Provident Financial plc
Preliminary results for the year ended 31 December 2021

Provident Financial plc ('the Group' or 'PFG'), a leading specialist bank with a focus on underserved markets, today publishes its results for the twelve months to the end of December 2021, unless otherwise stated.

Malcolm Le May, Chief Executive Officer, commented:

"I am pleased to report that the Group's financial performance in FY'21 improved significantly year-on-year and, as a result, our adjusted PBT from continuing operations was marginally ahead of market expectations. We have exited high-cost short-term credit and we are now focused on providing mid-cost credit products to over 1.6m customers.

2021 was a strategically important year for PFG: we commenced the rebuilding of our cards franchise following the pandemic, we established a personal loans business supported by a brand new IT platform and we closed the Consumer Credit Division (CCD) in response to changing industry dynamics. We also improved the funding mix of the Group with the issuance of a Tier 2 subordinated bond. Most importantly, we achieved all of this whilst maintaining a focus on providing our customers with the credit products they need.

Reflecting the improved performance of the Group, I am pleased to report that the Board is proposing a dividend of 12p per share for FY'21, which represents a pay-out ratio of adjusted continuing earnings[3] of approximately 30%. Going forwards, we anticipate moving towards a pay-out ratio of adjusted earnings of circa 40% from FY'22 onwards.

During the first quarter of 2022, PFG has continued to see positive momentum across its three businesses quarter-on-quarter. In the credit card business, new account bookings are tracking ahead of expectations and delinquency trends remain favourable and consistent with the year-end position. In the vehicle finance business, demand from customers remains buoyant, particularly in the near-prime segment, and collections and arrears rates are stable. In the personal loans business, the pilot phases for Vanquis Bank Loans and Sunflower Loans continue to progress encouragingly. PFG remains well positioned to cope with the macroeconomic uncertainty that may arise from the current inflationary environment in the UK and we continue to support our customers through this time."

Key financial results

	Twelve months ended 31 December	
	2021	2020
Continuing Operations:	£m	£m
Adjusted profit before tax:		
– Credit cards	173.9	39.5
– Vehicle finance	28.9	10.9
– Personal loans	(8.7)	(1.5)
– Central costs	(26.3)	(21.1)
Adjusted continuing profit before tax[1]	**167.8**	**27.8**
Amortisation of acquisition intangibles	(7.5)	(7.5)
Adjusted discontinued operations: CCD	(95.5)	(74.9)
Adjusted profit/(loss) before tax	**64.8**	**(54.6)**
Exceptional items	(60.7)	(58.9)
Profit/(loss) before tax	**4.1**	**(113.5)**
Adjusted basic EPS from continuing operations[1]	57.5	11.7
Basic EPS from continuing operations	53.7	(14.6)
Adjusted RORE[2]	32.6%	6.3%

Highlights

2021 was an important year for PFG as it delivered several key strategic initiatives

- PFG continued to focus on its strategic goals during 2021, with the launch of its personal loans business and the closure of CCD, whilst supporting its customers and colleagues.
- Group profit before tax of £4.1m (FY'20 loss before tax: £113.5m) reflects an improvement in the profitability of the Group driven by a favourable macroeconomic backdrop to the end of 2021.
- Group adjusted profit before tax from continuing operations of £167.8m (FY'20: £27.8m) improved significantly year-on-year and excludes exceptional items relating to the closure of CCD and various other corporate activities including the 2023 Senior bond.
- At the end of December 2021, the Group's capital and liquidity positions remained robust with regulatory capital of £707m (FY'20: £675m), equating to a CET1 ratio of 29.1% (FY'20: 34.2%) and, following the issuance of a Tier 2 subordinated bond in October 2021, a total capital ratio of 40.6%. This equates to a surplus of £344m (FY'20: £264m) above the minimum regulatory requirement. Total Group liquidity at the end of December 2021 was approximately £700m (FY'20: £900m) reflecting more normalised levels.
- As previously indicated, and enabled by the Group's strong capital position, the Board is proposing an interim dividend for FY'21 of approximately 30% of adjusted continuing earnings[3], which equates to a dividend per share of 12p. Going forwards, the Board anticipates moving towards a pay-out ratio of circa 40% of adjusted earnings[3] from FY'22 onwards.

Credit card adjusted PBT improved significantly year-on-year; customer acquisition trends improved during Q1'22

- The Group's credit card business reported adjusted PBT for the year of £173.9m (FY'20: £39.5m) which was ahead of internal plans and significantly better than last year driven by lower impairment year-on-year.
- New customer bookings for the period were 199k (FY'20: 241k) reflecting the maintenance of tighter underwriting criteria in response to Covid-19. The total number of customers at the end of December stood at 1.54m (FY'20: 1.67m), which was driven by the closure of approximately 114k dormant customer accounts broadly offsetting lower charge offs during the period owing to the benefits of furlough and payment holidays.
- Customer credit card expenditure trends continued to track closely with industry trends. At the end of December, spend on a per average active customer basis was approximately 12% higher year-on-year. This notwithstanding, when combined with lower customer bookings year-on-year and payments per active customer remaining stable, receivables at the end of December stood at £1,063m (FY'20: £1,075m).
- The annualised impairment rate at the end of December was 0.3% (FY'20: 19.3%) reflecting the benefit of impairment provision releases during the period and the lower level of charge offs as a result of Covid-19 customer support and furlough. As a result, the risk-adjusted net interest margin improved to 36.0% (FY'20: 17.0%).
- On 24 March 2022, PFG announced that it had hired Fiona Anderson for the newly created role of Managing Director of Cards. Fiona has a wealth of significant experience across credit cards and personal banking. From 2019 to 2021, she served as Head of Everyday Banking at HSBC and prior to that she held senior positions at Mastercard and Barclaycard including Head of Growth Accounts for Mastercard Worldwide. Her most recent role was Managing Director, Global Consumer Solutions UK at Equifax, the consumer credit reporting agency.

Vehicle finance adjusted PBT improved year-on-year; average credit and customer quality remained high

- The Group's vehicle finance business delivered adjusted PBT for the period of £28.9m (FY'20: £10.9m) which represents significant growth year-on-year. The increase was driven by a reduction in impairment owing to Covid-19 support schemes and furlough.
- At the end of December, there were 94k vehicle finance customers (FY'20: 91k) and receivables of £586m (FY'20: £567m). Growth in customers and receivables year-on-year was moderated by higher than anticipated early customer settlements driven by a buoyant second hand car market.
- Credit issued during 2021 was £287m, flat year-on-year, despite new business volumes decreasing marginally to 37k (FY'20: 38k).
- The annualised impairment rate decreased to 7.6% (FY'20: 13.6%) driven by lower arrears rates and provision releases as a result of a more benign macroeconomic backdrop during the period. As a result, the risk-adjusted net interest margin improved to 11.1% (FY'20: 6.9%).

Personal loans business established; loan pilot phases started encouragingly

- PFG has established a personal loans business under the leadership of Hamish Paton (Managing Director). The business will incorporate loans under two brands, Vanquis Bank Loans and Sunflower Loans, both of which are currently in pilot phases that have started encouragingly.
- The two products will target distinct customer segments, based on average credit score bands, and initially the loans will range from £1-5k over a period of 12 to 48 months.
- PFG invested in a new IT infrastructure platform, known as 'Gateway', in order to support the new personal loan product, and which is capable of housing multiple products over time. Importantly, it will provide customers with a single, holistic view of PFG product offerings. The personal loans business is an important part of PFG's strategy to diversify its product offering and to cater to customer demand.

Enquiries:

Analysts and shareholders:

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

Media:

Richard King, Provident Financial 07919 866876

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

[1] *Adjusted profit before tax from continuing operations is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (FY'20: £7.5m); (ii) exceptional costs which includes Scheme of Arrangement costs, redundancy costs and certain other corporate activities; and (iii) costs relating to the closure of CCD of £95.5m (FY'20 £74.9m).*

[2] *Return on average required regulatory capital (RORE) reflects annualised adjusted profit after tax divided by the average regulatory capital requirement.*

[3] *Adjusted earnings of £98m in FY'21 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 PFG. 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 PFG'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. PFG 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

2021 was an important year for PFG as we successfully focussed the Group on becoming a leading specialist bank focused on underserved markets. From the outset, the Board and the executive management team remained focused on key strategic initiatives, whilst not losing sight of the critical role we play in our customers' lives. Our credit card and vehicle finance businesses commenced their rebound from the early impact of Covid-19, delivering excellent profitability growth and receivables growth from H1'21.

During 2021, we established a personal loan business, building on the work already done within Vanquis Bank, and invested in a new IT platform known as 'Gateway'. We also launched our second successful partial tender of our 2023 Senior bonds whilst issuing an oversubscribed Tier 2 subordinated debt instrument with gross proceeds of £200m. This issuance increased the Total Capital Ratio (TCR) to over 40%.

Group financials

Turning to the financial results for 2021, the Group reported an adjusted profit before tax from continuing operations of £167.8m (FY'20: £27.8m), which reflects lower impairment year-on-year driven by provision releases. Including amortisation of intangibles, CCD discontinued operations and exceptional items, the Group PBT was £4.1m (FY'20 loss before tax: £113.5m).

At the start of the Covid-19 pandemic, the Group took the prudent decision to tighten underwriting standards. These standards were not relaxed during 2021 and, as a result, new customer bookings across cards, loans and vehicle finance of 249k were lower year-on-year (FY'20: 286k). At the end of December the Group had 1,635k customers (FY'20: 1,759k, excluding CCD). As lockdown restrictions eased and demand for credit from customers returned, the Group saw positive momentum in its receivables book during the second half of the year until restrictions were reintroduced in November 2021. As a result, total receivables stood at £1,678m (FY'20: £1,661m, excluding CCD) at the end of December.

As we positioned PFG for the attractive market opportunity, we have made changes in the Group including restructuring the Board of Vanquis Bank and investing in a number of areas including a new IT platform to initially support the mid-cost personal loans business, the Group's Treasury capability and other growth initiatives including a new cards mobile app and the launch of the Open Market loans pilots.

The Group's capital and liquidity positions have remained robust throughout the period. At the end of December, the Group held total regulatory capital of £707m, equating to a Total Capital Ratio of 40.6% and a surplus above the minimum regulatory requirement of £344m. During the year, we issued a Tier 2 subordinated bond with gross proceeds of £200m, launched a successful partial tender for our 2023 Senior bonds, refinanced and extended Moneybarn's securitisation funding and Vanquis Bank accessed the Bank of England Term Funding Scheme for SMEs (TFSME) for the first time.

