Provident Financial plc
Final results for the year ended 31 December 2018

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

The Group's results are being reported under IFRS 9 'Financial instruments' for the first time in 2018 following the mandatory adoption of the standard from 1 January 2018.

Key financial results

	2018 IFRS 9	2017 IFRS 9[1]	Change	2017 IAS 39
Adjusted profit before tax[2]	£153.5m	£84.2m	82.3%	£109.1m
Statutory profit/(loss) before tax	£90.7m	(£147.9m)	161.3%	(£123.0m)
Adjusted basic earnings per share[2,3]	46.6p	36.8p	26.6%	45.7p
Basic earnings/(loss) per share[3]	25.2p	(75.3p)	133.5%	(66.4p)
Annualised return on assets[4]	7.5%	6.9%		6.9%
Final dividend per share	10.0p	-p	n/a	-p
Total dividend per share	10.0p	-p	n/a	-p

Malcolm Le May, Group Chief Executive, commented:

"Today's results are testament to the immense progress that the Group has made over the past 18 months, having delivered adjusted profit before tax growth of 82.3% in 2018. I am very pleased to announce that, in line with our commitment at the time of the rights issue, the Board have declared a nominal dividend of 10.0p per share for 2018.

We have delivered against each of the objectives we set ourselves for 2018 and have strengthened our relationship with our customers, regulators and other stakeholders. We aim to build on the considerable momentum within the Group in 2019 and beyond, with a focus on delivering attractive and sustainable returns to our shareholders as we execute on our strategy.

We continue to believe that the offer made by NSF is not in the interests of all shareholders."

Highlights

Excellent progress made in delivering the Group's 2018 operational objectives

- CCD obtained full authorisation from the Financial Conduct Authority (FCA) in November 2018 and has recently received agreement from the FCA to the implementation of enhanced performance management of Customer Experience Managers (CEMs) which is a key tool in returning the business to run-rate profitability in due course.
- Vanquis Bank Repayment Option Plan (ROP) refund programme is over 99% complete and has been delivered within the previously announced provisions for balance reductions and refunds and the timetable agreed with the FCA.
- Moneybarn has made significant progress with the FCA regarding the redress to be paid to resolve the issues arising in respect of the investigation into affordability, forbearance and termination options within the previously announced financial provisions.
- We have reached agreement to appoint a new Vanquis Bank Managing Director who will join in April 2019 and expect to announce a new Vanquis Bank Chairman shortly, both subject to regulatory approvals, who will bring

significant relevant retail banking and consumer finance experience and further strengthen the Board and senior management team.
- The Group's capital position and liquidity are both robust following completion of the rights issue in April 2018 and the refinancing of the senior bond in June 2018.
- The Board proposes a final dividend in respect of 2018 of 10.0p per share (2017: nil), in line with our commitment at the time of the rights issue.
- As previously announced, the Board continues to believe that the offer made by Non-Standard Finance plc (NSF) on 22 February 2019 is not in the best interests of all PFG shareholders:
  - The Board has a clear plan to maximise value for all PFG shareholders by executing its strategy to deliver growth and attractive returns through its complementary, synergistic and market leading businesses.
  - As well as undervaluing the Group and its prospects, the offer from NSF presents significant operational and execution risks given NSF's track record of value destruction and NSF's limited experience across the full breadth of PFG's businesses.
  - The offer has major strategic flaws and appears to be based upon a superficial and misguided view that the regulatory approach to PFG would be different if the Group was owned by NSF.
- The Board is committed to maximising value for all PFG shareholders and will explore all appropriate alternatives to achieve the objective.

Vanquis Bank has delivered stable profits whilst adapting to changes in regulatory requirements

- Vanquis Bank has delivered a 1.6% increase in IFRS 9 adjusted profit before tax[1,2] to £184.3m (2017: Unaudited pro forma IFRS 9 adjusted profit before tax[1,2] of £181.4m, IAS 39 adjusted profit before tax[2] of £206.6m).
- New customer accounts of 366,000 (2017: 437,000) primarily reflect the impact from the tightening of underwriting during the third quarter of 2017.
- IFRS 9 impairment rate was broadly stable at 16.3% of average receivables (2017: 16.4%[1]):
  - Reflects some pressure in the second half of the year from increased payment arrangements due to enhanced forbearance, despite tighter underwriting standards.
  - The rate of increase in payment arrangements has moderated in early 2019.

CCD authorised in November 2018 following implementation of the home credit operational recovery plan

- Significant reduction in IFRS 9 adjusted loss before tax[1,2] to £38.7m (2017: Unaudited pro forma IFRS 9 adjusted loss before tax[1,2] of £106.3m, IAS 39 adjusted loss before tax[2] of £118.8m) following implementation of the recovery plan.
- Further actions to align the cost base with the reduced size of the business continue:
  - Recent announcement of a voluntary redundancy programme in central support functions which, together with other cost actions, is expected to reduce the cost base in 2019.
  - Total headcount reduction over the last 12 months is now around 1,000 (c.20% of headcount).

Moneybarn delivers further strong growth in new business

- IFRS 9 adjusted profit before tax[1,2] up 28.3% to £28.1m (2017: Unaudited pro forma IFRS 9 adjusted profit before tax[1,2] of £21.9m, IAS 39 adjusted profit before tax[2] of £34.1m) reflecting improved credit quality and investment in strengthening the senior management team and increasing resource in customer services and collections.
- Demand for used cars and residual values have remained robust which, together with operational enhancements that have improved service to customers and introducers, has resulted in strong growth in new business volumes of 18%, notwithstanding tighter credit standards.
- Default rates and arrears levels remain stable and the credit quality of new business being written is now materially better than two years ago following the tightening of underwriting in 2017 and 2018.

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[1] *The Group has adopted IFRS 9 from its mandatory effective date of 1 January 2018 and made an opening balance sheet adjustment to restate the IAS 39 balance sheet onto an IFRS 9 basis at that date. However, 2017 statutory prior year comparatives have not been restated due to the IFRS 9 requirement in respect of de-recognition of financial assets which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year. As this would distort comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis, the Group has also provided unaudited pro forma 2017 income statement and balance sheet comparatives as though IFRS 9 had been implemented from 1 January 2017.*

[2] *Adjusted profit before tax is stated before: £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2017: £7.5m) and exceptional charges of £55.3m (2017: £224.6m) comprising: (i) £29.9m (2017: £32.5m) in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017; (ii) £18.5m (2017: £nil) in respect of the 8% premium and fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019; and (iii) £6.9m (2017: £nil) of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018. 2017 exceptional costs also included £172.1m in respect of the resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn.*

[3] *The weighted average number of shares in the period prior to the rights issue in April 2018 has been adjusted to take account of the bonus element of the rights issue of 1.367 and EPS comparatives restated.*

[4] *Annualised return on assets is calculated as adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.*

Note:

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

Chairman's statement

Introduction

PFG plays a very important role in the financial services sector and in society more generally. We provide financial inclusion to the 10 to 12 million adults in the UK and Ireland who are not well served by mainstream lenders.

We help our 2.4 million customers build better financial futures by providing them with access to credit and helping them to develop their credit profile. By making sure that we appropriately balance the needs of all our stakeholders - customers, regulators, equity and debt investors and colleagues – we aim to deliver attractive and sustainable returns for our shareholders.

We recognise that operating in our market comes with extra responsibility, particularly as we are the market leader. We are a fully authorised lender and have developed specialist business models and products that are tailored to serving our customers. We offer a more personal service, including face-to-face in our home credit business, and we support this with an increasing level of digital interaction. We undertake robust affordability assessments and support our customers through their entire credit journey with us, including dealing with them in a sympathetic way if they get into financial difficulty.

We are proud of the service we provide and we have over 130 years of successfully serving customers in our market.

Offer from NSF

On 22 February 2019, NSF made an unsolicited offer for PFG. We were disappointed at the hostile and highly opportunistic approach taken by NSF, including its decision not to engage with the Board prior to the announcement. We do not believe that the offer is in the best interests of PFG and are confident in PFG's strategy to deliver growth and sustainable attractive returns through its complementary, synergistic and industry leading businesses.

