a 7.6% increase in the interim dividend which is fully supported by adjusted earnings per share growth of 7.9%, strong capital generation and a very robust funding and liquidity position.

Vanquis Bank has produced another excellent performance with first half UK profits up over 70%. The business continues to generate strong customer growth and margins through developing the under-served non-standard credit card market whilst continuing to apply tight credit standards.

CCD is experiencing weaker demand from the home credit customer base, with the persistent rise in day-to-day living costs putting pressure on household disposable incomes and reducing confidence. In view of lower activity levels, action has already been taken to reduce the cost base which will benefit the financial performance of the business in the second half and beyond.

The group overall has performed in line with its internal plan in the first half of 2013 and expects to do so for the year as a whole."

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[1] *2013 first half profit before tax is stated before an exceptional cost of £4.5m in respect of a restructuring of the field management force within CCD.*

[2] *First half profit before tax in 2012 has been restated from £72.9m to £71.5m following the mandatory adoption of the amended IAS 19, 'Employee Benefits' from 1 January 2013. The impact on the first half of 2012 has been to reduce profit before tax by £1.4m and increase the actuarial gain taken through the consolidated statement of comprehensive income by £1.4m with no impact on the balance sheet.*

[3] *Capital generated is calculated as net cash generated from operating activities, after adding back 80% of the growth in customer receivables funded by borrowings, less net cash used in investing activities.*

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

Interim report

Group results

The group has reported first half pre-tax profit prior to exceptional items up 7.0% to £76.5m (2012 restated: £71.5m). Vanquis Bank has continued to outperform its internal plan whilst CCD has experienced weak demand from the home credit customer base through the first half of the year. Adjusted earnings per share of 43.5p (2012 restated: 40.3p) grew by 7.9%, a faster rate than pre-tax earnings reflecting the reduction in the statutory rate of UK corporation tax from 24% to 23% on 1 April 2013.

CCD first half profits were £36.1m (2012 restated: £49.3m) reflecting difficult trading conditions. Home credit customer confidence is very low and household incomes remain under persistent pressure from rising food, fuel and utility bills. As a result, demand for credit, particularly from better quality customers who are more typically eligible for higher value, longer duration loans, remains weak and customer numbers and average receivables have shown year-on-year reductions of 5.8% and 3.6% respectively. The annualised revenue yield has strengthened from 89.0% at December 2012 to 92.4% at June 2013. However, whilst credit standards have remained unchanged, impairment has increased at a faster rate than revenues and reduced profitability. This is predominantly a result of the weak demand from existing customers which feeds through directly into a deterioration in arrears, as those customers not wishing to take further credit have less incentive to bring their accounts up to date and typically remain in mild arrears. The business is currently being tightly managed on the basis that the trading environment is unlikely to improve in the near term. Accordingly, a restructuring of the field organisation has recently been completed involving a headcount reduction of 170 without compromising spans of control. This is the main component of year-on-year gross cost savings of £10m secured for the second half of the year, rising to £18m in 2014. The associated redundancy cost of £4.5m has been taken as an exceptional charge in the first half. Investment in business development initiatives, including the launch of an online customer portal, a reloadable prepaid card and a trial of online loans, has been fully protected.

Vanquis Bank has delivered an excellent performance in the first half of 2013 with UK profits up 70.7% to £50.2m (2012: £29.4m). This was ahead of management's internal plans due to delinquency levels remaining stable at record lows for the business. The level of investment in the customer acquisition programme has been maintained and year-on-year customer growth of 29.1% and average receivables growth of 40.3% were delivered against unchanged credit standards. Delinquency levels have remained favourable throughout the first half, reflecting the sound quality of the receivables book and the backdrop of a stable employment market. This has allowed Vanquis Bank to deliver an annualised risk-adjusted margin of 34.4% as at June 2013 (2012: 34.9%), well ahead of its minimum target of 30%.

The pilot credit card operation in Poland is progressing well and provides the foundation for developing a business capable of delivering the group's target returns. The remaining focus of the pilot operation is on continuing to refine the credit tools capable of addressing the whole of the target audience which will then allow a firm business plan to be established during the second half of the year. The cost of the pilot in the first half of the year was £3.6m (2012: £1.2m).

The group's funding and liquidity positions remain strong with gearing of 3.1 times (2012: 3.1 times). The group successfully issued its fourth retail bond in March raising £65m at a coupon of 6.0% with a duration of eight and a half years. As at 30 June 2013, headroom on the group's committed facilities amounted to £346m and, including the additional capacity available for Vanquis Bank to take retail deposits, total funding capacity amounted to £514m. The group's committed debt facilities, together with the retail deposits programme at Vanquis Bank, are now sufficient to fund contractual maturities and projected growth in the business until the seasonal peak in 2016.

In the 12 months to 30 June 2013, the group generated capital of £116.7m from trading operations compared with dividends payable through that period of £108.3m. Vanquis Bank continues to generate capital over and above that required to fund its own growth.

The interim dividend has been increased by 7.6% to 31.0p (2012: 28.8p) reflecting the growth in earnings, strong capital generation and the stated policy of maintaining annual dividend cover of at least 1.25 times.

Market conditions

The competitive landscape for CCD remains unchanged with around 500 active home credit participants in the UK. Home credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. Household disposable incomes continue to be adversely affected by the persistent rise in day-to-day living costs and, in particular, the higher winter utility charges billed during the first quarter of the year. The measures of confidence across the customer base are at the lowest level seen for many years and, consequently, demand for credit has been weak during the first half of the year as both customers and agents have displayed increased caution. The reduction in demand has been most apparent from an increased reluctance by better quality existing customers to commit to higher value, longer duration loans.

Vanquis Bank continues to experience strong demand from developing the under-served non-standard UK credit card market. The marketing activity of competitors has continued to increase modestly but it has had no discernible impact on overall new account bookings. The strong momentum from the customer acquisition programme has continued through the first half of the year resulting in record first half new account bookings of 204,000, up from 167,000 in the first half of 2012. Vanquis Bank customers are typically in more regular employment than home credit customers although the business is considerably less sensitive to changes in the employment market than mainstream card issuers. UK unemployment has remained relatively stable through the first half of the year. The combination of stable market conditions and the application of consistently tight underwriting has resulted in delinquency levels being maintained at the record low for the business established in autumn 2012.