Closure of CCD

During 2021, the Board took the regrettable and difficult decision to close the Consumer Credit Division (CCD) in response to changing industry dynamics. It was closed on schedule by the end of the year and was delivered within the closure cost guidance of up to £100m. The closure of CCD involved launching a Scheme of Arrangement in order to provide £50m of compensation for its customers. The Board and I felt that this was necessary in order to provide customers with the best possible outcome. The result of the closure is that PFG has reduced its operational risk profile and no longer operates in any 'high-cost' credit market segment. The Board and I would like to extend our sincere thanks to all colleagues from CCD for their excellent work during very difficult circumstances.

Governance changes

Shortly after the period end, PFG announced the next phase of its strategy to reinforce its position as a leading specialist bank with a focus on underserved markets. PFG has restructured the Board of Vanquis Bank to substantially align its membership with the Board of PFG. This is an important step in the execution of the Group's specialist bank strategy, which includes the wider use of retail deposit funding across the Group from H2'22, subject to PRA approval. PFG believes that streamlining the Boards of the two legal entities in this way will create a simpler, more efficient Group governance structure, whilst streamlining and enhancing both PFG and Vanquis Bank's handling of corporate governance.

Environmental, Social and Corporate Governance (ESG)

As the Group works towards its vision of becoming a leading specialist bank focused on underserved markets, its Purpose of helping to put people on a path to a better everyday life continues to underpin our commitment to integrating and reporting on issues of Environmental, Social and Governance (ESG). For further details of our approach to ESG topics, please see our 2021 Corporate Responsibility report.

Throughout 2021, PFG continued to implement measures aimed at reducing the impact that the Group's operations have on the environment, particularly in relation to climate change. PFG remains committed to meeting the recommendations of the Taskforce on Climate-related Financial Disclosures and, to support this objective, the Group became a signatory to the UN Global Compact's Business Ambition for 1.5°C pledge. This agreement sets carbon reduction targets which align with current climate science and are approved by the Science Based Target Initiative.

PFG has continued to work with charities and other organisations to address such issues as inequality and disadvantage in the community. In 2021, we invested approximately £1.4m in activities and initiatives which sought to support children and young people whose education has been negatively impacted by Covid-19. By supporting organisations like National Numeracy, the National Literacy Trust and School-Home Support, PFG has been able to boost education, skills and opportunities in the community.

Further underpinning our commitment, I joined the National Numeracy Leadership Council in September 2021. The Council, which includes representatives from Amazon, Bloomberg and Experian, will grow the network of organisations and individuals actively addressing the issue of poor numeracy in the UK. It will also support people to improve their numeracy by creating positive attitudes to numbers and maths, and in turn, their financial wellbeing.

Outlook

PFG remains well placed in growing addressable markets of over £17bn, and is underpinned by a strong, well capitalised balance sheet with a customer-centric model and a new IT platform. Reflecting the Board's confidence in the Group's ability to deliver attractive and sustainable growth and returns for shareholders, the Board, subject to market conditions, expects to move to a dividend pay-out ratio of circa 40% of adjusted earnings from FY'22 onwards.

The current macroeconomic environment in the UK, and the inflationary pressures our customers will be experiencing, have been factored in to our underwriting processes, affordability checks and capital adequacy planning. During the first two months of 2022, overall trends in our credit card and vehicle finance businesses have continued to see encouraging momentum. The personal loans pilot phases continue to track broadly in-line with internal plans.

For the remainder of FY'22, we anticipate credit card spend in areas such as travel to increase, and non-discretionary elements, such as food and other essentials, to continue and for receivables growth to benefit as a result. We also expect impairment trends to benefit from the ongoing release of provisions and overlays, of which c.£60m remain, and PFG's continued evolution towards higher quality customers and lower risk credit, resulting in lower coverage ratios. Indeed, PFG will target a mid-teens coverage ratio over the medium-term. The Group's cost to income ratio is expected to reduce marginally in FY'22 versus FY'21, including the remaining transformation investment in the Group's businesses, and we expect it to reduce to c.40% from the end of 2024 onwards as the Group benefits from operational efficiencies as a result of its transformation programme. Assuming the Group's large limit waiver application to the Prudential Risk Authority (PRA) is successful, we expect to benefit from reducing funding costs, notwithstanding the rising interest rate environment.

Malcolm Le May
Chief Executive Officer
30 March 2022

Financial review

Group performance

The Group's 2021 results can be summarised as follows:

	Twelve months ended 31 December	
	2021	2020
Continuing Operations:	£m	£m
Adjusted profit before tax:		
– Credit cards	173.9	39.5
– Vehicle finance	28.9	10.9
– Personal loans	(8.7)	(1.5)
– Central costs	(26.3)	(21.1)
Adjusted continuing profit before tax[1]	**167.8**	**27.8**
Amortisation of acquisition intangibles	(7.5)	(7.5)
Adjusted discontinued operations: CCD	(95.5)	(74.9)
Adjusted profit/(loss) before tax	**64.8**	**(54.6)**
Exceptional items	(60.7)	(58.9)
Profit/(loss) before tax	**4.1**	**(113.5)**
Adjusted basic EPS from continuing operations[1]	57.5	11.7
Basic EPS from continuing operations	53.7	(14.6)
Adjusted RORE[2]	32.6%	6.3%

[1] *Adjusted profit before tax from continuing operations is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (FY'20: £7.5m); (ii) exceptional costs which includes Scheme of Arrangement costs, redundancy costs and certain other corporate activities; and (iii) costs relating to the closure of CCD of £95.5m (FY'20 £74.9m).*

[2] *Return on average required regulatory capital (RORE) reflects annualised adjusted profit after tax divided by the average regulatory capital requirement.*

The Group reported an adjusted profit before tax from continuing operations of £167.8m (FY'20: £27.8m), which reflects lower impairment year-on-year driven by provision releases. Including amortisation of intangibles, CCD discontinued operations and exceptional items, the Group PBT was £4.1m (FY'20 loss before tax: £113.5m).

The credit card business reported adjusted profit before tax for the period of £173.9m (FY'20: £39.5m) and receivables ended the period at £1,063m (FY'20: £1,075m).

The vehicle finance business generated a profit before tax of £28.9m (FY'20: £10.9m) and receivables ended the period at £586m (FY'20: £567m).

CCD reported a loss before tax of £95.5m (FY'20: £74.9m). The loss for the period reflects the closure of the business as at December 2021.

On an adjusted continuing basis, the Group reported an adjusted basic EPS of 57.5p (FY'20: 11.7p) and a basic EPS of 53.7p for FY'21 (FY'20 loss per share of 14.6p). On a statutory basis, the Group reported a basic loss per share of 12.8p (FY'20: 32.9p) for 2021 reflecting the statutory loss after tax of £32.1m (FY'20 loss after tax: £83.4m).

Macroeconomic provision

Macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their agreements and the losses which are expected to be incurred given default. Following refinements to the models in 2021, these provisions are now included as part of the core model provision.

The macroeconomic provision for continuing operations now considers the relationship between 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. Previously only the relationship between unemployment and default rates was considered.

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

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

Unemployment rate	**Base**	**Downside**	**Upside**	**Severe**
Weighting	50%	10%	35%	5%
2022				
Peak	4.8%	6.2%	4.7%	8.0%
Average	4.6%	5.4%	4.2%	6.3%
2023				
Peak	4.3%	6.5%	4.1%	8.6%
Average	4.3%	6.4%	3.9%	8.5%

Increasing the upside weighting by 5%, from 35% to 40%, and a corresponding reduction in the base case would decrease the allowance account by £2.5m for credit cards and personal loans.

Increasing the downside weighting by 5%, from 10% to 15%, and a corresponding reduction in the base case would increase the allowance account by £0.4m for credit cards and personal loans.

Changing the weightings for vehicle finance would not have a material impact on the allowance account.

The impact on the 2021 allowance account if each of the macroeconomic scenarios were applied at 100% weighting, rather than the weightings set out above, is shown below:

	Base	**Upside**	**Downside**	**Severe**
100% weighting for credit cards:	(5.2)	(13.6)	8.1	23.5

Credit Cards

	Twelve months ended 31 December		
	2021 £m	2020 £m	*Change*
Customer numbers ('000)	1,541	1,667	*(7.6%)*
Period-end receivables	1,063	1,075	*(1.1%)*
Average receivables[1]	1,003	1,207	*(16.9%)*
Revenue	**389.5**	**472.4**	***(17.5%)***
Interest	(24.9)	(33.7)	*26.1%*
Net interest margin	**364.6**	**438.7**	***(16.9%)***
Impairment	(3.7)	(233.3)	*98.4%*
Risk-adjusted net interest margin	**360.9**	**205.4**	***75.7%***
Costs	(187.0)	(165.9)	*(12.7%)*
Adjusted profit before tax[2]	**173.9**	**39.5**	***340.3%***
Annualised revenue yield[3]	38.8%	39.1%	*(0.3%)*
Annualised impairment rate[4]	(0.3%)	(19.3%)	*19.0%*
Annualised return on equity[5]	36.2%	8.9%	*27.3%*

1 *Calculated as the average of month end receivables for the 12 months ended 31 December.*
2 *Vanquis Bank profits reflect an adjustment for £1.0m of redundancy costs in 2021 and the release of a ROP provision (£8.3m) in 2020.*
3 *Revenue as a percentage of average receivables for the 12 months ended 31 December.*
4 *Impairment as a percentage of average receivables for the 12 months ended 31 December.*
5 *Adjusted profit after tax as a percentage of average equity for the 12 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 2021, the business reported adjusted profit before tax of £173.9m (FY'20: £39.5m) and receivables at the end of the period of approximately £1,063m were broadly in-line versus the prior year (FY'20: £1,075m).

New customer bookings for the year were 199k, down from 241k in 2020, as a result of tighter underwriting standards introduced during Q2'20 being maintained during 2021, offset partly through selective testing. The credit card business launched a brand advertising campaign during 2021 – 'Walk Tall with Vanquis'– which is designed to drive customer brand awareness. Approximately 114k inactive customers had their accounts closed during Q1'21, following communications with them in November 2020 that their accounts would be closed if there was no activity within 60 days. As a result, credit card customer numbers reduced to 1,541k as at December 2021 (FY'20: 1,667k).

During 2021, Credit Line Increases amounting to approximately £170m were issued to customers, which was approximately £30m higher than the previous year, reflecting the cautious approach to rebuilding the receivables book. At the end of December, the average utilisation rate was approximately 52%, which remains below levels seen pre-Covid. This reduction has been driven by customer deleveraging throughout the pandemic.