As outlined in PFG's statements on 6 March 2019 and 11 March 2019, the Board believe that as well as undervaluing the Group and its prospects, the offer presents significant operational and execution risks due to the changing regulatory environment, NSF's track record of value destruction and NSF's limited experience across the full breadth of the Group's businesses. In addition, the offer has major strategic flaws and appears to be based upon a misguided view that the regulatory approach would be different if the Group was owned by NSF. The Board remains focused on executing its current strategy as outlined to all stakeholders and is committed to maximising value for all PFG shareholders, including actively exploring all appropriate alternatives to achieve that objective.

Our Group

PFG has evolved significantly over the last decade, responding to ongoing changes in customer needs and preferences, as well as emerging market opportunities. We are now mainly a bank, combined with smaller more recently built and acquired online loan and vehicle finance operations, all of which have taken our business and our customer proposition well beyond our historic core of home credit. Our heritage has informed our more personal and human approach to credit, and given us the experience to lead our specialist sector, but we have changed and developed with our customers and the realities of the market to become a very different business than even five years ago. I believe that it is critical that we continue to focus on the future and increasingly work collaboratively across the Group to offer a unique range of joined up products and services, including through digital means, that help put people on a path to a better everyday life.

Vanquis Bank is now by far our largest business on all measures, and its growing 1.8 million customer base is central to our strategy of helping our customers progress through access to, and use of credit. The business continues to generate strong new booking volumes, and through our well-established 'low and grow' approach we grant credit line increases to customers who demonstrate that they can afford them. We are enhancing our approach by developing a comprehensive single view of our customers spanning all our product relationships, leveraging available external data including open banking. This will enable us to understand their circumstances more fully and make better informed and balanced decisions on the best way to help them progress in a sustainable way. The Vanquis Bank credit card has always helped our customers to build or rebuild their credit standing over time, and going forward we intend to further develop our capabilities to support even more applicants and customers in building their financial fitness, whether or not we are able to extend credit. This proposition, initially being built within Vanquis Bank, will be expanded across the Group to help more of our current and prospective customers to move forward positively in their lives. Our Vanquis Bank app now has over 1 million registered users, demonstrating a huge appetite to interact with us through digital channels, while retaining the more human and personal call centre based elements at the core of our approach. The success of our app is giving us the opportunity to keep customers fully informed and up to date about their card use and status at a time and in a way that suits them best, while introducing the Group's other offers such as car finance at an appropriate stage as they progress in their credit-building journey.

Our car finance business, Moneybarn, continues to grow strongly, demonstrating the attractiveness of our offer and the demand among consumers who continue to be underserved by mainstream lenders. We saw the opportunity in the aftermath of the credit crunch to provide the financial backing required to responsibly serve the needs of customers with vehicle finance where others lacked appetite. However, the continued success of Moneybarn also provides opportunities to leverage the skills, capabilities and experience of Vanquis Bank, particularly in collections, decision science and new customer acquisition. As part of the Group, Moneybarn has thrived, but I believe there are further significant mutual benefits from continuing to share the Group's resources more fully.

Our proud heritage remains in our home credit business, but the future direction there, as with many sectors, is towards more remote and digital interaction that customers prefer and increasingly expect. In response, we have built our Satsuma online loans business from scratch to scale, and are now introducing a unique product extension called Provident Direct, which spans the online and home credit channels building from our experience in both. Loans will be underwritten in the customer's home, but collected and managed largely remotely, providing a human experience that leverages technology appropriately and seamlessly for the customer. We are able to launch this innovative and forward looking proposition with the approval of the regulator largely due to the robust home credit operating model we have put into place, working closely with the FCA over the last 18 months. In particular, Provident alone mandates voice recording of all new UK lending which provides an unrivalled level of evidence of a genuine customer choice in their home for the new remotely collected proposition. I believe that this model represents the future of home credit, giving us strong differentiated growth opportunities as well as a very positive way to reconnect with customers who have left us in the past.

We are also expanding the Satsuma range from the small-sum short-term product into the longer larger online personal loans space, again with the FCA's approval. This gives our existing and new customers further progression opportunities, particularly as we begin to combine Satsuma's capabilities with those of Vanquis Bank which has also developed a loans product for its credit card customers. This is part of our strategy to offer a joined-up product range that allows customers the opportunity to progress from home credit through Provident Direct and Satsuma offers to credit cards at Vanquis Bank and ultimately a car loan with Moneybarn. A full range of options to suit our customers through the main stages of their credit journey allows us to help them improve their everyday lives no matter what their circumstances are. Satsuma continues to grow very strongly, demonstrating the customer appeal of the online model, while adjacent competitors with unsustainable online business models continue to falter and leave the market. I believe that Satsuma forms an important part of our comprehensive and joined up product range which clearly differentiates us from more focused and single product lenders.

Regulation

The regulation of our sector has changed fundamentally over the last five years, as have the nature of our relationships with our three main regulators: the FCA, the Prudential Regulation Authority (PRA) and the Central Bank of Ireland (CBI). It's fair to say PFG lost its way in 2017, severely damaging our relationship with all our stakeholders, particularly the FCA, who took over regulation of the consumer credit sector from the Office of Fair Trading (OFT) in April 2014. However, I am very proud to say that under new leadership we have made huge progress in turning around the situation. This includes beginning to earn back our trusted position as a leader in the sector and starting to change the focus and the culture of the Group back in the right direction, centred around what we do for customers. Given what we have been through, this is not a quick or easy process, but I am committed to making sure we stay the course and see through the changes required. We have recently begun to embed our new Blueprint throughout the organisation in 2019. This is based on a renewed purpose underpinned by strategic drivers and a defined set of behaviours. This is covered in more detail in Malcolm's CEO's review.

In Vanquis Bank, we have now implemented over 99% of the ROP refund programme within the previously announced financial provision for refunds and balance reductions and the agreed timetable with the FCA. We have also adapted to the developing regulatory requirements relating to enhanced forbearance, affordability and persistent debt in the credit cards market. We have also taken the opportunity to fully review and enhance all areas of how we treat our credit card customers including how we charge fees, how we price and what products we offer. Following completion of the ROP refund programme, and having carefully considered the lessons we have learned, discussions with the FCA on our plans for an enhanced ROP product and return to new sales have recently commenced.

In Moneybarn, we have made significant progress towards a settlement of the investigation started by the FCA in November 2017, with the expected cost of the required customer redress and fine covered by the provisions made at the time. We have also enhanced our termination handling processes and affordability assessments in line with the latest requirements, working closely with the FCA throughout.

In our home credit business, the highly experienced management team we installed under the most difficult circumstances, have succeeded in turning around the business working closely to build a strong relationship with the FCA in the process. These efforts resulted in the FCA having sufficient confidence in the business, leadership and operating model to grant us full authorisation in November 2018. From a position of extreme vulnerability just 12 months earlier, this is a remarkable achievement for our customers and our business. Since then, our management team has continued to work very closely with the FCA which has resulted in the FCA recently agreeing to the reintroduction of balanced scorecard targets, performance management and related variable pay throughout the field force for the first time since the first half of 2017. All of these achievements are based on the strong compliant operating model that has been developed under close FCA scrutiny and are dependent on the key elements of it being maintained going forward.

Our improved relationship with the regulators is of paramount importance not only to our delivery of good customer outcomes, but also for our ability to deliver attractive and sustainable returns for our shareholders.

Dividends

Consistent with the commitment at the time of the rights issue, the Board is proposing a nominal final dividend of 10.0p per share in respect of 2018 (2017: nil) which results in a dividend cover of 4.7 times (2017: nil). If approved at the AGM on 21 May 2019, this will be paid on 21 June 2019 to shareholders on the register on 24 May 2019.

As previously stated, the Board's dividend policy is to maintain a dividend cover of at least 1.4 times as the home credit business recovers and moves into profitability.

The Board has recently re-evaluated the timing of dividend payments. Accordingly, in respect of the 2019 financial year and thereafter, the Board intends to:

- Pay the interim dividend in September rather than in late November; and
- Pay the final dividend in late May rather than in late June.

This will bring the Group in line with other financial institutions and recognises the support of shareholders through the Group's recent problems and the rights issue in April 2018.