Business performance

CCD

CCD profits were £36.1m in the first half of 2013 (2012 restated: £49.3m):

	Six months ended 30 June		
	2013[1] £m	2012[2] £m	Change %
Customer numbers ('000)	1,668	1,771	(5.8%)
Period-end receivables	739.6	787.8	(6.1%)
Average receivables	755.2	783.5	(3.6%)
Revenue	365.6	351.8	3.9%
Impairment	(167.0)	(135.4)	(23.3%)
Revenue less impairment	198.6	216.4	(8.2%)
Annualised revenue yield[3]	*92.4%*	*89.2%*	
Annualised impairment % revenue[4]	*36.8%*	*32.8%*	
Costs	(141.5)	(144.4)	2.0%
Interest	(21.0)	(22.7)	7.5%
Profit before tax	36.1	49.3	(26.8%)

1 *2013 first half profit before tax is stated before an exceptional cost of £4.5m in respect of a restructuring of the field management force.*
2 *First half profit before tax in 2012 has been restated from £50.4m to £49.3m following the mandatory adoption of the amended IAS 19, 'Employee Benefits' from 1 January 2013.*
3 *Revenue as a percentage of average receivables for the 12 months ended 30 June.*
4 *Impairment as a percentage of revenue for the 12 months ended 30 June.*

The first half trading result for CCD was markedly weaker than its internal plan and last year. The pressure on home credit customers' disposable incomes from high food, fuel and utility price inflation has persisted and further undermined the demand for credit. Customers' confidence in relation to their existing and prospective circumstances is measured quarterly and is currently running at the lowest level seen for many years. Weak demand has been particularly apparent amongst better quality existing customers who are the audience for high value, longer duration loans that tend to be used for more discretionary items of expenditure. More broadly, the pressure on household disposable incomes has dictated that tight credit standards have remained in place throughout the first half of the year, reducing the average loan size across the customer base as well as the flow of new customers into the business.

Customer numbers at the end of June were down 5.8% year-on-year reflecting both lower recruitment and the reduction in re-serving existing customers with new loans. Receivables at the end of June were 6.1% lower and average receivables showed a year-on-year reduction of 3.6% reflecting the combination of weaker demand, tight credit standards and lower customer recruitment.

The annualised revenue yield has remained robust, strengthening to 92.4% at the end of June from 89.0% at December 2012. This reflects the shift in mix of loans resulting primarily from the reduction in demand for longer duration loans which carry a lower yield than shorter term products.

Whilst credit standards have remained unchanged, the annualised ratio of impairment to revenue increased from 33.0% at December 2012 to 36.8% at the end of June. Approximately 1.5% of the uplift is due to the increase in the annualised revenue yield. The larger influence is the deterioration in the arrears profile which results directly from weaker demand, because those existing customers not wishing to take further credit have less incentive to bring their accounts up to date and typically remain in mild arrears. Management's forecast for the second half of the year is for demand and the rate of impairment to stabilise as the business enters its peak trading period.

Costs have remained tightly controlled through the first half of the year and showed a year-on-year reduction of 2.0%. The business is being managed on the basis that the trading environment is unlikely to improve significantly in the near term which makes managing the cost base a priority. Accordingly, a number of measures have been taken to secure gross cost savings of £10m in the second half of the year, rising to £18m in 2014. In particular, field management headcount has recently been reduced by 170, representing a downsizing of approximately 10%. The reduction reflects the recent decline in activity levels as well as the consolidation of agencies that has taken place over the last 18 months. It returns the spans of control to a level wholly appropriate for managing the agency network at today's activity levels. An exceptional restructuring cost of £4.5m has been charged in the first half in respect of associated redundancy costs.

Interest costs were 7.5% lower than the first half of last year reflecting the 3.6% reduction in average receivables and a small reduction in the rate paid on funding the business.

Expenditure on the business development programme has been fully protected since broadening the customer and product proposition remains central to the medium-term growth prospects of the business. CCD is trialling two new products to complement the existing home credit offering:

- A prepaid reloadable MasterCard, called the '24/7' card, is being trialled in approximately 20% of the business in order to address the continued rise in internet usage and online shopping. The card allows better quality customers, who have been pre-approved by their agents and passed central underwriting, to top-up their card via an online customer portal at any time during the day. Roll-out to other regions is expected in the first quarter of 2014.
- The launch of an online loan product called 'Provident Online'. An online loan product proposition is a natural extension to the home credit offering, targeting the market segment immediately adjacent to home credit which will include paid-up home credit customers. Short-term, small-sum loans are delivered remotely via the faster payments system and fixed repayments are collected weekly from the customer's bank account. Consistent with the home credit offering, there are no late payment fees or hidden charges. The online loan is currently being offered to an increasing proportion of visitors to the Provident Personal Credit website. To date, the product has been well received and has created a good flow of business, including home credit referrals for those applicants who have been declined an online loan.

Investment in IT remains central to many of the initiatives taking place across the business. It is also important in driving greater efficiency. The first half of the year has seen the development of a smart phone collections app for agents which is intended to replace the typical paper-based process currently used. The app allows agents to download details of their weekly rounds onto their smart phone, enter payments, perform all necessary calculations and automatically transmits all activity directly to CCD's central systems avoiding the need for manual data entry via branch systems. The app is currently being trialled by around 250 agents and has been well received. Roll-out is expected from later this year.

The programme to consolidate smaller, less profitable agencies into larger, better managed agencies has now been completed. As a result, agency numbers have reduced from 9,800 at the start of the year to 9,500 at the end of June but are not anticipated to reduce any further.