Receivables ended the period at £1,063m (FY'20: £1,075m), broadly flat year-on-year. However, receivables increased versus the level seen at the end of June 2021 (H1'21: £977m) as customer spend increased in-line with the wider market. During 2021, customer spend was tracking ahead of levels seen in 2020 and, for certain periods, ahead of levels seen in 2019. Towards the end of the year, customer spend was curtailed by the spread of the Omicron Covid variant which impacted customers' ability to visit retail and leisure facilities, and travel restrictions meant that holiday spend continued to be suppressed when compared to 2019.

The credit card business generated revenue of £389.5m during the year, versus £472.4m in 2020, as a result of lower average receivables. There was a slight moderation in the revenue yield to 38.8% (FY'20: 39.1%), which reflects the ongoing annual reduction in Repayment Option Plan (ROP) income, a focus on higher quality customers and reductions to late and over limit fees charged to customers.

Funding costs decreased to £24.9m during the year, versus £33.7m in 2020, reflecting lower average funding requirements during the year and lower funding rates relating to funds accessed through the Bank of England's TFSME.

The impairment charge for 2021 was £3.7m (FY'20: £233.3m), a significant reduction year-on-year, which equated to an annualised impairment rate of 0.3% (FY'20: 19.3%). The decrease in impairment reflects benefit of impairment provision releases, as a result of more benign macroeconomic conditions during H2'21, and lower levels of charge off activity driven by Covid-19 and furlough schemes. The lower impairment charge was sufficient to more than offset the marginally lower revenue yield to produce a risk-adjusted net interest margin improvement to 36.0% (FY'20: 17.0%).

Costs increased to £187.0m during the year versus £165.9m in 2020 and £174.0m in 2019 reflecting investments made to enhance the governance and controls of the business, the improvements to the Vanquis customer app, the advertising brand campaign and discretionary bonus accruals, which did not occur in 2020.

The profitability of the credit card business recovered significantly during 2021 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 price points for customers.

Vehicle Finance

	Twelve months ended 31 December		
	2021 £m	2020 £m	*Change*
Customer numbers ('000)	93.9	91.4	*2.7%*
Period-end receivables	586.2	566.6	*3.5%*
Average receivables[1]	593.8	533.1	*11.4%*
Revenue	**137.9**	**134.0**	***2.9%***
Interest	(27.1)	(24.6)	*(10.2%)*
Net interest margin	**110.8**	**109.4**	***1.3%***
Impairment	(44.6)	(72.7)	*38.7%*
Risk-adjusted net interest margin	**66.2**	**36.7**	***80.4%***
Costs	(37.3)	(25.8)	*(44.6%)*
Adjusted profit before tax[2]	**28.9**	**10.9**	*165.1%*
Annualised revenue yield[3]	23.2%	25.1%	*(1.9%)*
Annualised impairment rate[4]	(7.6%)	(13.6%)	*6.0%*
Annualised return on assets[5]	7.6%	5.4%	*2.2%*

1 *Calculated as the average of month end receivables for the 12 months ended 31 December.*
2 *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (FY'20: £7.5m) for 2021.*
3 *Revenue as a percentage of average receivables for the 12 months ended 31 December.*
4 *Impairment as a percentage of average receivables for the 12 months ended 31 December.*
5 *Adjusted profit before interest after tax as a percentage of average receivables for the 12 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 2021, Moneybarn generated adjusted profit before tax of £28.9m (FY'20: £10.9m) and receivables at the period end were £586m (FY'20: £567m).

New business volumes during 2021 were broadly flat versus 2020 at 37k (FY'20: 38k) despite tighter underwriting standards which were implemented during Q2'20 and which have since remained in place. Consequently, the vehicle finance business ended the year with 93.9k customers versus 91.4k in 2020. As a result of its focus on higher quality customers on average, and the strong pricing environment seen in the used-car market throughout 2021, the average loan size increased to approximately £9k whilst maintaining average Loan To Values consistent with 2020, which drove total credit issued to over £287m after unwinds (FY'20: £287m). For the year as a whole, approximately 33% (FY'20: 38%) of Moneybarn's new lending was to people classified as key workers.

At the end of December, receivables stood at £586.2m (FY'20: £566.6m), driven by new business volumes and the average loan size increasing. During the second half of the year, the business started to experience higher levels of early settlement from customers which impacted the year end receivables outcome.

Revenue during 2021 increased to £137.9m (FY'20: £134.0m) as the business focused on higher quality customers, including the launch of a 14.9% APR product. The annualised revenue yield has decreased to 23.2% from 25.1% in 2020. This partly reflects the Group's focus on higher quality customers and partly because of furlough support schemes and provision releases.

Interest costs increased during the year to £27.1m from £24.6m in 2020 reflecting a higher receivables balance throughout the period. As a result, the net interest margin at the end of December stood at 18.7% versus 20.5% a year earlier.

Impairment decreased significantly during the year to £44.6m (FY'20: £72.7m) as a result of impairment provision releases, driven by a more benign macroeconomic backdrop, and furlough support schemes. As a consequence, the annualised impairment rate decreased to 7.6% from 13.6% in 2020. This resulted in the risk-adjusted net interest margin improving to 11.1% (FY'20: 6.9%).

Costs increased during the course of the year to £37.3m (FY'20: £25.8m), reflecting the continued cost of supporting colleagues to work remotely, together with significant spend on change and transformation to enable the business to continue on its growth trajectory.

For 2022, the vehicle finance business will continue to evaluate the expansion of its offerings to customers with products and services that will strengthen its relationships and provide for evolving customer preferences.

Personal Loans

	Twelve months ended 31 December		
	2021 £m	2020 £m	*Change*
Customer numbers ('000)	19.9	18.5	*7.6%*
Period-end receivables	28.1	19.1	*47.1%*
Average receivables[1]	18.9	26.6	*(28.9%)*
Revenue	**7.2**	**9.0**	***(20.0%)***
Interest	(0.8)	(0.7)	*(14.3%)*
Net interest margin	**6.4**	**8.3**	***(22.9%)***
Impairment	(2.1)	(6.6)	*68.2%*
Risk-adjusted net interest margin	**4.3**	**1.7**	***152.9%***
Costs	(13.0)	(3.2)	*(306.3%)*
Adjusted loss before tax	**(8.7)**	**(1.5)**	*(480.0%)*
Annualised revenue yield[2]	38.1%	33.8%	*4.3%*
Annualised impairment rate[3]	(11.1%)	(24.8%)	*13.7%*

[1] *Calculated as the average of month end receivables for the 12 months ended 31 December.*
[2] *Revenue as a percentage of average receivables for the 12 months ended 31 December.*
[3] *Impairment as a percentage of average receivables for the 12 months ended 31 December.*

PFG has established a personal loans business, which includes Vanquis Loans and Sunflower Loans, to diversify its product offering to new and existing customers. Its products, which will be branded as either Vanquis Loans or Sunflower Loans, are positioned within the mid-cost credit segment of the market, and will initially offer loans of between £1k - £5k over one to four years. The typical personal loan customer will be similar in nature, and average credit score, to existing credit card and vehicle finance customers. The addressable market for the loan business is estimated to be approximately

£3.1bn as at December 2021 (Source: TransUnion) representing a significant opportunity for customer and receivables growth.

New business volumes during 2021 were 12.8k, versus 7.8k in 2020, as the business no longer offers restricted loans to existing credit card customers only. The business started offering loans via an open market pilot scheme from October onwards which has started encouragingly. The pilot scheme will be assessed at the end of Q1'22. As a result of these new customer bookings, the personal loans businesses ended the year with 19.9k customers versus 18.5k at the end of 2020. At the end of December, receivables stood at £28.1m versus £19.1m at the end of 2020, driven by new business volumes increasing year-on-year.

The personal loans business generated revenue of £7.2m during 2021 (FY'20: £9.0m) as a result of lower average receivables year-on-year driven by a tightening of underwriting as a response to Covid-19. The revenue yield for the year was 38.1% versus 33.8% in 2020 as the business broadened the product offering with a wider range of pricing during H2'21, supported by a new scorecard for existing customer decisioning.

The impairment charge for 2021 decreased to £2.1m, from £6.6m in 2020, as the business established its underwriting approach to new customers and released some Covid-19 impairment provisions. This equated to an annualised impairment rate for the year of 11.1% (FY'20: 24.8%). This resulted in the risk-adjusted net interest margin improving to 22.8% versus 6.4% for the prior year.

Interest costs for the year were broadly flat at £0.8m, versus £0.7m in 2020, equating to an interest margin of 4.2% versus 2.6% in 2020. Costs increased during the course of the year to £13.0m (FY'20: £3.2m) reflecting higher new business volumes and the investment in the new IT infrastructure platform known as Gateway.

For 2022, the personal loans business will continue to assess the potential to expand Open Market distribution, maintain its focus on growing lending to existing credit card customers and pursue opportunities to broaden the product offering.

Discontinued Operations

Consumer Credit Division

	Year ended 31 December		
	2021 £m	2020 £m	*Change*
Customer numbers ('000)	-	311	-
Period-end receivables	-	139.0	-
Average receivables[1]	-	166.0	-
Revenue	**68.0**	**192.4**	***(64.7%)***
Interest	(12.1)	(10.3)	*(17.5%)*
Net interest margin	**55.9**	**182.1**	***(69.3%)***
Impairment	(59.6)	(47.5)	*(25.5%)*
Risk-adjusted net interest margin	**(3.7)**	**134.6**	***(102.7%)***
Costs	(91.8)	(209.5)	*56.2%*
Adjusted loss before tax[2]	**(95.5)**	**(74.9)**	*(27.5%)*

[1] *Calculated as the average of month end receivables for the 12 months ended 31 December.*

[2] *Adjusted loss before tax is stated before exceptional items of £42.6m (FY'20: £1.6m)*

The Consumer Credit Division ('CCD') comprises 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 2021, CCD reported an adjusted loss before tax of £95.5m, versus a loss before tax of £74.9m in 2020. The increased loss for the period reflects the business being placed into a managed run-off in 2021 and an accelerated collections effort being introduced which saw receivables decrease throughout the period.

Central costs

Central costs increased to £26.3m during the period versus £21.1m in 2020. The increase was principally driven by investments made to support central Group functions, including the appointment of a new Chief Information Officer to drive the Group's digital ambitions, and other transformation initiatives designed to make the Group more efficient in the future.

Exceptional items

An exceptional cost of £18.1m was recognised for continuing operations in 2021. This includes: (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). This compares to an exceptional cost in 2020 of £57.3m as a result of: (i) the complaints provision and associated costs in relation to the CCD Scheme (£65m); (ii) a release of provisions following completion of the ROP refund programme at Vanquis Bank (£8.3m); and (iii) a gain in respect of the redemption of the £75m senior bonds (£1.3m); offset by (iv) costs of reshaping the Group and creating the intermediate holding company PF Holdings Ltd (£1.2m); and (v) pension charges in respect of GMP equalisation (£0.7m).