The voluntary requirement agreed between Vanquis Bank and the Prudential Regulation Authority (PRA) not to pay dividends to, or enter into certain transactions outside the normal course of business with, the Group without the PRA's consent, remains in place. However, following the consent of the PRA, Vanquis Bank paid a dividend of £59.8m (2017: £nil) to its parent, Provident Financial plc, on 8 March 2019.

Our people

The last two years have been a very turbulent time at PFG and we would not be where we are now without the hard work and efforts of all of the people in the organisation.

Firstly, I would like to thank Malcolm and the Group Executive Committee (ExCo) for their hard work this year in delivering our 2018 objectives during a very difficult time for the Group.

I would also like to thank both Stuart Sinclair, who stood in as Interim Chairman when Malcolm, who was previously Executive Chairman, took on the CEO's role, and Andrea Blance, who is now our Senior Independent Director. Together with Malcolm, they have brought much needed stability and helped to re-shape the Board over the last 12 months. Following my appointment in September 2018, Stuart stepped down from the Board, and I wish him all the very best for the future after 6 years with the Group.

I would also like to thank Rob Anderson, who stepped down as a non-executive director in December, after 9 years, Andrew Fisher, who stepped down as Finance Director in December, after 12 years with the Group, and John Straw, who will not stand for re-election at the forthcoming AGM in May. All three of these Board members made valuable contributions to the Group during their tenure.

Simon Thomas recently joined the Board as Chief Financial Officer (CFO), to replace Andrew Fisher. Simon is an experienced CFO with strong sector experience having spent the last 12 years as CFO of a FTSE 250 financial services company and served as Group Financial Controller at Nationwide Building Society earlier in his career. He is now working closely with Malcolm to deliver the Group's strategy.

We have invested a considerable amount of time strengthening the governance framework, clearly documenting how things should work and then communicating this clearly to the Board, the ExCo, central functions and each of our divisions. We have supplemented this with the recruitment of three new non-executive directors – Angela Knight, Elizabeth Chambers and Paul Hewitt – each of whom bring a depth of experience and expertise in our sector. Angela's experience includes being a non-executive director of Lloyds TSB and the CEO of the British Bankers Association (now UK Finance). Elizabeth's experience includes being a non-executive director of Dollar Financial Group, serving as Chief Marketing Officer at Barclays and Barclaycard, and Chief Strategy, Product and Marketing Officer at Western Union. She also led Barclaycard's co-branded cards business in the UK. Paul's experience includes chairing the audit committees as a non-executive director of Tesco Bank and Co-operative Banking Group and serving as Deputy Group Chief Executive and CFO of the Co-operative Group from 2003 to 2007.

In addition, we have also decided to reposition the role of the Chairman of Vanquis Bank to include serving as a non-executive director on the PFG Board. This will help improve decision making and co-ordination between the two Boards. This is another positive step in ensuring greater coordination and governance across the Group and I am pleased to announce that we have reached an agreement in principle with an individual for this dual role, subject to regulatory approval, who has a wealth of experience in retail banking and consumer lending. I would personally like to thank Jonathan Roe, the current Chairman of Vanquis Bank, who will step down from his role later this year.

I am very confident that we have assembled a strong Board with the right skills, experience and balance to run the Group centred around a PRA authorised and regulated bank, co-ordinated with smaller complementary consumer finance businesses authorised and regulated by the FCA and CBI. I am equally confident in the strong divisional management teams that we have built and maintained, most recently completed by the agreement in principle with a highly experienced banking executive to be appointed to the role of Managing Director of Vanquis Bank, subject to PRA and FCA approval.

And finally, but certainly not least, I would like to place on record my thanks for all the hard work and efforts of all my colleagues throughout the Group. I have been extremely impressed by the level of passion and commitment of everyone, whether they are in Vanquis Bank, CCD, Moneybarn or the corporate office. I am very much looking forward to working with the whole team to embed our new purpose and culture in 2019, and continuing the work to ensure that PFG is a strong and successful business going forward.

Patrick Snowball
Chairman
13 March 2019

Chief Executive's review

Introduction

PFG is the leading provider of credit products which provide financial inclusion for the 10 to 12 million consumers who are not well served by mainstream lenders. We serve 2.4 million customers through our four brands; Vanquis Bank credit cards, Provident home credit, Satsuma online loans, and Moneybarn car finance, all of which have market-leading positions. There remains a significant opportunity for us to enhance our market-leading positions through our businesses working much more collaboratively across our core capabilities of credit, collections, distribution, data and analytics. Continuing to develop our digital capability will also be central to maintaining our market-leading positions. The delivery of our strategy is supported by a financial model that is based on investing in capital generative businesses offering an attractive return, and which aligns the dividend policy with a strong capital base and future growth plans.

2018 has been a year of operational recovery after the events of 2017. Following the recapitalisation of the Group's balance sheet through completion of the rights issue in April 2018, we committed to five clear objectives for 2018. These were: (i) implementation of the home credit recovery plan with a view to the business becoming fully authorised by the FCA; (ii) completing the ROP refund programme in Vanquis Bank and adapting the business model to changes in regulation, particularly in respect of the new persistent debt measures; (iii) maintaining a constructive dialogue with the FCA to progress the investigation at Moneybarn; (iv) strengthening the Group's governance framework and changing culture to refocus more on the customer; and (v) re-accessing debt markets.

I am very pleased to report that we have delivered against each of these objectives.

1. Home credit recovery plan

CCD has made excellent progress in implementing the UK home credit recovery plan which culminated in the business gaining full authorisation by the FCA in November 2018. This is a major achievement by the CCD team who have worked tirelessly to turnaround the business following the events of 2017.

The implementation of the recovery plan has required a significant strengthening of the controls and processes throughout the business in 2018. In particular, there have been two major milestones delivered in the year.

Firstly, we now use voice recording for all issuance of credit in the UK and the majority of collections visits. This enables us to evidence our interactions with customers and oversee customer outcomes, both of which are very important in meeting regulatory requirements. It also allows us to use the recordings for training purposes, ensuring that our CEMs continuously improve their service to customers.

Secondly, during the second quarter of the year, we piloted a new field structure in 20 locations which involved the introduction of a new management role, called a Business Manager, to directly manage and support CEMs in delivering the right quality of service to our customers. The aim of the new structure is to better define roles and responsibilities, improve spans of control, provide greater support for CEMs in dealing with arrears and provide better structured training with a clear focus on enhancing the control environment. Following a successful pilot, including a number of branches being visited by the FCA in July, we rolled out the new structure across the field organisation in the second half of the year.

Both of these changes, together with numerous other actions undertaken by management, will allow the business to give customers the best possible service whilst maintaining high levels of regulatory compliance.

We have been focused on collections activity during the turnaround of the home credit business in 2018. This has resulted in the collections performance of credit originated since the fourth quarter of 2017, where the CEM has ownership of the customer relationship and has issued the credit, performing broadly in line with historic levels. However, the collections performance of credit issued prior to the fourth quarter of 2017 has performed significantly below historic levels. These customers were typically active during the migration to the new operating model and we have seen a large number of these customers making less frequent payments which are also typically lower than their contracted rate. The CEMs collecting from these customers did not originate the loan in most cases and therefore the customer relationship is not as strong. Importantly, however, these balances now only represent approximately £20m of CCD's receivables book of £292.5m.

During the implementation of the recovery plan, the performance management of field resource has been focused on managing activity and customer outcomes without the use of performance-related pay or financial objectives. However, in early March 2019, the FCA confirmed that the business can implement enhanced performance management of CEMs based on a balanced scorecard and agreed to the introduction of an element of variable performance-related pay. The scorecard will be tested for impact on customer outcomes and for calibration in an area and then a larger region before being deployed in full by the end of the second quarter of 2019. The implementation of this full suite of performance measures is a key milestone in ensuring the sustainability of returns in CCD and the creation of longer term value for shareholders. It is essential to improving the efficiency and effectiveness of the field organisation, both in terms of delivering consistently good customer outcomes and returning the business to run-rate profitability in due course through growing the customer base and improving collections performance.