Vanquis Bank

Vanquis Bank generated profit before tax of £46.6m in the six months ended 30 June 2013 (2012: £28.2m) analysed as follows:

	Six months ended 30 June		
	2013 £m	2012 £m	Change %
Profit/(loss) before tax:			
- UK	50.2	29.4	70.7%
- Poland	(3.6)	(1.2)	(200.0%)
Total Vanquis Bank	46.6	28.2	65.2%

Vanquis Bank - UK

	Six months ended 30 June		
	2013 £m	2012 £m	Change %
Customer numbers ('000)	1,003	777	29.1%
Period-end receivables	723.6	525.1	37.8%
Average receivables	683.8	487.5	40.3%
Revenue	178.0	127.7	39.4%
Impairment	(64.6)	(45.6)	(41.7%)
Revenue less impairment	113.4	82.1	38.1%
Annualised risk-adjusted margin[1]	*34.4%*	*34.9%*	
Costs	(47.8)	(40.5)	(18.0%)
Interest	(15.4)	(12.2)	(26.2%)
Profit before tax	50.2	29.4	70.7%

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

Vanquis Bank performed very strongly in the first half of 2013, reporting UK profits ahead of management's internal plans and 70.7% higher than the first half of last year. Further strong growth in the receivables book together with delinquency remaining stable at record lows have enabled the UK business to deliver a post-tax return on equity well above its target rate of 30%. Surplus distributable capital generated in the 12 months to 30 June 2013 amounted to £39.2m, up from £26.1m in the 12 months to 31 December 2012.

The demand for non-standard credit cards has remained strong and the business received a flow of 815,000 applications during the first half of 2013 (2012: 750,000) as a result of continued investment in its customer acquisition programme. New customer bookings of 204,000 (2012: 167,000) reflected an acceptance rate of 25% (2012: 22%) against unchanged underwriting standards. The increased booking rate reflects a shift in mix of new business towards direct mail which carries a higher acceptance rate than the internet channel, together with more effective pre-screening of both direct mail and internet leads.

The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 40.3% increase in average receivables and a 39.4% increase in revenue. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of around 75% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

The combination of a stable UK employment market and the application of consistently tight underwriting have resulted in delinquency levels remaining stable at the record lows established in autumn 2012. Accordingly, the increase in impairment of 41.7% was in line with the 40.3% increase in average receivables.

Stable delinquency levels have resulted in the annualised risk-adjusted margin moderating since it is no longer benefitting from the progressive reduction in delinquency levels seen over the period from mid-2010 through to autumn 2012. Accordingly, the annualised risk-adjusted margin in the first half of the year was 34.4% compared with 34.9% in the first half of 2012.

As previously reported, Vanquis Bank has made some changes to how its Repayment Option Plan (ROP) product is presented to customers following the issue of the final guidance on payment protection products by the Financial Services Authority (FSA) and the Office of Fair Trading (OFT), which are likely to have a modest impact on the penetration of the product into the customer base. Following feedback from a series of customer focus groups, the business has also taken the opportunity to make further enhancements to the product's features.

Based on current delinquency trends and after taking into account the changes made to the ROP product, the risk-adjusted margin is expected to moderate to between 32% and 33% for 2013 as a whole and remain above the target level of 30% thereafter.

Tight underwriting standards will remain in place as a cautious positioning of the business against the risk of any deterioration in the UK employment market.

First half cost growth of 18.0% was well below the 39.4% increase in revenue as the business continues to benefit from operational gearing.

Interest costs increased by 26.2% during the first half of 2013 compared with the growth in average receivables of 40.3%. This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 6.5% in the first half of 2012 to 6.2% in the first half of 2013 due to the progressive benefit from taking retail deposits. Through the first half, Vanquis Bank's retail deposit base increased to 61% of UK receivables from 51% at the start of the year, with the remaining funding being provided by Provident Financial plc in the form of an intercompany loan. Assuming market rates remain stable, Vanquis Bank's overall funding rate is expected to reduce to just over 6% for the year as a whole as the proportion of funding provided by retail deposits increases.

Vanquis Bank - Poland

The objective of the pilot credit card operation in Poland is to develop a customer proposition and business model capable of growing a sizeable business delivering the group's target returns within an acceptable timescale. To do this, the pilot has to demonstrate that the key elements of the UK business model can be adapted to address the target audience in Poland, namely:

1. There is sufficient demand for the product and it can be distributed to the target audience of non-standard consumers at an acceptable cost;
2. The business can generate an adequate revenue yield through an appropriate combination of pricing and credit line utilisation; and
3. Credit losses can be managed effectively through the development of credit tools required to underwrite new customers and support the 'low and grow' approach to granting credit through a structured credit line increase programme.

To date, the pilot has demonstrated that demand for credit cards from non-standard Polish consumers is strong and that Vanquis Bank can access customers through the internet and broker channels at an acceptable cost. In addition, the revenue structure and credit line utilisation levels are consistent with generating a strong revenue yield.

New account bookings in the first half of the year were 12,000. As expected, Polish customers are showing a much greater propensity to use their card to withdraw cash than in the UK reflecting the fact that cash is currently the preferred means of exchange in Poland. However, credit card usage at point of sale is expected to increase as online shopping increases and merchant charges continue to decline.

The remaining focus of the pilot operation is on continuing to refine the credit tools relevant to the target customer segments. The first generation of internal scorecards have been implemented to address approximately one third of the target audience and are proving effective in underwriting these risks. Further development will take place through the second half of the year to address the wider target audience.

The progress of the pilot operation to date provides a foundation for developing a Polish credit card business capable of delivering the group's target returns. Accordingly, the business will continue to book around 30,000 new accounts through the second half of the year whilst a full business case based on a firm assessment of the size of the addressable audience is developed. The IT and infrastructure in the UK supporting the pilot operation continues to operate satisfactorily and is sufficient for supporting the business through the second half of the year. Replicating the necessary infrastructure in Poland to support the operation will form part of the full business case.

At the end of June, the Polish pilot operation had 21,000 customers (31 December 2012: 9,000) and a receivables book of £3.0m (31 December 2012: £1.8m). As previously indicated, the cost of the pilot in the first half of the year amounted to £3.6m (2012: £1.2m) and the operation is expected to incur a similar amount of expenditure in the second half of the year.

Central costs

Central costs in the first half of the year were £6.3m (2012 restated: £5.8m), up by £0.5m on the first half of last year due to the impact of higher share-based incentives.

Exceptional item

An exceptional item of £4.5m has been incurred in the first half of 2013 (2012: £nil) relating to redundancy costs associated with the restructuring of the field management force within CCD.