Tax

The tax charge for 2021 represents an effective tax rate of 5.3% (FY'20: nil) on statutory profit before tax which results in a tax charge of £7.6m being recognised in the year for continuing operations (FY'20: £nil) 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 £23.7m (FY'20: tax credit of £1.8m);
ii) the mainstream corporation tax rate of 19.0% on Group exceptional items generating a tax credit of £15.3m (FY'20: tax charge of £2.5m); and
iii) the mainstream corporation tax rate of 19.0% on the amortisation of acquisition intangibles generating a tax credit of £0.8m (FY'20: £0.7m).

The low effective tax rate is principally the result of:

i) the revaluation of deferred tax assets and liabilities for the change in the mainstream corporation tax rate from 19.0% to 25.0% from 1 April 2023 which results in a tax credit of £5.0m and, in the case of 2020, the change in the mainstream corporation tax rate to 19.0% from 1 April 2020 following the cancellation of the previous reduction in rate to 17.0% which results in a tax credit of £2.5m;
ii) the impact of transfer pricing adjustments between the profits of continuing and discontinued operations which results in a tax credit of £0.6m (FY'20: tax charge of £4.4m);
iii) the beneficial impact of tax losses of the discontinued operation being surrendered as Group relief to the continuing operation at a discounted price which gives rise to a tax credit of £6.5m (FY'20: £nil);
iv) the beneficial impact of prior year adjustments which gives rise to a tax credit of £7.8m (FY'20: tax credit of £7.7m) and relates principally to transfer pricing adjustments between continuing and discontinued operations in the prior year and the impact of the discontinued operations surrendering prior year losses to the continuing operations at a discounted price (in FY'20, the tax credit of £7.7m in respect of the prior year represents the benefit of claiming deductions for the costs incurred in 2019 in connection with the defence of the unsolicited offer from NSF for which no tax deduction was assumed in the previous year, along with a release of part of the provision for uncertain tax liabilities);
v) the impact of the release of the exceptional complaints provision in CCD following the implementation of the Scheme of Arrangement (FY'20: increase in the exceptional complaints provision in CCD) which is taxable (FY'20: tax deductible) in discontinued operations but which on consolidation is recognised in continuing operations (£12.4m);
vi) the adverse impact of the bank corporation tax surcharge of £12.2m (FY'20: £2.1m); and
vii) in 2020, the benefit of using in-year and brought forward capital losses to offset the capital gain arising in Vanquis Bank on its conversion and disposal of the "B" preference shares in VISA Inc.

Dividends

As a result of the Group's improved profitability, and given the ongoing strength of the Group's balance sheet, the Board has proposed an interim dividend of 12p per share in respect of FY'21. The dividend will be payable to those shareholders on the register as at 22 April 2022, with an ex-dividend date of 21 April 2022, and will be paid on 20 May 2022.

Funding and capital

The Group has strong capital and liquidity positions comprising:

- Total regulatory capital of £707m, equating to a total capital ratio of 40.6% and a surplus above the minimum regulatory requirement of £344m.

- Headroom on committed facilities and surplus cash and liquid resources amounting to approximately £290m. This is in addition to approximately £400m of liquid resources held by Vanquis Bank above Group Liquidity Coverage Ratio requirements and ongoing access to the retail deposits market.

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. 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.

In October 2021, the Group's first Tier 2 subordinated bond since 2005 was issued with gross proceeds of £200m, with a 10.25-year maturity, that is callable at the Group's discretion between 5 and 5.25 years, and that pays a coupon of 8.875%. The issuance was written from the Group's £2bn EMTN Programme and was oversubscribed by around 2 times in the market. It represents an important milestone as the Group diversifies and optimises its sources of capital in support of future lending growth.

At 31 December 2021, the Group's CET1 ratio was 29.1% (FY'20: 34.2%) and the Total Capital Ratio was 40.6% (FY'20: 34.2%). CET1 decreased from £675m to £507m during 2021 but total capital increased from £675m to £707m as a result of the issuance of Tier 2 debt capital. The continuing operations of the Group were CET1 generative in 2021. The regulatory capital headroom above the minimum regulatory requirement of 20.8% was £344m at the period end. The increase in headroom from £264m at 31 December 2020 (versus the minimum regulatory requirement) predominantly reflects: (i) the underlying profit excluding discontinued operations; (ii) the issuance of £200m Tier 2 regulatory capital (including £121m of Tier 2 to pre-fund future balance sheet growth); and (iii) smaller risk weighted exposures in respect of customer receivables. These benefits were partly offset by the loss incurred on discontinued operations and the scheduled further unwind of the IFRS 9 transitional relief in regulatory capital.

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 2021 was £108m.

In 2021, the Group delivered on a number of its funding objectives: (i) Vanquis Bank gained access to the Bank of England's TFSME scheme and has drawn approximately £170m of funding using its AAA rated notes as collateral - this funding will diversify and reduce the cost of funding for Vanquis Bank over time, while remaining primarily retail funded; (ii) the auto loan securitisation warehouse facility was re-financed and restructured in July 2021 to improve the efficiency of the usage of collateral such that drawn funding increased to £275m (and also providing for a committed but currently undrawn amount of £50m which provides contingent liquidity); (iii) in line with the Group's existing strategy of reducing reliance on RCF, some of the new securitisation funds were used to reduce the Group's RCF commitments, initially to £90m alongside an extension of the facility to July 2023; (iv) in line with its contractual maturity, the Group repaid the 6.0% £65m Retail Bond on 27 September 2021; and (v) on 7 October 2021, successfully completed a liability management exercise involving: the partial tender and repurchase of £71.5m of the then outstanding £175m 8.25% senior bonds maturing June 2023, and the issue of £200m Tier 2 bonds.

At 31 December 2021, Vanquis Bank had retail deposit funding of £1.0bn, down from £1.7bn a year earlier, reflecting a more normalised funding level relative to lending and access to alternative funding through TFSME.

Headroom on committed facilities (£110m) and surplus cash and liquid resources (£210m) amounted to approximately £320m. Headroom on committed facilities consists of undrawn amounts on the warehouse facility (£50m) and the RCF (£60m). Of the £50m undrawn warehouse facility, £30m was committed to further RCF reductions at 31 December 2021 resulting in a net of £80m contingent funding, meaning contingent funding and surplus cash and liquid resources amounted to approximately £290m. The Group now has no contractual wholesale maturities until H2'23, representing a robust and diverse funding profile. Further, the Group is advanced in its application to the PRA (Prudential Regulation Authority) to allow the use of retail deposits held at Vanquis Bank to fund other parts of the Group.

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.

In early 2022, the Group took the decision to early repay the RCF on 30 March 2022. The Group does not require the funding and did not plan to renew the facility on maturity. The headroom on committed facilities of £110m at 31 December 2021 would have reduced to £50m after repayment of the facility.

The Group applies a Capital Management Policy that 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.

Related party transactions

In August 2020 Vanquis Bank provided the Company with a £70m intercompany loan facility to allow upstream funding. The loan has a two-year term and an interest rate of 6.25%. The loan has been fully utilised since it was provided, the balance outstanding at 31 December 2021 and 2020 was £70m.
The difference of £34.4m (FY'20: £11.4m) to the outstanding balance reflects year end management recharges and Group relief on trading losses which were settled shortly after the year end by the Vanquis Bank.

In December 2020, a new subsidiary holding company, Provident Financial Holdings Limited (PFH), was incorporated which simplified the intercompany relationships across the Group. As part of that process, certain intercompany loans with Moneybarn and CCD were transferred from the Company to PFH and equivalent loans were entered into between the Company and PFH. There are no transactions with directors other than those disclosed in the Directors' Remuneration Report.

Principal Risks and Uncertainties

As part of the Group Risk Harmonisation Programme we have re-evaluated our Group Principal Risks, which are those risks most critical to the alignment of the Group Strategy. We have added an additional three Group Principal Risks to our Group Risk Management Framework) – Climate Risk, Market Risk and Financial Crime Risk - to ensure we drive consistency in the management of these areas across the Group.

<u>Capital risk</u>
This is defined as the risk that the Group has insufficient capital to either meet regulatory requirements or to sustain the long-term viability of the business. 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.

<u>Funding and Liquidity risk</u>
This is defined as the risk that the Group has insufficient liquidity to meet its obligations as they fall due, and or is unable to maintain sufficient funding for its future needs. The Group's current funding strategy seeks to maintain a secure funding structure by maintaining committed facilities to pre-fund the Group's liquidity and funding requirements for at least the next 12 months, maintaining access to four main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) external market funding; (iii) securitisation; and (iv) retail deposits.

<u>Credit risk</u>
This is defined as the risk of loss arising from lending to a borrower who is unwilling or unable to repay, in full and/or in accordance with agreed terms, the total amount payable for the loan. 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 risk

This is defined as the risk of making 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 PFG and Vanquis Bank designed to make us more efficient and provide better, more coordinated customer service. Board governance manual and Delegated Authorities Manual (DAM) are in place to provide a framework for key decision making at all levels across the Group and divisions. Executive Director scorecards are in place with reward incentives based on a combination of financial and non-financial measures.

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, process 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.

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 Vanquis Bank and Moneybarn have been externally validated.

Financial Crime risk (new principal risk category)

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 operate 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, with all Divisions ensuring that they meet the minimum requirements and expectations of the regulatory bodies and those set by legislation, relevant to that Division, for managing Financial Crime Risk effectively.

Market risk (new principal risk category)

This is defined as the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities. 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.

Climate risk (new principal risk category)

This is defined as the likelihood over a specified time period of severe alterations in the normal functioning of a community or a society due to hazardous physical events interacting with vulnerable social conditions, leading to widespread adverse human, material, economic, or environmental effects. 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.

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 failure to maintain a properly engaged and skilled workforce who are aligned to our purpose and Group culture. 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 Vanquis under the First Line Controls Review programme is on track and there is sufficient oversight in place to ensure early detection of further potential delay.