We have made very good progress in the turnaround of CCD in 2018 and the business has delivered a significant reduction in losses. Provident remains the clear market leader in the home credit market with a strong franchise and Satsuma is showing strong growth. We believe that we have now developed an operating model for our UK business that meets the standards expected by the FCA. Importantly, we believe the key requirements of the recent high-cost credit review can be best evidenced through the recording of customer interactions, particularly at the point of credit being issued. However, due to the events of 2017 and the subsequent need to implement the recovery plan, the customer base and receivables book has contracted significantly over the last 18 months and the business is now sub-scale. As a result, the business has two main objectives in 2019: (i) stabilising the customer base to set the business up for growth in the future; and (ii) reducing the cost base. Both of these objectives will be necessary to return the business to run-rate profitability in due course and then deliver the Group's target ROA of approximately 10% in the medium term.

In respect of growth, we saw good momentum on new customer recruitment in the last quarter of 2018 and encouragingly this has continued in early 2019. We also plan to expand the products we offer our customers in CCD in two ways during 2019. Following agreement with the FCA, we will be trialling an enhancement of our home credit product offering during the second quarter of 2019, leveraging the capabilities in home credit and Satsuma. The product enhancement will continue to be relationship managed in the home by a CEM, but payments will be collected remotely via continuous payment authority (CPA). We anticipate that this will allow us to attract new and former customers who do not wish to have a weekly collections visit by a CEM and are of suitable credit quality. Secondly, as well as continuing to increase the distribution of the core Satsuma small-sum, short-term loan product, following agreement with the FCA, we intend to undertake a trial of larger, longer duration personal loans at rates below 100% APR during the third quarter of 2019. We believe continued innovation in Satsuma is a crucial tool for the Group to enhance its digital customer proposition which is increasingly important in responding to ongoing changes in customer needs and preferences.

In terms of costs, we will continue to align the cost base of the business to the current size of the customer base. We have recently announced a voluntary redundancy programme with a view to reducing headcount by approximately 200 in CCD's central support functions. This will mean that over the last 12 months we have reduced headcount in CCD by approximately 1,000 (around 20%). Whilst redundancies are always regrettable, we believe that we need to continue to reduce the cost base which, together with delivering growth, is necessary to achieve run-rate profitability in due course. The actions we have already taken, and continue to take, demonstrates that we are prepared to make the hard choices required to ensure that the Group's operations are lean in order to remain the most competitive player in the sector.

In June 2018, we were deeply shocked and saddened by the death of Tina Cantello, a CEM in Romford. Tina was a well-liked and respected colleague who had been with Provident for over 25 years. She will be sorely missed and we are supporting her family through these difficult times. The safety of our employees remains of paramount importance.

2. Vanquis Bank refund programme and regulatory changes

The ROP refund programme is now over 99% implemented, with around 1.3 million current and former customers refunded by early March 2019. The team at Vanquis Bank have done very well to deliver this in line with the timetable agreed with the FCA and within the provisions established at the end of 2017. It is pleasing to report that there has been no material change in the level of complaints arising in relation to ROP.

Vanquis Bank has successfully delivered a number of business model refinements during 2018 in order to adapt to changes in regulation and to improve the customer proposition, including: (i) reducing the cash interest rate to be in line with the purchase rate; (ii) implementing voluntary controls allowing changes to repayment dates and alerting customers when promotional periods are expiring or they are nearing their credit limit; (iii) introducing credit line increase consents; and (iv) early interventions have been implemented so that customers in potential financial difficulty are being contacted quickly. In addition, in response to the FCA's definition of persistent debt within the Credit Card Market Study (CCMS), Vanquis Bank increased its minimum due payments by around 50bps in the third quarter of the year and will shortly roll-out the use of recommended payments which we expect to be typically between 100bps and 150bps higher than the minimum payment due. Together with the implementation of other communication strategies across the customer base, these measures should reduce the risks that customers meet the definition of being in persistent debt and lose access to the benefits of owning a Vanquis Bank credit card.

The affordability principles arising from the FCA's review of creditworthiness in consumer credit took effect from 1 November 2018. Following implementation of a new underwriting platform in November, Vanquis Bank successfully migrated all distribution channels to the new decision module with enhanced creditworthiness assessments. All of the Group's businesses are compliant with the FCA's affordability requirements.

I am very pleased that Vanquis Bank has managed to deliver stable profits in 2018, despite the significant focus on the ROP refund programme and adapting to changes in regulation. Looking into 2019, we expect the impact of the regulatory measures implemented in 2018 to moderate Vanquis Bank's receivables growth as they fully flow through the receivables book. However, we expect new customer bookings in 2019 to be at a similar level to 2018 and the business is working on a number of a new initiatives to support growth in 2020 and beyond including enhancing the credit line increase programme, improved targeting of customers within Vanquis Bank's risk appetite such as 'thin file' consumers, development of partnership opportunities and marketing of credit cards to the Moneybarn customer base.

3. Moneybarn FCA investigation

The FCA has completed the information gathering phase of its investigation into affordability, forbearance and termination options at Moneybarn. We have made significant progress with the FCA in reaching an agreed resolution to the investigation and are working towards concluding the matter in the coming weeks. The combined cost of the agreement reached with the FCA is expected to be within the scope of previously made financial provisions of £20m set aside at the end of 2017. The FCA will be issuing its final notice in respect of the investigation in due course. This represents the closure of a significant operational headwind and demonstrates the effectiveness of our remediation process and the constructive relationship we have established with the regulator.

Moneybarn delivered strong growth in customers, receivables and profits in 2018 and this has continued into early 2019. We have been developing a number of additional growth initiatives which should provide further traction as we go forward, including using the Vanquis Bank app to offer bespoke Moneybarn products to Vanquis Bank customers, expansion of relationships with lead generators and quotation search partners, introduction of an existing customer re-solicitation programme to retain high-quality customers and the introduction and development of new asset classes that resonate with Moneybarn's target customer base.

4. Governance and culture

We have made significant progress in strengthening our governance framework, improving our relationship with regulators and implementing the changes necessary to culture to place the customer firmly at the heart of the Group's strategy. This provides the basis for delivering attractive and sustainable returns to shareholders.

We have invested further in strengthening our governance framework by recruiting a central risk team to work under the Interim Chief Risk Officer, the co-ordination of IT under a new Group Chief IT Officer and the recruitment of a new Interim Group Chief Internal Auditor and a Group Head of Human Resources. A permanent Group Chief Risk Officer has recently been appointed and the process for recruiting a permanent Group Chief Internal Auditor is well advanced.

The ExCo, which was established in early 2018 and comprises Group and divisional senior executives, is now playing a far greater role in delivering on the Group's vision through enhancing information flows and collaboration. As previously announced, the Board is finalising plans to establish a Customer, Culture and Ethics Committee, which is intended to be a committee of the Board and will be chaired by Elizabeth Chambers.

We have undertaken significant activity to realign the Group's culture more closely to the developing needs of the customer, and to collaborate across businesses to deliver better customer outcomes. We have recently launched a new Blueprint throughout the Group to support our new purpose of: "We help put people on a path to a better everyday life". I am very passionate about our new purpose and PFG's role in society. Our purpose is underpinned by a number of strategic drivers and behaviours. These aim to deliver an appropriate balance between the needs of our customers, the regulator, equity and debt investors and our employees in order to ensure that PFG is successful and sustainable for all of its stakeholders.

5. Funding and capital

The completion of the rights issue to recapitalise the Group was undertaken with a view to maintaining the Group's investment grade credit status and re-establishing normal access to funding from bank and debt capital markets. The Group's CET 1 ratio at 31 December 2018 was 29.7% compared with a fully loaded minimum regulatory capital requirement of 25.5%. This provides headroom of approximately £95m, and is consistent with the Board's risk appetite of maintaining regulatory capital headroom in excess of £50m.

We have made very good progress in strengthening the Group's funding position during the year. On 4 June 2018, we issued £250m of 5-year fixed rate bonds carrying a semi-annual coupon of 7%. The proceeds of the bond issue were used to finance the tender offer for the £250m existing senior bonds which carry a coupon of 8% and mature in October 2019. 89% of the existing bonds were tendered and redeemed at an 8.0% premium on 30 May 2018. The remaining existing senior bonds of £27.5m will mature on their original maturity date in October 2019. The retail deposits programme at Vanquis Bank continues to be strong. During the year, retail deposits have increased from £1,301.0m to £1,431.7m which allowed Vanquis Bank to repay its residual intercompany loan from Provident Financial of £55m in November 2018. Vanquis Bank is now fully funded with retail deposits.