Taxation

The tax rate for the first half of 2013 of 23.25% (2012: 24.50%) is the estimated effective tax rate for the 2013 financial year and is in line with the UK statutory corporation tax rate which reduced from 24% to 23% on 1 April 2013. The group is expected to benefit in future years from the rate reductions announced by the Government in the last budget.

Dividends

The interim dividend per share has been increased by 7.6% to 31.0p (2012: 28.8p) consistent with the group's stated policy to grow dividends whilst maintaining a dividend cover of at least 1.25 times. The increase in the interim dividend is supported by the group's growth in earnings and strong capital generation.

Funding and capital

The group's funding and liquidity positions are strong with the balance sheet reflecting stable gearing of 3.1 times (2012: 3.1 times) against a banking covenant limit of 5.0 times. The group's credit rating from Fitch Ratings was reviewed in June 2013 and remains unchanged at BBB with a stable outlook.

During the first half of 2013, the group continued to strengthen its funding base through the successful launch of its fourth retail bond in March raising £65m at a coupon of 6.0% and a duration of eight and half years. As at the end of June, Vanquis Bank had taken £438.6m of retail deposits, up from £327.4m at 31 December 2012, which represents 61% (2012: 52%) of Vanquis Bank's UK receivables.

Headroom on the group's committed facilities as at 30 June 2013 amounted to £346m and, including the additional capacity available for Vanquis Bank to take retail deposits, total funding capacity amounted to £514m. The group's committed debt facilities, together with the retail deposits programme at Vanquis Bank, are now sufficient to fund contractual maturities and projected growth in the business until the seasonal peak in 2016.

The group's funding rate during the first half of 2013 was 6.8%, down from 7.4% in the first half of 2012 due to the increasing benefit from the Vanquis Bank retail deposits programme. The group's funding rate is expected to moderate further to around 6.5% for the year as a whole.

The group continues to be highly capital generative. In the 12 months to 30 June 2013, the group generated capital of £116.7m (12 months to 31 December 2012: £107.7m) compared with dividends payable of £108.3m (12 months to 31 December 2012: £104.9m).

Regulation

The findings from the research by the University of Bristol's Personal Finance Research Centre on the impact of introducing a variable cap on the total cost of high cost credit were published on 6 March 2013. It represented a comprehensive study of the UK's short-term credit sector and its findings were consistent with numerous previous studies. It indicated that rate caps could reduce the supply and access to credit, weaken competition, result in charges shifting outside the cap leading to reduced price transparency, and potentially promote the development of alternative legal or illegal forms of credit with greater customer detriment and less forbearance. The report also independently confirmed high customer satisfaction, good service levels and clear customer understanding of the straightforward products in the home credit market.

The transfer of responsibility for consumer credit regulation from the OFT to the Financial Conduct Authority (FCA) will take place in April 2014. There are still a number of important issues to be resolved, including the detail of how the current Consumer Credit Act regime will be transformed to a rules-based environment. Further consultation on detailed conduct rules will be held in autumn 2013.

Principal risks and uncertainties

The principal risks and uncertainties affecting the group remain unchanged from 31 December 2012 and comprise regulatory risk, credit risk, business risk, reputational risk, operational risk, liquidity risk, financial risk and pension risk. A full assessment of the risks and uncertainties, together with the controls and processes which are in place to monitor and mitigate the risks where possible, are set out on pages 72 to 75 of the 2012 Annual Report & Financial Statements which is available on the company's website, www.providentfinancial.com.

The most relevant risks and uncertainties for the remaining six months of the 2013 financial year are as follows:

- Notwithstanding that CCD and Vanquis Bank have unique characteristics which make them more resilient to changes in economic conditions than more mainstream lenders, marked increases in unemployment and under-employment may lead to higher than expected impairment charges.
- Further increases in food, fuel and utility prices may put additional pressure on the household incomes of home credit customers and lead to a reduction in the level of credit issued.

Related party transactions

There have been no changes in the nature of related party transactions as described in note 27 to the 2012 Annual Report & Financial Statements and there have been no new related party transactions which have had a material effect on the financial position or performance of the group in the six months ended 30 June 2013.

Outlook

The group's funding and liquidity position is strong, allowing it to meet contractual debt maturities and accommodate in full its growth plans into 2016.

CCD is experiencing weaker demand from its home credit customer base and action has been taken to reduce its cost base which will benefit the second half of 2013 and the full year in 2014. In contrast, Vanquis Bank is continuing to deliver strong growth and financial returns. The pilot credit card operation in Poland is developing well and a firm business plan will be established during the second half of the year.

The group overall has performed in line with its internal plan in the first half of 2013 and expects to do so for the year as a whole.

Unaudited condensed consolidated interim financial information

Consolidated income statement

	Note	Six months ended 30 June 2013 £m	Six months ended 30 June 2012 (restated) £m
Revenue	4	545.0	479.5
Finance costs		(36.4)	(35.1)
Operating costs		(311.1)	(255.5)
Administrative costs		(125.5)	(117.4)
Administrative costs before exceptional items		(121.0)	(117.4)
Exceptional items	4	(4.5)	-
Total costs		(473.0)	(408.0)
Profit before taxation	4	72.0	71.5
Profit before taxation and exceptional items	4	76.5	71.5
Exceptional items	4	(4.5)	-
Tax charge	5	(16.7)	(17.5)
Profit for the period attributable to equity shareholders		55.3	54.0

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	Six months ended 30 June 2013 £m	Six months ended 30 June 2012 (restated) £m
Profit for the period attributable to equity shareholders		55.3	54.0
Other comprehensive income:			
– cash flow hedges		1.9	(1.1)
– actuarial movements on retirement benefit asset	9	(4.7)	9.6
– tax on other comprehensive income		0.4	(2.2)
– impact of change in UK tax rate		0.1	0.1
Other comprehensive income for the period		(2.3)	6.4
Total comprehensive income for the period		53.0	60.4

Earnings per share

	Note	Six months ended 30 June 2013 pence	Six months ended 30 June 2012 (restated) pence
Basic	6	41.0	40.3
Diluted	6	40.3	40.2

Dividends per share

		Six months ended 30 June 2013 pence	Six months ended 30 June 2012 pence
Interim dividend	7	31.0	28.8
Paid in the period*	7	48.4	42.3

* The total cost of dividends paid in the period was £66.0m (2012: £57.2m).