Consolidated financial statements

Consolidated income statement for the year ended 31 December

	Note	2021	2020
Continuing operations		£m	£m
Interest income		474.3	531.9
Fee income		60.3	83.5
Total Revenue	3	534.6	615.4
Finance costs		(53.0)	(59.9)
Net interest margin		481.6	555.5
Impairment charges	8	(50.4)	(312.6)
Risk-adjusted net interest margin		431.2	242.9
Operating costs		(289.0)	(279.9)
Profit/(loss) before taxation from continuing operations	3	142.2	(37.0)
Profit before tax, amortisation of acquisition intangibles and exceptional items	3	167.8	27.8
Amortisation of acquisition intangibles	3	(7.5)	(7.5)
Exceptional items	3	(18.1)	(57.3)
Tax charge	5	(7.6)	-
Profit/(loss) for the year from continuing operations		134.6	(37.0)
Loss after tax from discontinued operations	4	(166.7)	(46.4)
Loss for the year attributable to equity shareholders		(32.1)	(83.4)

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2021	2020
		£m	£m
Loss for the year attributable to equity shareholders		(32.1)	(83.4)
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	11	27.1	(1.7)
– fair value movements transferred to income statement[1]	10	(5.2)	3.8
– tax on items taken directly to other comprehensive income	5	(3.8)	(0.7)
– impact of change in UK tax rate on items in other comprehensive income	5	(6.4)	(1.7)
– deferred tax credit on disposal of investments	5	-	2.0
– current tax charge on disposal of investments	5	-	(2.0)
Other comprehensive income/(expense) for the year		11.7	(0.3)
Total comprehensive expense for the year		(20.4)	(83.7)

1 Refer to accounting policies for details on changes in accounting treatment.

Loss per share

	Note	2021	2020
		pence	pence

	Note		
Basic	6	(12.8)	(32.9)
Diluted	6	(12.8)	(32.9)

The above loss per share is on a Group basis including discontinued operations.

Dividends per share

	Note	2021 pence	2020 pence
Interim dividend	7	12	-

The total cost of dividends paid in the year was £nil (2020: £nil).

Consolidated balance sheets

	Note	31 December 2021 £m	31 December 2020 £m
ASSETS			
Cash and cash equivalents		717.7	919.7
Amounts receivable from customers	8	1,677.7	1,799.8
Trade and other receivables		18.8	35.7
Investment	10	9.1	9.2
Property, plant and equipment		8.4	15.5
Right of use assets		47.9	58.0
Goodwill		71.2	71.2
Other intangible assets	9	52.3	45.3
Retirement benefit asset	11	112.2	79.7
Derivative financial instruments		3.1	-
Deferred tax assets	5	6.9	44.0
TOTAL ASSETS	3	2,725.3	3,078.1
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables		95.6	64.9
Current tax liabilities		3.8	0.6
Provisions	12	72.1	91.0
Lease liabilities		58.9	69.4
Retail deposits		1,018.5	1,683.2
Bank and other borrowings		845.2	520.0
Derivative financial instruments		-	1.3
Total liabilities		2,094.1	2,430.4
Equity attributable to owners of the parent			
Share capital		52.6	52.6
Share premium		273.3	273.2
Merger reserves		278.2	278.2
Other reserves		9.8	14.6
Retained earnings		17.3	29.1
Total equity	3	631.2	647.7
TOTAL LIABILITIES AND EQUITY		2,725.3	3,078.1

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 2020	52.5	273.2	278.2	17.7	107.7	729.3
Loss for the year	-	-	-	-	(83.4)	(83.4)
Other comprehensive (expense)/income:						
– actuarial movements on retirement benefit asset (note 11)	-	-	-	-	(1.7)	(1.7)
– fair value movement in investments (note 10)	-	-	-	3.8	-	3.8
– tax on items taken directly to other comprehensive income (note 5)	-	-	-	(1.0)	0.3	(0.7)
– impact of change in UK tax rate (note 5)	-	-	-	(0.2)	(1.5)	(1.7)
– deferred tax credit on disposal of investments (note 5)	-	-	-	2.0	-	2.0
– current tax charge on disposal of investments (note 5)	-	-	-	(2.0)	-	(2.0)
Other comprehensive income/(expense) for the period	-	-	-	2.6	(2.9)	(0.3)
Total comprehensive income/(expense) for the period	-	-	-	2.6	(86.3)	(83.7)
Transfer of cumulative gain on disposal of investment	-	-	-	(7.4)	7.4	-
Transfer of tax on disposal of investment	-	-	-	2.0	(2.0)	-
Issue of share capital	0.1	-	-	-	-	0.1
Share-based payment charge	-	-	-	2.3	-	2.3
Transfer of share-based payment reserve	-	-	-	(2.6)	2.6	-
Purchase of shares for share awards	-	-	-	-	(0.3)	(0.3)
At 31 December 2020	52.6	273.2	278.2	14.6	29.1	647.7
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 10)	-	-	-	(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 period	-	-	-	(3.8)	15.5	11.7
Total comprehensive expense for the period	-	-	-	(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

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. Of the resulting merger reserve of £278.2m, £228.2m was distributable as the capital was retained for the purposes of the Company with the remaining £50.0m not distributable as it was used to inject capital into Vanquis Bank Limited. Following the transfer of Vanquis Bank Limited to Provident Financial Holdings Limited in December 2020 the full merger reserve of £278.2m is now considered distributable.

Consolidated statement of cash flows for the year ended 31 December

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated from operations	13	240.5	450.6
Finance costs paid		(71.3)	(63.1)
Tax paid		(6.1)	(23.6)
Net cash generated from operating activities		163.1	363.9
Cash flows from investing activities			
Purchase of intangible assets	9	(24.8)	(16.3)
Purchase of property, plant and equipment		(1.3)	(5.9)
Proceeds from disposal of property, plant and equipment		3.8	0.7
Net cash used in investing activities		(22.3)	(21.5)
Cash flows from financing activities			
Proceeds from bank and other borrowings		746.0	926.8
Repayment of bank and other borrowings		(1,081.5)	(690.3)
Payment of lease liabilities		(9.6)	(11.2)
Purchase of shares for share awards		-	(0.3)
Proceeds from issue of share capital		0.1	0.1
Net cash (used in)/generated from financing activities		(345.0)	225.1
Net (decrease)/increase in cash, cash equivalents and overdrafts		(204.2)	567.5
Cash, cash equivalents and overdrafts at beginning of year		918.3	350.8
Cash, cash equivalents and overdrafts at end of year		714.1	918.3
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		717.7	919.7
Overdrafts (held in bank and other borrowings)		(3.6)	(1.4)
Total cash, cash equivalents and overdrafts		714.1	918.3

Cash at bank and in hand includes £414.8m (2020: £833.3m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank Limited in accordance with the PRA's liquidity regime. As at 31 December 2021, £268.3m (2020: £691.9m) of the buffer was available to finance Vanquis Bank Limited's day-to-day operations.

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 2021 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 change in basis of preparation from IFRS as adopted by the EU to IFRS as adopted by the UK is required as a result of the UK's exit from the EU on 31 January 2020. This change does not constitute a change in accounting policy and there is no impact on recognition, measurement or disclosure between the two frameworks in the period reported.

The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 December 2021 or the year ended 31 December 2020. The financial information for the year ended 31 December 2020 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2021 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's annual general meeting.

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 2021, which includes capital and liquidity forecasts from 2022 to 2026. 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 in which unemployment peaks at 12%. 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, with the exception of the reclassification of the Visa Inc shares previously classified as fair value through other comprehensive income (OCI) to fair value through profit and loss, and the adoption of the IFRIC agenda decision on Software-as-a-Service (SaaS) and Interest Rate Benchmark Reform Phase 2.

Visa Inc shares
Following review of the treatment of the Visa Inc shares held in Vanquis Bank being recognised as fair value through OCI (FVTOCI) it was determined that on adoption of IFRS 9, the election to treat these shares as FVTOCI was not appropriate as they did not meet the definition of an equity instrument. The shares should have been treated as a financial asset recognised at fair value through profit or loss.

The Group has concluded that this is an immaterial change relative to the Group results and the cumulative impact has therefore been adjusted in the 2021 financial period rather than as a prior year adjustment.

The assets have been reclassified in 2021 resulting in the 2020 closing fair value reserve of £3.8m being recognised in the income statement. This has resulted in an increase in profit before tax of £5.2m and an increase in the tax charge of £1.4m. The cumulative fair value movements of £5.2m and all future fair value movements will be presented within operating costs in the income statement.

Software-as-a-Service (SaaS)
The IFRS Interpretations Committee (IFRIC) recently published two agenda decisions clarifying how certain aspects of cloud technology, SaaS, should be accounted for. The first agenda decision, published in March 2019, concludes that a contract that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contract (SaaS) rather than a software lease or the acquisition of a software intangible asset. The customer receives the service—the access to the software—over the contract term. The second agenda decision, published in April 2021, addresses how a customer should account for the costs of configuring or customising the supplier's application software in a SaaS arrangement that is determined to be a service contract.

Where a change in accounting policy is required to apply the conclusions reached by the IFRS Interpretations Committee this must be accounted for in line with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and, if material, prior period comparatives restated. The agenda decisions have not resulted in a material impact on the Group or Company and therefore the comparatives have not been restated.

Interest Rate Benchmark Reform Phase 2
In 2021, the Group adopted the Interest Rate Benchmark Reform Phase 2 amendments issued by the IASB. These amendments require that changes to expected future cash flows that both arise as a direct result of IBOR Reform and are economically equivalent to the previous cash flows are accounted for as a change to the effective interest rate with no adjustment to the asset or liability carrying value and no immediate gain or loss is recognised.

The new requirements also provide relief from the requirements to discontinue hedge accounting as a result of amending hedge documentation if the changes are required solely as a result of IBOR Reform. As at the end of 2021, the Group has refinanced all LIBOR linked derivatives to SONIA resulting in no impact from the implementation of these changes.

3. Segment reporting

	Revenue		Profit/(loss) before tax	
	2021 £m	2020 £m	2021 £m	2020 £m
Credit cards	389.5	472.4	173.9	39.5
Vehicle finance	137.9	134.0	28.9	10.9
Personal loans	7.2	9.0	(8.7)	(1.5)
Central costs	-	-	(26.3)	(21.1)
Total group before amortisation of acquisition intangibles and exceptional items	534.6	615.4	167.8	27.8
Amortisation of acquisition intangibles (note 9)	-	-	(7.5)	(7.5)
Exceptional items	-	-	(18.1)	(57.3)
Total Group – continuing operations	534.6	615.4	142.2	(37.0)
CCD – discontinued operations (note 4)	68.0	192.4	(95.5)	(74.9)
CCD – discontinued operations exceptional items (note 4)	-	-	(42.6)	(1.6)
Total Group	602.6	807.8	4.1	(113.5)

Revenue for credit cards, vehicle finance and personal loans comprises interest earned on amounts receivable from customers and fee income.

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 2021 amounted to £7.5m (2020: £7.5m).