All of this means that the Group has sufficient debt facilities, together with access to retail deposits, to fund growth and contractual maturities until May 2020, when the syndicated bank facility matures. It is our intention to refinance this facility 12 months in advance of maturity in line with our treasury policy.

The actions we have taken during 2018 mean that we have a strong balance sheet and access to a diverse range of funding sources, including retail deposits which fully funds by far the largest portion of the Group in Vanquis Bank. The Group's businesses outside of Vanquis Bank are funded by the bank and debt capital markets through a combination of syndicated bank facilities, retail bonds, institutional bonds and private placements. Our funding position underpins our confidence in our ability to realise the opportunities to grow and successfully develop all of our businesses across the Group.

Outlook

2018 has been a year of recovery and we have successfully delivered against the operational objectives we committed to at the start of the year. We expect to build on this progress in 2019 as we continue to adapt the businesses to changes in regulation, further strengthen the relationship with our regulators, refinance the Group's syndicated bank facility, embed our new purpose and Blueprint and continue the turnaround of our home credit business. All of these actions enhance the Group's ability to create value for shareholders. We also recognise that we are managing the Group's recovery at a time when the UK macro-economic and political outlook is uncertain and we have proactively tightened our underwriting standards throughout the Group over the last two years.

PFG is a leading provider of credit products which provide financial inclusion for the 10 to 12 million consumers who are not well served by mainstream lenders. As a leader in credit cards, home credit and motor finance for this market and with a strong trajectory in digitally originated and delivered instalment loans, the Group has strong growth potential and attractive product line diversification. Given our breadth of customer base and product offering and through our core capabilities of credit, collections, distribution, data and analytics, the Group is very well positioned to deliver attractive and sustainable shareholder returns and to further strengthen our market-leading positions through greater capture of the commercial and financial synergies that exist between our businesses. Continuing to develop our digital capability will be central to maintaining our market-leading positions and will also allow enhanced management of the customer journey and greater collaboration across divisions.

The Board is confident in the strategic direction for the Group, anchored in both the opportunities presented by Vanquis Bank and the ability of the Group's other businesses to work more closely with Vanquis Bank going forward. The management team is in the process of developing and implementing a number of planned growth and efficiency initiatives which the Board believes will have benefits both for customers in terms of improved experience and for shareholders in terms of delivering attractive and sustainable returns. The Board confirms that PFG continues to trade in line with expectations.

Finally, I would like to thank all of my colleagues for their hard work over the last year.

Malcolm Le May
Chief Executive Officer
13 March 2019

Financial review

IFRS 9

The Group has reported its results under IFRS 9 for the first time in 2018. IFRS 9 requires the recognition of impairment provisions on the inception of a loan based on the probability of default and the expected loss on a loan when it defaults. This differs to IAS 39 which required impairment provisions to be made when there was an impairment event such as a missed payment. IFRS 9 therefore results in the earlier recognition of impairment provisions than IAS 39 and results in lower profits whilst a business is growing. Conversely, shrinking businesses would experience an increase in profits.

Whilst the Group's results in 2018 are reported under IFRS 9, the 2017 statutory prior year comparatives have not been restated due to the IFRS 9 requirement in respect of the de-recognition of financial assets which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year. As this would distort comparability with the 2018 income statement and balance sheet which is on a full IFRS 9 basis, the Group has also provided unaudited pro forma 2017 income statement and balance sheet comparatives on a full IFRS 9 basis as though IFRS 9 had been adopted from 1 January 2017.

The Group's unaudited pro forma disclosures in respect of the year ended 31 December 2017 are as follows:

Summary balance sheet as at 31 December 2017

	IAS 39 £m	IFRS 9 adjustment £m	IFRS 9 £m
Receivables:			
– Vanquis Bank	1,554.7	(149.5)	1,405.2
– CCD	390.6	(43.2)	347.4
– Moneybarn	364.1	(45.4)	318.7
Total receivables	2,309.4	(238.1)	2,071.3
Pension asset	102.3	-	102.3
Liquid assets buffer	263.4	-	263.4
Borrowings	(2,193.0)	-	(2,193.0)
Deferred tax (liabilities)/assets	(20.3)	54.1	33.8
Other	73.3	-	73.3
Net assets	535.1	(184.0)	351.1

The adoption of IFRS 9 resulted in a reduction in receivables of £238.1m at 31 December 2017, which net of deferred tax, results in a reduction in net assets of £184.0m.

Group adjusted profit before tax for the year ended 31 December 2017

	IAS 39 £m	IFRS 9 adjustment £m	IFRS 9 £m
Adjusted profit/(loss) before tax:			
– Vanquis Bank	206.6	(25.2)	181.4
– CCD	(118.8)	12.5	(106.3)
– Moneybarn	34.1	(12.2)	21.9
– Central costs	(12.8)	-	(12.8)
Adjusted profit before tax[1]	109.1	(24.9)	84.2
Adjusted EPS[2]	45.7p	(8.9p)	36.8p
Annualised ROA[3]	6.9%	-%	6.9%

[1] *Adjusted profit before tax in 2017 is stated before: (i) amortisation of £7.5m in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014; and (ii) exceptional costs of £224.6m comprising £172.1m in respect of the estimated cost of restitution, other costs and provisions and a fine following resolution on 27 February 2018 of the FCA investigation into ROP in Vanquis Bank, £20.0m in respect of the estimated cost arising*

in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn and £32.5m in respect of the costs relating to the migration to the new home credit operating model and the subsequent implementation of the recovery plan following the poor execution of the migration.

2 *EPS has been adjusted to reflect the bonus element of the rights issue in 2018. A conversion factor of 1.367 has been applied to the weighted average number of shares for the year ended 31 December 2017.*

3 *Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December 2017.*

The Group's unaudited pro forma IFRS 9 adjusted profits in 2017 of £84.2m were £24.9m lower than IAS 39 adjusted profits. This reflects the impact of the growth in receivables in Vanquis Bank, Moneybarn and Satsuma partly offset by the impact of the shrinkage in home credit receivables. Profits in growing businesses are typically lower under IFRS 9 whilst conversely profits of shrinking business are typically higher.

Despite the adjustments required to receivables, net assets and earnings, it is important to note that IFRS 9 only changes the timing of profits made on a loan. The Group's underwriting and scorecards are unaffected by the change in accounting. The ultimate profitability of a loan is the same under both IAS 39 and IFRS 9 and more fundamentally the cash flows and capital generation over the life of a loan remain unchanged. The calculation of the Group's bank covenants are unaffected by IFRS 9, as they are based on accounting standards in place at the time the covenants were set. Based on transitional arrangements, the regulatory capital impact of IFRS 9 is being phased in on a transitional basis over five years.

Group performance

The Group's 2018 results can be summarised as follows:

	Year ended 31 December			
	2018 IFRS 9 £m	2017 IFRS 9[1] £m	Change %	2017 IAS 39 £m
Adjusted profit/(loss) before tax:				
– Vanquis Bank	184.3	181.4	1.6	206.6
– CCD	(38.7)	(106.3)	63.6	(118.8)
– Moneybarn	28.1	21.9	28.3	34.1
– Central costs	(20.2)	(12.8)	(57.8)	(12.8)
Adjusted profit before tax[2]	153.5	84.2	82.3	109.1
Adjusted EPS[3]	46.6p	36.8p	26.6	45.7p
Annualised ROA[4]	7.6%	6.9%		6.9%

1 *Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017.*

2 *Adjusted profit before tax is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2017: £7.5m); and (ii) exceptional charges of £55.3m (2017: £224.6m) comprising £29.9m in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017 (2017: £32.5m); (ii) £18.5m in respect of the 8% premium and fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019 (2017: £nil); and (iii) £6.9m of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018 (2017: £nil). 2017 exceptional costs also included £172.1m following resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn.*

3 *The weighted average number of shares in the period prior to the rights issue in April 2018 has been adjusted to take account of the bonus element of the rights issue of 1.367 and EPS comparatives restated.*

4 *Annualised return on assets is calculated as adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.*

The Group has reported IFRS 9 profit before tax, amortisation of acquisition intangibles and exceptional items up by 82.3% to £153.5m (2017: Unaudited pro forma IFRS 9 profit before tax, amortisation of acquisition intangibles and exceptional items of £84.2m, IAS 39 profit before tax, amortisation of acquisition intangibles and exceptional items of £109.1m).