Consolidated balance sheet

	Note	30 June 2013 £m	31 December 2012 £m	30 June 2012 £m
ASSETS				
Non-current assets				
Goodwill		-	-	2.1
Other intangible assets		8.4	9.5	10.3
Property, plant and equipment		23.6	23.9	24.3
Financial assets:				
– amounts receivable from customers	8	69.0	97.5	79.5
– derivative financial instruments		10.2	8.1	10.4
Retirement benefit asset	9	22.7	23.0	24.6
Deferred tax assets		6.9	6.1	5.5
		140.8	168.1	156.7
Current assets				
Financial assets:				
– amounts receivable from customers	8	1,397.2	1,416.3	1,235.1
– derivative financial instruments		-	-	0.3
– cash and cash equivalents		92.4	79.1	67.3
– trade and other receivables		28.8	23.0	28.3
		1,518.4	1,518.4	1,331.0
Total assets	4	1,659.2	1,686.5	1,487.7
LIABILITIES				
Current liabilities				
Financial liabilities:				
– bank and other borrowings		(152.9)	(169.8)	(118.0)
– derivative financial instruments		(0.3)	(2.0)	(0.3)
– trade and other payables		(64.9)	(60.6)	(62.1)
Current tax liabilities		(37.5)	(37.7)	(40.1)
		(255.6)	(270.1)	(220.5)
Non-current liabilities				
Financial liabilities:				
– bank and other borrowings		(1,028.8)	(1,031.6)	(924.5)
– derivative financial instruments		(7.3)	(9.4)	(10.5)
		(1,036.1)	(1,041.0)	(935.0)
Total liabilities		(1,291.7)	(1,311.1)	(1,155.5)
NET ASSETS	4	367.5	375.4	332.2
SHAREHOLDERS' EQUITY				
Share capital		28.9	28.7	28.6
Share premium		148.5	148.1	146.3
Other reserves		15.0	13.2	9.5
Retained earnings		175.1	185.4	147.8
TOTAL EQUITY		367.5	375.4	332.2

Consolidated statement of changes in shareholders' equity

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings (restated) £m	Total (restated) £m
At 1 January 2012		28.5	146.0	9.4	142.3	326.2
Profit for the period		-	-	-	54.0	54.0
Other comprehensive income:						
– cash flow hedges		-	-	(1.1)	-	(1.1)
– actuarial movements on retirement benefit asset	9	-	-	-	9.6	9.6
– tax on other comprehensive income		-	-	0.2	(2.4)	(2.2)
– impact of change in UK tax rate		-	-	-	0.1	0.1
Other comprehensive income for the period		-	-	(0.9)	7.3	6.4
Total comprehensive income for the period		-	-	(0.9)	61.3	60.4
Transactions with owners:						
– issue of share capital		0.1	0.3	-	-	0.4
– purchase of own shares		-	-	(0.1)	-	(0.1)
– transfer of own shares on vesting of share awards		-	-	3.7	(3.7)	-
– share-based payment charge		-	-	2.5	-	2.5
– transfer of share-based payment reserve		-	-	(5.1)	5.1	-
– dividends	7	-	-	-	(57.2)	(57.2)
At 30 June 2012		28.6	146.3	9.5	147.8	332.2
At 1 July 2012		28.6	146.3	9.5	147.8	332.2
Profit for the period		-	-	-	92.0	92.0
Other comprehensive income:						
– cash flow hedges		-	-	0.5	-	0.5
– actuarial movements on retirement benefit asset		-	-	-	(21.0)	(21.0)
– tax on other comprehensive income		-	-	(0.1)	5.1	5.0
– impact of change in UK tax rate		-	-	(0.1)	(0.1)	(0.2)
Other comprehensive income for the period		-	-	0.3	(16.0)	(15.7)
Total comprehensive income for the period		-	-	0.3	76.0	76.3
Transactions with owners:						
– issue of share capital		0.1	1.8	-	-	1.9
– share-based payment charge		-	-	3.9	-	3.9
– transfer of share-based payment reserve		-	-	(0.5)	0.5	-
– dividends		-	-	-	(38.9)	(38.9)
At 31 December 2012		28.7	148.1	13.2	185.4	375.4
At 1 January 2013		28.7	148.1	13.2	185.4	375.4
Profit for the period		-	-	-	55.3	55.3
Other comprehensive income:						
– cash flow hedges		-	-	1.9	-	1.9
– actuarial movements on retirement benefit asset	9	-	-	-	(4.7)	(4.7)
– tax on other comprehensive income		-	-	(0.5)	0.9	0.4
– impact of change in UK tax rate		-	-	-	0.1	0.1
Other comprehensive income for the period		-	-	1.4	(3.7)	(2.3)
Total comprehensive income for the period		-	-	1.4	51.6	53.0
Transactions with owners:						
– issue of share capital		0.2	0.4	-	-	0.6
– purchase of own shares		-	-	(0.1)	-	(0.1)
– share-based payment charge		-	-	4.6	-	4.6
– transfer of share-based payment reserve		-	-	(4.6)	4.6	-
– transfer of own shares on vesting of share awards		-	-	0.5	(0.5)	-
– dividends	7	-	-	-	(66.0)	(66.0)
At 30 June 2013		28.9	148.5	15.0	175.1	367.5

Consolidated statement of cash flows

	Note	Six months ended 30 June 2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	10	160.9	133.5
Finance costs paid		(34.3)	(41.6)
Tax paid		(17.2)	(17.6)
Net cash generated from operating activities		109.4	74.3
Cash flows from investing activities			
Purchase of intangible assets		(3.6)	(2.2)
Purchase of property, plant and equipment		(0.9)	(0.3)
Proceeds from disposal of property, plant and equipment		0.5	0.9
Net cash used in investing activities		(4.0)	(1.6)
Cash flows from financing activities			
Proceeds from bank and other borrowings		185.5	329.7
Repayment of bank and other borrowings		(212.9)	(329.8)
Dividends paid to company shareholders	7	(66.0)	(57.2)
Proceeds from issue of share capital		0.6	0.4
Purchase of own shares		(0.1)	(0.1)
Net cash used in financing activities		(92.9)	(57.0)
Net increase in cash, cash equivalents and overdrafts		12.5	15.7
Cash, cash equivalents and overdrafts at beginning of period		69.7	32.2
Cash, cash equivalents and overdrafts at end of period		82.2	47.9
Cash, cash equivalents and overdrafts at end of period comprise:			
Cash at bank and in hand		92.4	67.3
Overdrafts (held in bank and other borrowings)		(10.2)	(19.4)
Total cash, cash equivalents and overdrafts		82.2	47.9

Cash at bank and in hand includes £67.3m (2012: £45.5m) in respect of the liquid assets buffer held by Vanquis Bank in accordance with the Prudential Regulation Authority's liquidity regime. This buffer is not available to finance the group's day-to-day operations.