Exceptional items for continuing operations represent a net exceptional charge of £18.1m in 2021 (2020: £57.3m) and comprise:

	2021 £m	2020 £m
Corporate costs including CCD closure	(11.5)	-
CCD Scheme of Arrangement costs and provisions (note 12)	(5.0)	(65.0)
(Costs)/gain in respect of the redemption of bonds	(3.9)	1.3
Pension credit/(charges) (note 11)	2.3	(0.7)
Release of provisions in respect of ROP refund programme (note 12)	-	8.3
Costs in respect of the new intermediate holding company	-	(1.2)
Total exceptional items	(18.1)	(57.3)

Corporate costs including CCD closure include redundancy amounts of £1.0m

	Segment assets		Segment net assets/(liabilities)	
	2021 £m	2020 £m	2021 £m	2020 £m
Credit cards and personal loans	1,639.1	2,037.1	374.5	326.5
Vehicle finance	698.3	611.0	105.8	19.3
Central	546.5	730.4	446.0	517.0
Continuing operations before intra-group elimination	2,883.9	3,378.5	926.3	862.8
Discontinued operations	0.3	187.8	(295.1)	(215.1)
Intra-Group elimination	(158.9)	(488.2)	-	-
Total Group	2,725.3	3,078.1	631.2	647.7

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.

Following the wind-down of CCD, the Group's businesses operate principally in the UK.

4. Discontinued operations

The Group has closed CCD comprising Home Credit and Satsuma during the year 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.

	2021	2020
	£m	£m
Interest income	68.0	192.4
Finance costs	(12.1)	(9.7)
Net interest margin	55.9	182.7
Impairment	(59.6)	(47.5)
Risk-adjusted net interest margin	(3.7)	135.2
Operating costs:		
- other	(91.8)	(210.1)
- exceptional items	(42.6)	(1.6)
Loss before taxation	(138.1)	(76.5)
Tax (charge)/credit	(28.6)	30.1
Loss from discontinued operations	(166.7)	(46.4)
Basic loss per share (p)	(66.5)	(18.3)
Diluted loss per share (p)	(66.5)	(18.3)

5. Tax charge

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

	2021			2020		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£m	£m	£m		£m	
Current tax: - UK	12.6	(3.3)	9.3	(3.5)	(7.2)	(10.7)
Deferred tax						
– UK	-	31.9	31.9	6.0	(22.0)	(16.0)
– overseas	-	-	-	-	0.1	0.1
Impact of change in UK tax rate	(5.0)	-	(5.0)	(2.5)	(1.0)	(3.5)
Total tax charge/(credit)	7.6	28.6	36.2	-	(30.1)	(30.1)

	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

	2020						
	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	27.8	(57.3)	(7.5)	(37.0)	(74.9)	(1.6)	(76.5)
Profit/(loss) before tax multiplied by standard rate of corporation tax in the UK of 19%	5.3	(10.9)	(1.4)	(7.0)	(14.2)	(0.4)	(14.6)
Effects of:							
– impact of change in UK tax rate (note (a))	(3.2)	-	0.7	(2.5)	(1.0)	-	(1.0)
– impact of bank corporation tax surcharge (note (b))	1.4	0.7	-	2.1	-	-	-
– impact of lower tax rates and losses overseas (note (c))	-	-	-	-	1.8	-	1.8
– write off of deferred tax assets (note (d))	0.7	-	-	0.7	0.3	-	0.3
– adjustments in respect of prior years (note (e))	(7.7)	-	-	(7.7)	0.2	-	0.2
– prior year adjustments related to transfer pricing and losses (note (f))	-	-	-	-	-	-	-
– non-deductible general expenses	(0.7)	0.3	-	(0.4)	-	-	-
– transfer pricing adjustments (note (g))	4.4	-	-	4.4	(4.4)	-	(4.4)
– discount on payment for losses of discontinued operations (note (h))	-	-	-	-	-	-	-
– benefit of capital losses offset against capital gain (note (i))	(0.9)	-	-	(0.9)	-	-	-
– Utilisation of losses not recognised for deferred tax	(1.1)	-	-	(1.1)	-	-	-
– exceptional complaints provision (note (j))	-	12.4	-	12.4	-	(12.4)	(12.4)
	(1.8)	2.5	(0.7)	-	(17.3)	(12.8)	(30.1)

(a) Impact of change of UK tax rate

In 2016, changes in corporation tax rates were enacted which reduced the mainstream corporation tax rate to 17% with effect from 1 April 2020. Prior to 1 April 2020, the mainstream corporation tax rate was 19%. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate remained at 19% for 2020. During 2021, a further change was enacted to increase the mainstream corporation tax rate from 19% to 25% with effect from 1 April 2023.

Deferred tax balances at 31 December 2019 were measured at 17% and, in the case of credit cards and personal loans, at the combined mainstream corporation tax rate (17%) and the bank corporation tax surcharge rate (8%) of 25% to the extent that the temporary differences on which the deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances were re-measured at 19% and, in the case of credit cards and personal loans, at the combined mainstream corporation tax (19%) and bank corporation tax surcharge rates (8%) of 27%, as were movements in the deferred tax balances during the year.

At 31 December 2021, the deferred tax balances have been remeasured at 25% (2020: 19%) and, in the case of credit cards and personal loans, at the combined mainstream corporation tax (25%) and bank corporation tax surcharge rates (8%) of 33% (2020: 27%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse, or the tax loss is expected to be utilised, after 1 April 2023. A tax credit of £5.0m (2020: credit of £3.5m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £6.4m (2020: charge of £1.7m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income. Of the tax credit of £5.0m (2020: credit of £3.5m) taken to the income statement, £5.0m related to continuing operations (2020: £2.5m) and £nil (2020: £1.0m) to discontinued operations.

There is no impact in 2021 on discontinued operations from the change in tax rates as no deferred tax balances are recognised in discontinued operations at 31 December 2021.

(b) Impact of bank corporation tax surcharge

The adverse impact of the bank corporation tax surcharge amounts to £12.2m (2020: £2.1m) 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% (2020: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19% (2020: 19%). In 2021, the home credit business in the Republic of Ireland made a loss (2020: 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% UK statutory tax rate. In light of the closure of the business, no deferred tax asset has been recognised in respect of this loss giving rise to a total adverse impact on the Group tax charge of £3.5m (2020: £1.8m), all of which relates to discontinued operations.

(d) Write off of deferred tax assets

Deferred tax assets written off comprise (a) £23.6m of deferred tax assets related to discontinued operations for which future tax relief is unlikely to be available following the closure of the business; net of (b) a deferred tax credit of £0.5m (2020: deferred tax charge of £1.0m) 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 (2020: deferred tax charge of £1.0m), £0.3m (2020: deferred tax charge of £0.7m) relates to continuing operations and £0.2m (2020: deferred tax charge of £0.3m) relates to discontinued operations. The £23.6m deferred tax assets related to discontinued operations which have been written off in 2021 (2020: £nil) relate to tax losses carried forward and other temporary differences for which, following the closure of the business, it is considered unlikely that future tax relief will be available.

(e) Adjustments in respect of prior years

The £1.0m tax charge in respect of prior years (2020: tax credit of £7.5m) primarily comprises adjustments related to prior year deferred tax on share scheme awards and the impact of resolving historical tax liabilities, of which a £0.5m charge (2020: charge of £0.2m) relates to discontinued operations and a £0.5m charge (2020: credit of £7.7m) relates to continuing operations.

In 2020, the £7.5m credit in respect of prior years primarily relates to continuing operations and represents the benefit of claiming deductions for the costs incurred in 2019 in connection with the defence of the unsolicited offer from NSF, for which no tax deduction was assumed in the prior year, along with a release of part of the provision for uncertain tax liabilities net of other prior year adjustments.

(f) Prior year adjustments related to transfer pricing and losses

This comprises a £7.8m charge (2020: £nil) related to discontinued operations net of a £7.8m credit (2020: £nil) related to continuing operations and relates 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 have been surrendered as group relief to the continuing operation and which the continuing operation has paid for at a discounted price. They have a £nil (2020: £nil) overall impact on the tax charge.

(g) Transfer pricing adjustments
These comprise a £0.6m credit (2020: charge of £4.4m) related to continuing operations and a £0.6m charge (2020: £4.4m credit) related to discontinued operations, and represent the impact of transfer pricing adjustments between the profits of continuing and discontinued operations. They have a £nil (2020: £nil) overall impact on the tax charge.

(h) Discount on payment for losses of discontinued operations
These comprise a credit of £6.5m (2020: £nil) related to continuing operations and a £6.5m charge (2020: £nil) related to discontinued operations, and relate to tax losses of the discontinued operations which have been surrendered as group relief to the continuing operations and which the continuing operations have paid for at a discounted price. The overall impact on the tax charge is £nil (2020: £nil).

(i) Benefit of capital losses offset against capital gain and utilisation of losses not recognised for deferred tax
The conversion and subsequent sale of part of the preferred stock in Visa Inc during 2020 gave rise to a capital gain which was offset partly by: (i) in-year capital losses which give rise to a beneficial impact on the tax charge of £0.9m; and (ii) brought forward capital losses in respect of which a deferred tax asset was not previously recognised, which gave rise to a beneficial impact on the tax charge of £1.1m.

(j) Exceptional complaints provision
In 2020, the exceptional complaints provision which was booked in CCD gave rise to a tax credit in CCD of £12.4m. As the exceptional complaints provision has been recognised as part of continuing rather than discontinued operations, this gives rise to a tax reconciling difference of £12.4m between continuing and discontinued operations.

In 2021, the release of the exceptional complaints provision in CCD following the implementation of the Scheme of Arrangement gives rise to a tax charge in CCD of £12.4m. As the release of the provision has been recognised as part of continuing rather than discontinued operations, this gives rise to a similar tax reconciling difference in 2021 of £12.4m between continuing and discontinued operations.

These adjustments have a nil (2020: nil) overall impact on the tax charge.

In 2021, a tax deduction has been claimed for the £70m costs of the Scheme of Arrangement incurred by Provident Financial plc which have also been recognised as part of continuing operations.

Tax on exceptional items:
The tax credit in respect of exceptional items amounts to £10.2m (2020: tax credit of £10.3m) and comprises a £15.3m credit (2020: charge of £2.5m) relating to continuing operations and a £5.1m charge (2020: £12.8m credit) relating to discontinued operations.

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 operation 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.

In 2020:

– The £2.5m tax charge relating to continuing operations represents: (i) a tax charge of £2.3m, being tax at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27% in respect of the £8.3m exceptional release of the provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally; and (ii) a tax charge of £0.2m, being tax on the exceptional net gain on the bond buyback net of a tax credit on the GMP pensions equalisation charge and exceptional restructuring costs.
– The £12.8m credit relating to discontinued operations represents a tax credit of £12.4m in respect of the exceptional provision for customer claims and associated costs which have been booked in CCD and a tax credit of £0.4m in respect of exceptional restructuring costs in CCD.