Vanquis Bank has delivered a 1.6% increase in IFRS 9 adjusted profit before tax to £184.3m (2017: Unaudited pro forma IFRS 9 adjusted profit before tax of £181.4m, IAS 39 adjusted profit before tax of £206.6m), principally reflecting the benefit of operational leverage and receivables growth of 4.9%. This has been substantially offset by the continuing reduction in the revenue yield due to lower penetration of the ROP product within the customer base, following the cessation of sales to new customers in April 2016, as well as the continued expansion of the product offering into the near prime segment of the market through the Chrome branded credit card.

CCD has reported a reduced IFRS 9 adjusted loss before tax of £38.7m (2017: Unaudited pro forma IFRS 9 adjusted loss before tax of £106.3m, IAS 39 adjusted loss before tax of £118.8m) reflecting successful implementation of the recovery plan following the significant losses caused by the poorly executed migration to the new operating model in 2017. The focus in 2019 will be on stabilising the customer base to set the business up for growth in the future and continuing to reduce the cost base, both of which are necessary to return the business to run-rate profitability in due course.

Moneybarn's IFRS 9 adjusted profit before tax has increased by 28.3% to £28.1m (2017: Unaudited pro forma IFRS 9 adjusted profit before tax of £21.9m, IAS 39 adjusted profit before tax of £34.1m), reflecting strong growth and improved credit quality.

IFRS 9 adjusted basic earnings per share of 46.6p (2017: Unaudited pro forma IFRS 9 adjusted basic earnings per share of 36.8p, IAS 39 adjusted basic earnings per share of 45.7p) increased by 26.6%, reflecting the increase in adjusted earnings partly offset by the impact of the rights shares issued in April 2018.

Reported IFRS 9 profit before tax increased by 161.3% to £90.7m (2017: Unaudited pro forma IFRS 9 loss before tax of £147.9m, IAS 39 loss before tax of £123.0m) and IFRS 9 basic earnings per share increased by 133.5% to 25.2p (2017: Unaudited pro forma IFRS 9 basic loss per share of 75.3p, IAS 39 basic loss per share of 66.4p). Exceptional costs in 2018 amounted to £55.3m (2017: £224.6m) comprising £29.9m in respect of the implementation of the home credit recovery plan (2017: £32.5m), £18.5m in respect of the refinancing of the £250m senior bonds maturing in October 2019 (2017: £nil) and a £6.9m non-cash exceptional pension charge relating to GMP equalisation (2017: £nil). 2017 exceptional costs also included £172.1m following resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn.

Vanquis Bank

	2018 IFRS 9 £m	2017 IFRS 9[1] £m	Change %	2017 IAS 39 £m
	Year ended 31 December			
Customer numbers ('000)	1,773	1,720	*3.1*	1,720
Year-end receivables prior to balance reduction provision[2]	1,477.5	1,480.6	*(0.2)*	1,630.1
Reported year-end receivables	1,473.8	1,405.2	*4.9*	1,554.7
Average receivables[3]	1,489.0	1,366.8	*8.9*	1,497.3
Revenue	650.3	650.5	-	638.8
Impairment	(241.6)	(223.5)	*(8.1)*	(186.6)
Revenue less impairment	408.7	427.0	*(4.3)*	452.2
Annualised revenue yield[4]	43.7%	47.6%		42.7%
Annualised impairment rate[5]	16.3%	16.4%		12.5%
Annualised risk-adjusted margin[6]	27.4%	31.2%		30.2%
Costs	(188.4)	(209.1)	*9.9*	(209.1)
Interest	(36.0)	(36.5)	*1.4*	(36.5)
Adjusted profit before tax[7]	184.3	181.4	*1.6*	206.6
Annualised return on assets[8]	10.9%	11.8%		11.9%

[1] *Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017.*

[2] *Year-end receivables are stated prior to the estimated balance reduction provision of £3.7m (2017: £75.4m) arising as a result of the resolution of the FCA investigation into ROP reached on 27 February 2018 (see 7 below).*

[3] *Calculated as the average of month end receivables for the 12 months ended 31 December excluding the impact of the estimated balance reduction provision (see 2 above).*

[4] *Revenue as a percentage of average receivables for the 12 months ended 31 December.*

[5] *Impairment as a percentage of average receivables for the 12 months ended 31 December.*

[6] *Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.*

[7] *Adjusted profit before tax for the year ended 31 December 2017 was stated before an exceptional cost of £172.1m in respect of the estimated cost of restitution, other costs and provisions and a fine following resolution on 27 February 2018 of the FCA investigation into ROP of which £75.4m was reflected as a balance reduction provision in receivables.*

[8] *Profit before interest and exceptional items after tax as a percentage of average receivables for the 12 months ended 31 December.*

Given the strong growth in new customers and receivables experienced over recent years, the implementation of IFRS 9 has reduced the historical level of earnings in Vanquis Bank as losses are brought forward to the inception of a loan rather than when there is evidence of an impairment such as a missed payment. As a result, unaudited pro forma IFRS 9 adjusted profits of £181.4m in 2017 are 12.2% lower than IAS 39 reported profits for the same period of £206.6m. Revenue in Vanquis Bank is marginally higher under IFRS 9 reflecting revenue being predominantly recognised on the gross receivable under IFRS 9 compared with the net receivable under IAS 39.

Vanquis Bank has delivered a 1.6% increase in IFRS 9 adjusted profit before tax to £184.3m in 2018 (2017: Unaudited pro forma IFRS 9 adjusted profit before tax of £181.4m, IAS 39 adjusted profit before tax of £206.6m). The modest increase in profits reflects slower growth in new account bookings and receivables together with the benefit of operational leverage. These have been substantially offset by the continued moderation in the annualised risk-adjusted margin from the reduced penetration of the ROP product and a shift in business mix towards nearer prime.

Whilst the marketing activity of competitors in both the direct mail and internet channels has continued, demand for non-standard credit cards continues to be strong. New customer bookings of 366,000 were 71,000 lower than 2017 which reflects the impact of tighter underwriting, the cessation of the Argos contract in early 2018 and a temporary reduction in the marketing programme in the fourth quarter as the business focused on implementation of a new underwriting platform which went live in November. As a result, customer numbers ended the year at 1,773,000 (2017: 1,720,000), representing year-on-year growth of 3.1%.

There are now over 1 million registered users of Vanquis Bank's new mobile app launched in June 2017. The new app has been designed to be highly customer centric and features a number of functions which allow customers to remain more in control of their account through push notifications, arrears support, money transfer and the presentation of other products. In addition, the Provident Knowledge Universe (PKU) customer database has now been rolled out in Vanquis Bank and Satsuma. PKU provides a unique richness and granularity of data for the Group's customers and the wider UK population. This capability enhances the Group's new customer prospecting, existing customer management, macro and micro monitoring of the UK market and the Group's strategic planning and development. Both the new app and PKU will allow enhanced management of the customer journey and greater collaboration across divisions. The continuing development of digital capability is an essential driver in delivering good customer outcomes and maintaining the returns of Vanquis Bank in the context of a moderating revenue yield.

IFRS 9 reported receivables ended the year at £1,473.8m, up 4.9% on the 2017 year end (2017: Unaudited pro forma IFRS 9 receivables of £1,405.2m) reflecting the growth in new customer accounts and the ongoing credit line increase programme to good-quality existing customers.