Notes to the unaudited condensed consolidated interim financial information

1. General information

The company is a limited liability company, incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU.

The company is listed on the London Stock Exchange.

The unaudited condensed consolidated interim financial information does not constitute the statutory financial statements of the group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2012 were approved by the board of directors on 26 February 2013 and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498 of the Companies Act 2006.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 has been reviewed, not audited, and was approved for issue by the board of directors on 23 July 2013.

2. Basis of preparation

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The unaudited condensed consolidated interim financial information should be read in conjunction with the statutory financial statements for the year ended 31 December 2012 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors have reviewed the group's budgets, plans and cash flow forecasts for 2013 and for 2014 together with outline projections for the three subsequent years. Based on this review, they are satisfied that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the unaudited condensed consolidated interim financial information.

3. Accounting policies

Except as described below, the accounting policies applied in preparing the unaudited condensed consolidated interim financial information are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2012.

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

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date (or date of early adoption). The following standards were effective for the first time during the six months ended 30 June 2013:

IFRS 13, 'Fair value measurement', has been adopted from its effective date of 1 January 2013. The standard has introduced new disclosure requirements as set out in note 11. However, there has been no impact on the measurement of fair value for the group.

3. Accounting policies (continued)

IAS 19, 'Employee Benefits' was amended in June 2011 and was applicable from 1 January 2013 with retrospective application required. The changes to the standard require the group to calculate its annual pension charge as the current service cost plus or minus the discount rate applied to the net pension asset. This replaces the previous calculation which was the current service cost plus the expected return on plan assets less the unwinding of the discount rate on liabilities. In effect, this requires the group to replace its long-term rate of return on assets assumption with its discount rate thereby reducing the assumed return on assets and increasing the pension charge. The retrospective application results in an increase in administrative costs and, therefore, a reduction in earnings with a corresponding adjustment to the actuarial movement on the retirement benefit asset taken through the consolidated statement of comprehensive income. There is, therefore, no balance sheet impact. The table below shows the impact of the restatement on the 2012 interim and full-year results:

	Six months ended 30 June 2012			Year ended 31 December 2012		
	Reported £m	Adjustment £m	Restated £m	Reported £m	Adjustment £m	Restated £m
CCD	50.4	(1.1)	49.3	125.1	(2.2)	122.9
Vanquis Bank	28.2	-	28.2	68.0	-	68.0
Central	(5.7)	(0.3)	(6.0)	(12.0)	(0.5)	(12.5)
Total group profit before tax and exceptional items	72.9	(1.4)	71.5	181.1	(2.7)	178.4
Actuarial movements on retirement benefit asset	8.2	1.4	9.6	(14.1)	2.7	(11.4)
Retirement benefit asset	24.6	-	24.6	23.0	-	23.0

4. Segment reporting

	Revenue Six months ended 30 June		Profit/(loss) before taxation Six months ended 30 June	
	2013 £m	2012 £m	2013 £m	2012 (restated) £m
CCD	365.6	351.8	36.1	49.3
Vanquis Bank	179.4	127.7	46.6	28.2
	545.0	479.5	82.7	77.5
Central				
– costs	-	-	(6.3)	(5.8)
– interest receivable/(payable)	-	-	0.1	(0.2)
Total central	-	-	(6.2)	(6.0)
Total group before exceptional items	545.0	479.5	76.5	71.5
Exceptional items	-	-	(4.5)	-
Total group	545.0	479.5	72.0	71.5

An exceptional item of £4.5m has been recognised in the first half of 2013 (2012: £nil) relating to redundancy costs of 170 employees following the restructuring of the field management force within CCD.

All of the above activities relate to continuing operations.

Revenue between business segments is not significant.

4. Segment reporting (continued)

	Segment assets			Net assets/(liabilities)		
	30 June 2013 £m	31 December 2012 £m	30 June 2012 £m	30 June 2013 £m	31 December 2012 £m	30 June 2012 £m
CCD	819.5	947.8	862.1	196.3	223.3	201.2
Vanquis Bank	815.6	716.1	591.6	182.0	152.0	120.6
Central	39.8	53.9	102.4	(10.8)	0.1	10.4
Total before intra-group elimination	1,674.9	1,717.8	1,556.1	367.5	375.4	332.2
Intra-group elimination	(15.7)	(31.3)	(68.4)	-	-	-
Total group	1,659.2	1,686.5	1,487.7	367.5	375.4	332.2

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing of the borrowings of CCD to reflect a borrowings to receivables ratio of 80%. The impact of this is an increase in the notional allocation of group borrowings to CCD of £15.7m (31 December 2012: £31.3m, 30 June 2012: £68.4m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

The group's operations operate principally in the UK and Republic of Ireland. Vanquis Bank established a branch in Poland as part of a pilot credit card operation during the first half of 2012. The revenue in respect of the branch in the six months ended 30 June 2013 amounted to £1.4m (2012: £nil) and the loss amounted to £3.6m (2012: £1.2m). The net liabilities of the branch amounted to £3.8m at 30 June 2013 (31 December 2012: £1.2m, 30 June 2012: £nil) comprising assets of £7.1m (31 December 2012: £2.8m, 30 June 2012: £nil) and liabilities of £10.9m (31 December 2012: £4.0m, 30 June 2012: £nil). These figures are included within the Vanquis Bank figures in the table above.