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

	2021 £m	2020 £m
Deferred tax credit/(charge) on fair value movement in investment	1.4	(1.0)
Deferred tax credit on disposal of investment	-	2.0
Current tax charge on disposal of investment	-	(2.0)
Deferred tax (charge)/credit on actuarial movements on retirement benefit asset	(5.2)	0.3
Tax charge on items taken directly to other comprehensive income prior to impact of change in UK tax rate	(3.8)	(0.7)
Impact of change in UK tax rate	(6.4)	(1.7)
Total tax charge on items taken directly to other comprehensive income	(10.2)	(2.4)

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

During 2020, Vanquis Bank Limited converted and subsequently sold its holding in the 'A' preference shares in Visa Inc which gave rise to a capital gain. In 2020, the £1.0m deferred tax charge recognised in other comprehensive income represents deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rate of 27.0% on the movement in the valuation of the 'B' preference shares in Visa Inc which were retained, as well as the movement in the valuation of the 'A' preference shares in Visa Inc up to the point of conversion and sale. The conversion and sale of the 'A' preference shares in Visa Inc in 2020 resulted in a deferred tax credit of £2.0m in other comprehensive income which represents the reversal of the £2.0m deferred tax charge in respect of the valuation of the company's shareholding in the 'A' preference shares in Visa Inc that had been recognised in other comprehensive income, and a current tax charge of £2.0m, representing tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 27.0% on the cumulative fair value gain on the disposed shares which had been recognised in other comprehensive income. In 2021, the £1.4m deferred tax credit represents the reversal of the deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rates on the cumulative movement in the valuation of the 'B' preference shares in Visa Inc which has previously been recognised in other comprehensive income and is now being recognised in the income statement, with the shares now recognised at fair value through profit and loss rather than previously at fair value through other comprehensive income.

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

	2021			2020		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Asset/(liability)	£m	£m	£m		£m	
At 1 January	12.1	31.9	44.0	16.0	9.0	25.0
(Charge)/credit to the income statement	-	(31.9)	(31.9)	(6.0)	21.9	15.9
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	(3.8)	-	(3.8)	1.3	-	1.3
Impact of change in UK tax rate:						
- credit to the income statement	5.0	-	5.0	2.5	1.0	3.5
- change to other comprehensive income	(6.4)	-	(6.4)	(1.7)	-	(1.7)
At 31 December	6.9	-	6.9	12.1	31.9	44.0

6. Earnings/(loss) per share

Basic earnings/(loss) (E/LPS) per share 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 holds 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:

Continuing operations	Earnings £m	2021 Weighted average number of shares m	Per share amount pence	Loss £m	2020 Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	134.6	250.7	53.7	(37.0)	253.6	(14.6)
Dilutive effect of share options and awards	-	1.3	(0.3)	-	-	-
Diluted earnings/(loss) per share	134.6	252.0	53.4	(37.0)	253.6	(14.6)

Group	Loss £m	2021 Weighted average number of shares m	Per share amount pence	Loss £m	2020 Weighted average number of shares m	Per share amount pence
Basic loss per share	(32.1)	250.7	(12.8)	(83.4)	253.6	(32.9)
Dilutive effect of share options and awards	-	-	-	-	-	-
Diluted loss per share	(32.1)	250.7	(12.8)	(83.4)	253.6	(32.9)

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

Continuing operations	Earnings £m	2021 Weighted average number of shares m	Per share amount pence	Earnings £m	2020 Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	134.6	250.7	53.7	(37.0)	253.6	(14.6)
Amortisation of acquisition intangibles, net of tax	6.7	-	2.7	6.8	-	2.7
Exceptional items, net of tax	2.8	-	1.1	59.8	-	23.6
Adjusted basic earnings per share	144.1	250.7	57.5	29.6	253.6	11.7
Diluted earnings/(loss) per share	134.6	252.0	53.4	(37.0)	254.2	(14.6)
Amortisation of acquisition intangibles, net of tax	6.7	-	2.7	6.8	-	2.7
Exceptional items, net of tax	2.8	-	1.1	59.8	-	23.6
Adjusted diluted earnings per share	144.1	252.0	57.2	29.6	254.2	11.7

Group	Earnings £m	2021 Weighted average number of shares m	Per share amount pence	Loss £m	2020 Weighted average number of shares m	Per share amount pence
Basic loss per share	(32.1)	250.7	(12.8)	(83.4)	253.6	(32.9)
Amortisation of acquisition intangibles, net of tax	6.7	-	2.7	6.8	-	2.7
Exceptional items, net of tax	50.5	-	20.1	48.6	-	19.2
Adjusted basic earnings/(loss) per share	25.1	250.7	10.0	(28.0)	253.6	(11.0)
Diluted loss per share	(32.1)	252.0	(12.7)	(83.4)	253.6	(32.9)
Amortisation of acquisition intangibles, net of tax	6.7	-	2.7	6.8	-	2.7
Exceptional items, net of tax	50.5	-	20.0	48.6	-	19.2
Adjusted diluted earnings/(loss) per share	25.1	252.0	10.0	(28.0)	253.6	(11.0)

7. Dividends

There have been no dividends paid in the current or prior year.

The directors are recommending an interim dividend in respect of the financial year ended 31 December 2021 of 12p per share which will amount to an estimated dividend of £30m. This dividend will be paid on 20 May 2022 to shareholders who were on the register of members at 22 April 2022 with an ex-dividend date of 21 April 2022.

8. Amounts receivable from customers

	2021 £m	2020 £m
Credit cards and personal loans	1,091.5	1,094.2
Vehicle finance	586.2	566.6
Total – continuing operations	1,677.7	1,660.8
CCD – discontinued operations	-	139.0
Total group	1,677.7	1,799.8

Credit cards and personal loans receivables comprise £1,063.4m (2020: £1,075.1m) in respect of credit cards and £28.1m (2020: £19.1m) in respect of personal loans.

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

	2021			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Credit cards and personal loans	913.7	342.7	194.5	1,450.9
Vehicle finance	350.2	112.9	378.6	841.7
CCD	-	-	-	-
Total group	1,263.9	455.6	573.1	2,292.6
Allowance account				
Credit cards and personal loans	(103.2)	(102.9)	(153.3)	(359.4)
Vehicle finance	(14.3)	(15.8)	(225.4)	(255.5)
CCD	-	-	-	-
Total group	(117.5)	(118.7)	(378.7)	(614.9)
Net receivables				
Credit cards and personal loans	810.5	239.8	41.2	1,091.5
Vehicle finance	335.9	97.1	153.2	586.2
CCD	-	-	-	-
Total group	1,146.4	336.9	194.4	1,677.7

	2020			
	Stage 1 £m	Stage 2 £m	Stage 3* £m	Total £m
Gross receivables				
Credit cards and personal loans	1,044.5	188.3	335.6	1,568.4
Vehicle finance	443.8	100.1	221.4	765.3
CCD	76.9	17.9	359.4	454.2
Total group	1,565.2	306.3	916.4	2,787.9
Allowance account				
Credit cards and personal loans	(170.0)	(90.2)	(214.0)	(474.2)
Vehicle finance	(21.8)	(17.9)	(159.0)	(198.7)
CCD	(5.7)	(3.8)	(305.7)	(315.2)
Total group	(197.5)	(111.9)	(678.7)	(988.1)
Net receivables				
Credit cards and personal loans	874.5	98.1	121.6	1,094.2
Vehicle finance	422.0	82.2	62.4	566.6
CCD	71.2	14.1	53.7	139.0
Total group	1,367.7	194.4	237.7	1,799.8

* Gross loan receivables and impairment provisions for expected credit losses were unintentionally reduced by equal amounts of £30.9m in the prior year to reflect the net revenue recognition for loans in stage 3. Comparatives included in note 8 have been amended to remove this adjustment as part of Moneybarn's implementation of new IFRS 9 models. This prior period adjustment has no impact on the Group's primary statements.

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

2021 2020

	Credit cards and personal loans £m	Vehicle finance £m	CCD £m	Total £m	Credit cards and personal loans £m	Vehicle finance £m	CCD £m	Total £m
Brought forward	32.9	27.9	0.4	61.2	31.8	24.6	1.9	58.3
Capitalised	10.2	23.3	0.2	33.7	11.9	22.4	1.6	35.9
Amortised	(13.5)	(18.8)	(0.6)	(32.9)	(10.8)	(19.1)	(3.1)	(33.0)
Carried forward	29.6	32.4	-	62.0	32.9	27.9	0.4	61.2

Macroeconomic provision

Macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their agreements and the losses which are expected to be incurred given default. Following refinements to the models in 2021, these provisions are now included as part of the core model provision.

The provisions now consider the relationship between 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 Group will continue to assess if there are any additional macroeconomic indicators which also correlate to credit losses.

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

	2021 £m	2020 £m
Credit cards	3.7	233.3
Vehicle finance	44.6	72.7
Personal loans	2.1	6.6
Total impairment charge – continuing operations	50.4	312.6
CCD – discontinued operations	59.6	47.5
Total impairment charge	110.0	360.1

9. Other intangible assets

	2021			2020		
	Acquisition intangibles £m	Computer software £m	Total £m	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	75.0	77.9	152.9	75.0	65.4	140.4
Additions	-	24.8	24.8	-	16.3	16.3
Disposals	-	(59.2)	(59.2)	-	(3.8)	(3.8)
At 31 December	75.0	43.5	118.5	75.0	77.9	152.9
Accumulated amortisation and impairment						
At 1 January	47.5	60.1	107.6	40.0	56.3	96.3
Charged to the income statement – continuing operations	7.5	7.1	14.6	7.5	5.4	12.9
Charged to the income statement – discontinued operations	-	3.6	3.6	-	2.2	2.2
Disposals	-	(59.6)	(59.6)	-	(3.8)	(3.8)
At 31 December	55.0	11.2	66.2	47.5	60.1	107.6
Net book value						
At 31 December	20.0	32.3	52.3	27.5	17.8	45.3
At 1 January	27.5	17.8	45.3	35.0	9.1	44.1

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.

Additions to computer software in the year of £24.8m (2020: £16.3m) comprise £24.2m (2020: £13.8m) of internally generated assets and £0.6m (2020: £2.5m) of externally purchased software.

The £24.8m (2020: £16.3m) of computer software expenditure predominantly relates to the development of systems in relation to the personal loans business.

10. Investments

	2021 £m	2020 £m
Visa Inc. shares	9.1	9.2

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.