Following a successful pilot to a small segment of customers towards the end of the first half of 2018, the ROP refund programme went into full roll-out during the second half of the year. In particular, there was a significant step up in the volume of refunds being processed in the final quarter of the year. As a result, the balance reduction provision held against receivables reduced from £75.4m at the end of 2017 to £3.7m at the end of 2018. This represents balance reductions of £60.9m applied to the accounts of existing customers and £10.8m reclassified to provisions, reflecting an increase in the estimate of the number of customers who will receive a cash refund rather than a balance reduction. In addition, £61.8m of the provision for cash refunds, operating costs and for complaints that may arise in relation to ROP more generally have been used during 2018. Accordingly, after the reclassification of £10.8m from the balance reduction provision, the remaining provision amounts to £45.7m, down from £96.7m established at the end of 2017. There has been no material change in the level of complaints arising in relation to ROP.

Refund activity has continued in 2019 in line with the FCA's agreed timetable. By early March 2019, the ROP refund programme was over 99% complete with 1.3 million current and former customers refunded. The cost of refunds and balance reductions in 2019 are within the remaining provisions for refunds and balance reductions held at the end of 2018. Discussions with the FCA are now commencing for a Group Board approved enhancement to the ROP product and return to new sales. The Group expects to provide further updates during the course of 2019.

In response to the definition of persistent debt arising from the FCA's credit card market study, Vanquis Bank increased its minimum payments in the third quarter of the year and is in the process of rolling out the use of recommended payments and other communication strategies across its customer base to mitigate the risks that customers lose access to the benefits of owning a Vanquis Bank credit card. The timing of implementing these measures has not resulted in a material impact on receivables growth in 2018 as was originally anticipated at the start of the year. However, the measures are expected to moderate receivables growth in 2019, particularly through the first half of the year, as they fully flow through into customer repayment behaviour.

The focus of the Vanquis Bank loans proposition remains on providing unsecured loans to existing credit card customers, with volumes deliberately moderated during the second half of the year reflecting the focus on credit card operations including progressing the ROP refund programme, implementing measures to address the FCA's definition of persistent debt and the implementation of the new underwriting platform. The IFRS 9 receivables book in respect of loans has increased from £14.8m at December 2017 to £26.0m at December 2018.

Having adapted the business to a number of regulatory changes and the implementation of a number of customer focused measures during 2018, Vanquis Bank is in the process of developing a number of initiatives to deliver further growth. These include:

- Enhancements to the "low and grow" strategy of credit line increases, utilising improved decision science and open banking;
- Increased penetration within our existing risk appetite, through improved targeting of 'thin file' customers, building ongoing relationships with declined customers ('financial fitness') and increased penetration in the near prime segments through expansion of distribution;

- Development of further partnerships, including new affiliate and co-brand relationships;
- Further development of the app to improve customer experience and the ability to self-serve; and
- Development and marketing of Vanquis Bank cards to the Moneybarn customer base.

These initiatives are expected to support growth, particularly in 2020 and beyond.

IFRS 9 revenue has remained in line with 2017 compared with the 8.9% increase in average IFRS 9 receivables. The annualised IFRS 9 revenue yield has moderated from 47.6% to December 2017 to 43.7% to December 2018 due to two factors. Firstly, a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales in April 2016. This resulted in a year-on-year reduction in ROP income of approximately £15m. Secondly, there has been some further moderation in the interest yield from the continued expansion of the product offering into the near prime segment of the market through the Chrome branded card.

Notwithstanding the progressive tightening of underwriting over the last 18 months, lower new customer bookings and the increased mix of better quality Chrome customers within the customer base, the annualised IFRS 9 impairment rate to December 2018 has remained broadly stable at 16.3% of average receivables compared with 16.4% to December 2017. The expected improvement in the impairment rate has been substantially offset by some pressure on delinquency and arrears, primarily from an increase in the use of payment arrangements during the second half of the year. The increase in payment arrangements, which are the subject of high impairment provisions based on historical experience, reflects a number of factors including: (i) continued enhanced forbearance under FCA regulation; (ii) the increase in minimum payments in the second half of 2018 to address the FCA's definition of persistent debt; and (iii) the significantly reduced penetration of the ROP product into the customer base following the cessation of sales in April 2016. Underwriting standards have been progressively tightened over the last 18 months which, together with the historic resilience of the business model, means that Vanquis Bank is well-positioned if there is any deterioration in the UK economic environment. The rate of increase in payment arrangements has moderated in early 2019.

The annualised IFRS 9 risk-adjusted margin has moderated from 31.2% to December 2017 to 27.4% to December 2018, reflecting the reduction in the annualised IFRS 9 revenue yield together with the stable impairment rate discussed above.

Costs have reduced by 9.9% to £188.4m in 2018 (2017: £209.1m). Vanquis Bank has been able to access operational leverage reflecting tight cost control, a reduction of approximately £5m in acquisition costs from lower new customer account bookings and a reduction of approximately £4m in the investment spend on digital development. In addition, costs in 2018 benefited from the release of approximately £10m in respect of share-based payment, incentive and bonus arrangements as a result of the business performing below expectations through 2017 and 2018. Cost efficiency will remain a strong focus for Vanquis Bank in 2019.

Interest costs of £36.0m have reduced by 1.4% during 2018 (2017: £36.5m). This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 3.7% in 2017 to 3.5% in 2018. This reflects a lower average interest rate on retail deposits and a lower average level of intercompany loan from PFG which represented a higher cost of funding for Vanquis Bank. Vanquis Bank fully repaid its intercompany loan to PFG in November 2018 and is now fully funded with retail deposits.

Vanquis Bank's annualised IFRS 9 return on assets has reduced to 10.9% (2017: Unaudited pro forma IFRS 9 annualised return on assets of 11.8%, IAS 39 annualised return on assets of 11.9%), reflecting the moderation in the annualised IFRS 9 risk-adjusted margin partly offset by positive operational leverage.

CCD

	Year ended 31 December			
	2018 IFRS 9 £m	2017 IFRS 9[1] £m	*Change %*	2017 IAS 39 £m
Customer numbers ('000)	560	780	*(28.2)*	780
Year-end receivables	292.5	347.4	*(15.8)*	390.6
Average receivables[2]	296.2	406.0	*(27.0)*	443.8
Revenue	342.2	481.2	*(28.9)*	451.2
Impairment	(120.8)	(311.0)	*61.2*	(293.5)
Revenue less impairment	221.4	170.2	*30.1*	157.7
Annualised revenue yield[3]	115.5%	118.5%		101.7%
Annualised impairment rate[4]	40.8%	76.6%		66.2%
Annualised risk-adjusted margin[5]	74.7%	41.9%		35.5%
Costs	(244.7)	(253.4)	*3.4*	(253.4)
Interest	(15.4)	(23.1)	*33.3*	(23.1)
Adjusted loss before tax[6]	(38.7)	(106.3)	*63.6*	(118.8)
Annualised return on assets[7]	(6.4%)	(16.5%)		(17.4%)

1 *Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017.*

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

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 *Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.*

6 *Adjusted loss before tax is stated before exceptional costs of £29.9m in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the recovery plan following the poor execution of the migration to the new operating model in July 2017 (2017: £32.5m).*

7 *Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 31 December.*

CCD's historic earnings profile under IFRS 9 is influenced by the contraction in home credit receivables which reduces impairment partly offset by the growth in Satsuma receivables which increases impairment. IFRS 9 unaudited pro forma adjusted losses of £106.3m in 2017, were lower than IAS 39 reported losses of £118.8m, reflecting the contraction in the home credit receivables book following poor execution of the change in the UK operating model from self-employed agents to employed CEMs in July 2017, partly offset by higher impairment in Satsuma due to the strong growth in lending volumes. CCD's revenue under IFRS 9 is higher than under IAS 39. This is due to revenue being predominantly recognised on the gross receivable under IFRS 9 compared with the net receivable under IAS 39 which increases the level of revenue recognised. This is partly offset by revenue now being capped under IFRS 9 at the level of the service charge on a loan whereas under IAS 39 revenue was not capped in this way and therefore produced a gross up of both revenue and impairment.

CCD has reported an adjusted loss before tax of £38.7m for 2018 (2017: Unaudited pro forma IFRS 9 adjusted loss before tax of £106.3m, IAS 39 adjusted loss before tax of £118.8m) as the business implemented the home credit recovery plan which resulted in the full FCA authorisation of the business in November 2018.