5. Tax charge

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the financial year of 23.25% (2012: 24.50%), to the profit before tax for the period. The reduction in tax rate reflects the change in UK corporation tax rate from 24% to 23% which was effective from 1 April 2013.

6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding own shares held (treasury shares), which are treated, for this purpose, as being cancelled. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

(i) For share awards outstanding under performance-related share incentive schemes such as the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS), the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met as at that date.

(ii) For share options outstanding under non-performance related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the 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.

6. Earnings per share (continued)

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

	Six months ended 30 June					
	2013			2012		
	Earnings	Weighted average number of shares	Per share amount	Earnings (restated)	Weighted average number of shares	Per share amount (restated)
	£m	m	pence	£m	m	pence
Earnings per share						
Shares in issue during the period		138.9			137.7	
Own shares held		(3.9)			(3.8)	
Basic earnings per share	55.3	135.0	41.0	54.0	133.9	40.3
Dilutive effect of share options and awards	-	2.2	(0.7)	-	0.4	(0.1)
Diluted earnings per share	55.3	137.2	40.3	54.0	134.3	40.2

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

	Six months ended 30 June					
	2013			2012		
	Earnings	Weighted average number of shares	Per share amount	Earnings (restated)	Weighted average number of shares	Per share amount (restated)
	£m	m	pence	£m	m	pence
Basic earnings per share	55.3	135.0	41.0	54.0	133.9	40.3
Exceptional items, net of tax	3.4	-	2.5	-	-	-
Adjusted basic earnings per share	58.7	135.0	43.5	54.0	133.9	40.3
Diluted earnings per share	55.3	137.2	40.3	54.0	134.3	40.2
Exceptional items, net of tax	3.4	-	2.5	-	-	-
Adjusted diluted earnings per share	58.7	137.2	42.8	54.0	134.3	40.2

7. Dividends

		Six months ended 30 June	
		2013	2012
		£m	£m
2011 final	- 42.3p per share	-	57.2
2012 final	- 48.4p per share	66.0	-
Dividends paid		66.0	57.2

The directors have declared an interim dividend in respect of the six months ended 30 June 2013 of 31.0p per share (2012: 28.8p) which will amount to a dividend payment of £42.3m (2012: £38.9m). This dividend is not reflected in the balance sheet as it will be paid after the balance sheet date.

8. Amounts receivable from customers

	30 June 2013 £m	31 December 2012 £m	30 June 2012 £m
CCD	739.6	870.5	789.5
Vanquis Bank	726.6	643.3	525.1
Total group	1,466.2	1,513.8	1,314.6
Analysed as:			
– due within one year	1,397.2	1,416.3	1,235.1
– due in more than one year	69.0	97.5	79.5
Total group	1,466.2	1,513.8	1,314.6

CCD receivables comprise £739.6m in respect of the home credit business (31 December 2012: £869.6m, 30 June 2012: £787.8m) and £nil in respect of the collect-out of the Real Personal Finance receivables book (31 December 2012: £0.9m, 30 June 2012: £1.7m).

Vanquis Bank receivables comprise £723.6m in respect of the UK business (31 December 2012: £641.5m, 30 June 2012: £525.1m) and £3.0m in respect of the Polish pilot operation (31 December 2012: £1.8m, 30 June 2012: £nil).

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

	Six months ended 30 June 2013 £m	2012 £m
CCD	167.0	135.4
Vanquis Bank	67.0	45.6
Total group	234.0	181.0

The Vanquis Bank impairment charge comprises £64.6m in respect of the UK business (2012: £45.6m) and £2.4m in respect of the Polish pilot operation (2012: £nil).

Impairment in Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The Vanquis Bank allowance account as at 30 June 2013 amounted to £116.8m (31 December 2012: £91.4m, 30 June 2012: £75.9m). Within CCD, impairments are deducted directly from amounts receivable from customers without the use of an allowance account.

9. Retirement benefit asset

The group operates a defined benefit pension scheme: the Provident Financial Staff Pension Scheme. The scheme has been substantially closed to new members since 1 January 2003. The scheme covers 54% of employees with company-provided pension arrangements and is of the funded, defined benefit type. Following a full group review of pension scheme arrangements, from 1 April 2006 members were provided with a choice of paying higher member contributions to continue accruing benefits based on final salary or paying a lower member contribution and accruing benefits based on a percentage of salary which would be revalued each year. For members that switched to paying lower member contributions, the benefits accrued before they switched would retain a link to their final salary at retirement.

During 2012, the group further reviewed its pension arrangements and from 31 December 2012 the link to final salary at retirement no longer applies. Furthermore, no future final salary benefits will accrue, with all members now accruing benefits based on a percentage of salary that is revalued each year. As a result of this change, the past accrued final salary benefits will increase in the future in line with statutory revaluations (now linked to CPI inflation), rather than in line with future salary increases.

9. Retirement benefit asset (continued)

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out as at 1 June 2012 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of this valuation which has been updated by the actuary 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 at the balance sheet date.

From 1 January 2013, the group has mandatorily adopted the amended IAS 19 which has resulted in a restatement of prior year comparatives (see note 3).

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

	30 June 2013	31 December 2012	30 June 2012
	£m	£m	£m
Fair value of scheme assets	594.1	570.7	540.4
Present value of funded defined benefit obligation	(571.4)	(547.7)	(515.8)
Net retirement benefit asset recognised in the balance sheet	22.7	23.0	24.6

The amounts recognised in the income statement were as follows:

	Six months ended 30 June 2013	2012 (restated)
	£m	£m
Current service cost	(3.6)	(3.8)
Interest cost	(12.2)	(12.5)
Expected return on scheme assets	12.8	12.8
Net charge recognised in the income statement	(3.0)	(3.5)

The net charge recognised in the income statement has been included within administrative costs.