During 2021 the Visa Inc shares previously classified as fair value through OCI were reclassified as fair value through income statement; refer to note 2 for details of the change in accounting policy. This has resulted in an increase in profit before tax of £5.2m and an increase in the tax charge of £1.4m. The cumulative fair value movements of £5.2m and all future fair value movements will be presented within operating costs in the income statement.

During 2020 there was a partial conversion event and 50% of the preferred stock was converted into class A shares which were then sold in December, as the shares are non-core to the business and it was deemed economically efficient by management to liquidate. On disposal of the shares, the cumulative gain recognised in the fair value reserve was transferred to retained earnings (£7.4m) net of the tax arising on the disposal (£2.0m). The movement in the fair value during the year of the A shares, until they were sold, and the preferred stock, was recognised in the statement of comprehensive income (£3.8m).

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.

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.

All future benefits in the scheme are now provided on a 'cash balance' basis, with a defined amount being made available at retirement, based on a percentage of salary that is revalued up to retirement with reference to increases in price inflation. This retirement account is then used to purchase an annuity on the open market. The scheme provides pension benefits which were accrued 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 2018 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

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

	2021 £m	2020 £m
Fair value of scheme assets	898.8	933.0
Present value of defined benefit obligation	(786.6)	(853.3)
Net retirement benefit asset recognised in the balance sheet	112.2	79.7

The amounts recognised in the income statement were as follows:

	2021 £m	2020 £m
Current service cost	(2.1)	(1.7)
Interest on scheme liabilities	(11.8)	(15.1)
Interest on scheme assets	13.0	16.7
Net charge recognised in the income statement before exceptional past service credit/(charge)	(0.9)	(0.1)
Exceptional past service credit/(charge) – Plan amendment (note 3)	1.5	(0.7)
Exceptional past service credit – Curtailment credit (note 3)	0.8	-
Exceptional past service credit/(charge)	2.3	(0.7)
Net credit/(charge) recognised in the income statement	1.4	(0.8)

The net credit/(charge) recognised in the income statement has been included within operating costs.

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

	2021 £m	2020 £m
Fair value of scheme assets at 1 January	933.0	842.6
Interest on scheme assets	13.0	16.7
Actuarial movements on scheme assets	(20.2)	102.8
Contributions by the Group	4.0	4.2
Net benefits paid out	(31.0)	(33.3)
Fair value of scheme assets at 31 December	898.8	933.0

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

	2021 £m	2020 £m
Present value of defined benefit obligation at 1 January	(853.3)	(764.6)
Current service cost	(2.1)	(1.7)
Interest on scheme liabilities	(11.8)	(15.1)
Exceptional past service charge – Plan amendment (note 3)	1.5	(0.7)
Exceptional past service credit – Curtailment credit (note 3)	0.8	-
Actuarial movement – experience	(10.3)	4.3
Actuarial movement – demographic assumptions	12.9	(2.0)
Actuarial movement – financial assumptions	44.7	(106.8)
Net benefits paid out	31.0	33.3
Present value of defined benefit obligation at 31 December	(786.6)	(853.3)

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

	2021 %	2020 %
Price inflation – RPI	3.40	2.85
Price inflation – CPI	3.00	2.25
Rate of increase to pensions in payment	3.00	2.70
Inflationary increases to pensions in deferment	3.00	2.20
Discount rate	1.85	1.30

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 2 tables (2020: SAPS series 2 tables), with multipliers of 96% (2020: 96%) and 101% (2020: 101%) respectively for males and females. The 4% downwards (2020: 4% downwards) adjustment to mortality rates for males and a 1% upwards (2020: 1% upwards) adjustment for females reflect higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2020 model with a long-term improvement trend of 1.00% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
	2021 years	2020 years	2021 years	2020 years
Current pensioner aged 65	21.7	21.9	23.4	23.5
Current member aged 45 from age 65	22.7	23.2	24.6	25.0

If the discount rate decreased by 0.5% (2020: 0.5%), the net retirement benefit asset would have been increased by approximately £64m (2020: £79m).

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

	2021 £m	2020 £m
Actuarial movements on scheme assets	(20.2)	102.8
Actuarial movements on scheme liabilities	47.3	(104.5)
Actuarial movements recognised in the statement of comprehensive income in the period	27.1	(1.7)
Cumulative movement recognised in other comprehensive income	(70.5)	(97.6)

12. Provisions

	2021			2020		
	Scheme £m	Others £m	Total £m	Scheme £m	Others £m	Total £m
At 1 January	65.0	26.0	91.0	-	14.5	14.5
Created in the period	5.0	17.4	22.4	65.0	45.5	110.5
Reclassified in the period	-	-	-	-	17.6	17.6
Utilised during the year	(16.5)	(24.8)	(41.3)	-	(43.3)	(43.3)
Released during the year	-	-	-	-	(8.3)	(8.3)
At 31 December	53.5	18.6	72.1	65.0	26.0	91.0

All provisions are expected to be utilised within 12 months of the year end.

The Scheme of Arrangement (the Scheme): Group £53.5m (2020: £65m)
The Scheme of Arrangement was sanctioned on 30 July 2021. The Scheme will now remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline in February 2022. The objective of the Scheme is 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 £15m at 31 December 2020 with an additional £5m being recognised in the year for additional expected costs in supporting the delivery of the Scheme. At 31 December 2021, £16.5m of the provision for costs of the scheme has been utilised.

Other provisions include:

Complaints of irresponsible lending: £nil (2020: £23.4m)
Significantly higher claims volumes were received by CCD in 2020 in respect of irresponsible lending of home credit loans. £23.4m was provided at 31 December 2020 for the claims received for irresponsible lending. This reflected the recent uphold rates and settlement values. The provision also assumed a settlement rate of customer claims to the date of the Practice Statement Letter (PSL) being issued on 15 March 2021, as part of the Scheme of Arrangement (the Scheme). These amounts were fully utilised during the first half of 2021.

FCA investigation into CCD: £4.1m (2020: £nil)
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 a FOS decision into the complaint handling process, in the period between February 2020 and February 2021. Discussions continue with the FCA on this matter. Analysis of lending during the period of investigation has resulted in a provision of £5m being recognised which reflects the current best estimate of the settlement; £0.9m of this was utilised in the second half of the year.

ROP Provision: £2.1m (2020: £2.6m)
The remaining ROP provision of £2.1m (2020: £2.6m) 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: £3.4m (2020: £nil)
The customer compliance provision relates to general customer compliance matters.

Discontinued operations: £9.0m (2020: £nil)
A number of smaller provisions have been recognised in relation to the closure of the CCD business. These have been calculated based on estimated costs at the year end.

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

	2021 £m	2020 £m
Loss after tax	(32.1)	(83.4)
Adjusted for:		
– tax charge/(credit)	36.2	(30.1)
– finance costs	61.2	71.5
– exceptional costs/(gain) on redemption of bonds	3.9	(1.9)
– share-based payment charge	3.8	2.3
– retirement benefit charge before exceptional past service charge/(credit)	0.9	0.1
– exceptional pension (credit)/charge	(2.3)	0.7
– amortisation of intangible assets	18.2	15.1
– exceptional complaints provision in CCD	-	65.0
– provisions created in the year	22.4	45.5
– depreciation of property, plant and equipment and right of use assets	15.3	15.7
– profit on disposal of property, plant and equipment	(0.3)	0.6
– profit on disposal of intangible assets	(0.4)	-
– profit on lease disposal	(1.2)	-
– exceptional release of provisions	-	(8.3)
– hedge ineffectiveness	(0.2)	0.7
Changes in operating assets and liabilities		
– amounts receivable from customers	122.1	399.8
– trade and other receivables	12.7	11.6
– trade and other payables	30.7	(6.8)
– provisions	(41.3)	(43.3)
– cumulative fair value movements on Visa shares transferred to income statement	(5.2)	-
– current year fair value movements on Visa shares	0.1	-
– contributions into the retirement benefit scheme	(4.0)	(4.2)
Cash generated from operations	240.5	450.6

14. Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty exists regarding the outcome of future events and the obligation cannot be measured with sufficient reliability.

Challenge to self-employed status of UK home credit agents

In July 2017, Provident Personal Credit Limited (PPC) changed its home-collected credit operating model in the UK from a self-employed agent model to an employed workforce to take direct control of all aspects of the customer relationship.

It is understood from discussions with HMRC that they commenced an industry-wide review of the self-employed status of agents in 2019. The Group's discussions with HMRC, which are focusing on the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014 to the change of operating model in July 2017, have remained in the initial fact-finding stages. The Group has continued to work positively and collaboratively with HMRC but it remains the case that HMRC has reached no decision on the position.

Were the Group to be unsuccessful in defending the historic self-employed position of agents with HMRC, PPC could be liable for additional taxes, including employer's National Insurance contributions, on the commission it paid to agents in the UK for the years concerned. However, PPC does not know the amounts of tax and National Insurance contributions paid by agents through self assessment which are available for offset, and it is therefore difficult to calculate an accurate liability should the Group be unsuccessful in defending the position. HMRC has raised protective assessments on PPC which have been appealed pending the outcome of the review. These are a procedural matter to ensure that, in the event the review concludes that taxes are payable, HMRC can recover such amounts that would otherwise be excluded due to the lapse of statutory time limits.

The Group has worked with HMRC over many years to manage employment status risk and it remains confident, based on advice received, that agents were self-employed as a matter of law throughout their engagement by PPC.

PPC has now completed the managed run-off of its home credit business, which has not resulted in a surplus for creditors of the Scheme of Arrangement, or more generally, and the company is expected ultimately to be placed into formal wind-down proceedings. Any contingent liabilities in respect of any additional tax liabilities would then be dealt with as part of those proceedings.

Other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, agents, customers, investors or third parties. This extends to legal and regulatory reviews, challenges, investigations, 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 to 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 of cash flows.

15. Post balance sheet events

In line with the Group's funding strategy to place less reliance on this source of funding the Group exercised its contractual option to early repay the RCF on 30th March 2022, ahead of its contractual maturity in July 2023. The Group does not require the funding and did not plan to renew the facility. The headroom on committed facilities of £110m at 31 December 2021 would have reduced to £50m after repayment of the facility.

Directors' responsibility statement

Each of Patrick Snowball, Chairman; Malcolm Le May, Chief Executive Officer; Neeraj Kapur, Chief Financial 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, 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 2021 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.

Information for shareholders

1. The 2021 Annual Report and Financial Statements together with the notice of the annual general meeting will be posted to shareholders on or around 25 April 2022.

2. The annual general meeting will be held on 29 June 2022 at the Bradford office of Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.