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

	Six months ended 30 June 2013	2012 (restated)
	£m	£m
Fair value of scheme assets at 1 January	570.7	525.0
Expected return on scheme assets	12.8	12.8
Actuarial movements on scheme assets	11.9	3.1
Contributions by the group	7.4	5.0
Net benefits paid out	(8.7)	(5.5)
Fair value of scheme assets at 30 June	594.1	540.4

9. Retirement benefit asset (continued)

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

	Six months ended 30 June 2013 £m	2012 (restated) £m
Present value of the defined benefit obligation at 1 January	(547.7)	(511.5)
Current service cost	(3.6)	(3.8)
Interest cost	(12.2)	(12.5)
Actuarial movements on scheme liabilities	(16.6)	6.5
Net benefits paid out	8.7	5.5
Present value of the defined benefit obligation at 30 June	(571.4)	(515.8)

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

	30 June 2013 %	31 December 2012 %	30 June 2012 %
Price inflation	3.40	3.00	2.90
Rate of increase in pensionable salaries	-	-	3.90
Rate of increase to pensions in payment	3.10	2.80	2.90
Inflationary increases to pensions in deferment	2.65	2.25	1.90
Discount rate	4.60	4.50	4.90

The mortality assumptions used in the valuation of the group's defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy.

The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upward adjustment to mortality rates for males and a 15% upward adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- The projections are combined with the medium cohort improvement factors in order to predict future improvements in life expectancy, subject to an annual minimum rate of improvement of 1%.

In more simple terms, members who retire in the future at age 65 will live on average for a further 24 years if they are male (31 December 2012: 24 years, 30 June 2012: 23 years) and for a further 26 years if they are female (31 December 2012: 26 years, 30 June 2012: 25 years). If assumed life expectancies had been one year greater for the scheme, the net retirement benefit asset would have reduced by approximately £23m (31 December 2012: £20m, 30 June 2012: £20m).

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

	Six months ended 30 June 2013 £m	2012 (restated) £m
Actuarial movements on scheme assets	11.9	3.1
Actuarial movements on scheme liabilities	(16.6)	6.5
Actuarial movements recognised in the statement of comprehensive income in the period	(4.7)	9.6

10. Reconciliation of profit after taxation to cash generated from operations

	Six months ended 30 June 2013 £m	Six months ended 30 June 2012 (restated) £m
Profit after taxation	55.3	54.0
Adjusted for:		
– tax charge	16.7	17.5
– finance costs	36.4	35.1
– share-based payment charge	4.6	2.5
– retirement benefit charge (note 9)	3.0	3.5
– amortisation of intangible assets	2.0	2.9
– depreciation of property, plant and equipment	3.3	3.8
– loss on disposal of property, plant and equipment	0.1	-
Changes in operating assets and liabilities:		
– amounts receivable from customers	47.6	18.1
– trade and other receivables	(5.9)	(7.5)
– trade and other payables	5.3	8.5
– contributions into the retirement benefit scheme (note 9)	(7.4)	(5.0)
– derivative financial instruments	(0.1)	0.1
Cash generated from operations	160.9	133.5

11. Fair value disclosures

The group holds the following financial instruments at fair value:

	30 June 2013 £m	31 December 2012 £m	30 June 2012 £m
Recurring fair value measurements:			
Financial assets			
Cross-currency swaps	10.2	8.1	10.4
Foreign exchange contracts	-	-	0.3
Total	10.2	8.1	10.7
Financial liabilities			
Interest rate swaps	(7.3)	(9.4)	(10.5)
Cross-currency swaps	-	(1.9)	(0.3)
Foreign exchange contracts	(0.3)	(0.1)	-
Total	(7.6)	(11.4)	(10.8)

All financial instruments held at fair value include the use of level 2 inputs as they are not traded in an active market and are valued using discounted contractual cash flows, incorporating interest rates and yield curves observable at commonly quoted intervals and foreign exchange rates as at the balance sheet date. There have been no transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

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

	Carrying amount			Fair value		
	30 June 2013 £m	31 December 2012 £m	30 June 2012 £m	30 June 2013 £m	31 December 2012 £m	30 June 2012 £m
Financial assets						
Amounts receivable from customers	1,466.2	1,513.8	1,314.6	2,100.0	2,100.0	1,800.0
Financial liabilities						
Bank and other borrowings	(1,181.7)	(1,201.4)	(1,042.5)	(1,264.8)	(1,297.3)	(1,096.5)

12. Seasonality

The group's peak period of lending to customers is in the lead-up to the Easter holidays in the first half of each financial year and then more significantly in the lead-up to Christmas in the second half of the financial year. Typically, approximately 60% of home credit loans issued by CCD are made in the second half of the financial year and the group's peak borrowing requirement arises in December. In addition, the group's accounting policies relating to revenue and impairment are an important influence on the recognition of the group's profit between the first and second halves of the financial year. The interest income earned on loans and receivables is spread on an effective yield basis over the contractual term of the group's loans and receivables resulting in revenue being split broadly evenly between the first and second halves of the financial year, notwithstanding that the larger proportion of credit is issued in the second half of the financial year. The accounting policy relating to the impairment of customer receivables requires impairments to be recognised only when there is objective evidence of impairment of a customer balance, such as a missed payment. This results in the group's largest impairment charges arising early in each financial year when customers default on loans they received in the lead-up to Christmas. Typically, the first half impairment charge in CCD represents approximately 60% of the full year impairment charge.

The analysis set out above relates to CCD only. Vanquis Bank is still in a growth phase and at this stage of its development the influence of its growth has a much more significant impact on the profits reported by the business during the financial year than the underlying seasonality.

Statement of directors' responsibilities

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

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

The current directors of Provident Financial plc are listed in the 2012 Annual Report & Financial Statements. Robert Hough retired from the board on 31 January 2013. There have been no other changes in directors during the six months ended 30 June 2013. A list of current directors is also maintained on the Provident Financial website: www.providentfinancial.com.

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

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

By order of the board

Peter Crook – Chief Executive

Andrew Fisher – Finance Director

23 July 2013

Independent review report to Provident Financial plc

We have been engaged by the company to review the unaudited condensed consolidated interim financial information in the interim report for the six months ended 30 June 2013, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and the related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the unaudited condensed consolidated interim financial information.

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

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

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the unaudited condensed consolidated interim financial information in the interim report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
23 July 2013

Information for shareholders

1. The interim report will be posted to shareholders on 8 August 2013.

2. The shares will be marked ex-dividend on 30 October 2013.

3. The interim dividend will be paid on 29 November 2013 to shareholders on the register at the close of business on 1 November 2013. Dividend warrants/vouchers will be posted on 27 November 2013.