CCD customer numbers ended 2018 at 560,000, 28.2% lower than 2017 (2017: 780,000).

Home credit customer numbers have reduced from 697,000 to 440,000 during 2018, reflecting two factors. Firstly, the business has not managed to reconnect with approximately 200,000 customers who ceased paying in the second half of 2017. This was a direct result of the damage caused to customer relationships following the poorly executed migration to the new UK home credit operating model in July 2017 whereby approximately 90% of customers were allocated a new

CEM. Secondly, the focus of the business during implementation of the home credit recovery plan since the last quarter of 2017 has primarily been on collections performance as opposed to customer recruitment. As a result, the number of new customers recruited in 2018 was approximately 50,000 lower than in 2017 which has resulted in the underlying home credit customer base contracting through the first three quarters of the year. The recruitment of new customers was marginally above plan in the fourth quarter and resulted in a stabilisation in the home credit customer base during the peak trading period.

Stabilising the rate of decline and then returning the home credit customer base to growth remains a priority for the business. The good momentum on new customer recruitment has continued in early 2019. In addition, following agreement with the FCA, CCD will be trialling an enhancement of its home credit product offering during the second quarter of 2019, leveraging the capabilities in home credit and Satsuma. The product enhancement will continue to be relationship managed in the home by a CEM, but payments will be collected remotely via CPA. The evidence and oversight that voice recording provides is critical to the product enhancement as it represents a clear record of the choices of repayment method made by customers, which may change during the life of the loan. It is anticipated that the product enhancement will allow the business to attract new and former customers who do not wish to have a weekly collections visit by a CEM and are of suitable credit quality.

Satsuma customer numbers have shown strong growth of 48% in 2018 to 117,000 (2017: 79,000). Satsuma has continued to experience a step-up in volumes through ongoing improvements in the customer journey and product distribution. New business plus further lending to previous or existing customers was 50% higher than 2017 despite the progressive tightening of underwriting during 2018. As well as continuing to increase the distribution of the core Satsuma small-sum, short-term loan product, following agreement with the FCA, Satsuma intends to undertake a trial of larger, longer duration personal loans at rates below 100% APR during the third quarter of 2019.

CCD customer numbers also include 3,000 in respect of the run-off of glo (2017: 4,000).

Total CCD IFRS 9 receivables were £292.5m at December 2018 (2017: Unaudited pro forma IFRS receivables of £347.4m), comprising £251.9m in respect of the home credit business (2017: Unaudited pro forma IFRS 9 receivables of £319.4m), £39.5m in respect of Satsuma (2017: Unaudited pro forma IFRS 9 receivables of £25.4m) and £1.1m in respect of the run-off of glo (2017: Unaudited pro forma IFRS 9 receivables of £2.6m).

Home credit IFRS 9 receivables have fallen by 21.1% in 2018 compared with the 36.9% reduction in customer numbers. This reflects the large impairment charge taken in 2017 on the receivables relating to the 200,000 non-paying customers that the business has not managed to reconnect with.

Satsuma's receivables have shown 55.5% growth on December 2017, due to the 48% increase in customer numbers together with the continued development of further lending to good-quality customers.

IFRS 9 revenue in CCD has fallen by 28.9% in 2018, a modestly higher rate than the 27.0% reduction in average receivables.

The annualised IFRS 9 revenue yield of 115.5% to December 2018 has reduced from 118.5% to December 2017. This reflects a reduction in home credit's revenue yield partly offset by the growth in Satsuma which has a higher revenue yield. The reduction in home credit's revenue yield reflects the treatment of revenue under IFRS 9. Revenue is now recognised by reference to the gross receivables balance for all customers other than those in default. For customers in default, revenue is recognised by reference to the net receivables balance after impairment provision. However, IFRS 9 stipulates that accounts are only reclassified for revenue recognition purposes every 6 months, in line with the Group's external reporting periods (30 June, 31 December). Consequently, revenue continued to be recognised through the second half of 2017 on the gross receivable attributable to the significant number of home credit customers that defaulted in the third quarter of 2017. In contrast, impairment of receivables is assessed on a weekly basis. The application of IFRS 9 through the second half of 2017 thereby produced a ratio of revenue to average receivables for home credit that was unusually high. There has been no change to product pricing in either home credit or Satsuma over the last two years.

IFRS 9 impairment in CCD has reduced by 61.2%, over twice the rate of reduction in average receivables. This reflects: (i) the large impairment charge reflected in the second half of 2017 on the 200,000 customers who ceased paying following the poorly executed migration to the new operating model in July 2017; (ii) the improvement in collections performance following establishment of the recovery plan towards the end of 2017; and (iii) the reduction in the number of new home credit customers recruited throughout 2018. As a result, the annualised IFRS 9 impairment rate of 40.8% to December 2018 is significantly lower than 76.6% to December 2017.

The implementation of the home credit recovery plan has included a number of actions designed to improve collections performance. These include the implementation of a new arrears strategy to support field activity through centrally led letters and SMS reminders and the implementation of a new field structure. The new field structure was rolled-out in the second half of the year and includes better defined roles and responsibilities, improved spans of control, greater support for CEMs in dealing with arrears and better structured training.

The collections performance of credit originated since the fourth quarter of 2017 continues to remain broadly in line with the levels achieved prior to the change of operating model in July 2017, where the CEM has issued the credit and has ownership of the customer relationship. However, the collections performance on credit originated prior to the fourth quarter of 2017, where the CEM typically did not originate the credit following the change in operating model, remains significantly lower than historic levels and has not shown any improvement since the first quarter of the year. Importantly, however, these balances now only represent approximately £20m of CCD's carrying value of receivables.

During the implementation of the recovery plan, the performance management of the field force has been focused on managing activity and customer outcomes without the use of performance-related pay or financial objectives. From the start of 2019, the business agreed with the FCA to test a team-based customer acquisition incentive. Following a successful trial, the FCA confirmed in early March 2019 that the business can implement enhanced performance management of CEMs based on a balanced scorecard and agreed to the introduction of an element of variable performance-related pay. The scorecard will be tested for impact on customer outcomes and for calibration in an area and then a larger region before being deployed in full by the end of the second quarter of 2019. The implementation of this full suite of performance measures is essential to improving the efficiency and effectiveness of the field organisation, both in terms of delivering consistently good customer outcomes and returning the business to run-rate profitability in due course through growing the customer base and improving collections performance.

CCD's annualised IFRS 9 risk-adjusted margin has shown a significant improvement from 41.9% to December 2017 to 74.7% to December 2018, primarily reflecting the significant improvement in impairment.

Actions to align the cost base with the reduced size of the business were a priority through the early months of 2018. The rationalisation of the home credit central support functions announced in January 2018 was completed by the end of the first quarter and improvements in the effectiveness and efficiency of the field organisation are being delivered without compromising customer service. Approximately, 70 employees in the Bradford head office were made redundant. Together with natural attrition and vacancies not filled, this resulted in the overall headcount in the Bradford head office being some 200 lower than was originally planned when the business changed its operating model in July 2017. In addition, whilst the business has continued to invest in field management to bolster spans of control, the number of CEMs has reduced from around 2,700 at the start of the year to around 2,100 at the end of 2018, reflecting the better alignment of customer facing resource with the active customer base. However, the capacity of the field organisation still remains capable of supporting a greater number of customers than is currently being served.

In January 2019, CCD announced a voluntary redundancy programme in central support functions with the aim of reducing central headcount by approximately 200. Together with actions already taken and the ongoing tight control of costs, this is expected to result in CCD's cost base reducing in 2019. An exceptional cost of approximately £10m is expected in 2019 in relation to redundancies. Overall, there has been a reduction in headcount within CCD of approximately 1,000 over the last 12 months.

Notwithstanding the headcount reductions, CCD's overall cost base in 2018 of £244.7m has shown only a modest reduction of 3.4% on 2017 (2017: £253.4m). This reflects: (i) the increased cost of strengthening the control environment, risk management and compliance functions; (ii) investment in replacing part of the legacy IT estate with a third party hosted solution; (iii) the roll-out of the new field structure; and (iv) an increase in local marketing activity to support new customer recruitment in the fourth quarter of the year.

Interest costs in CCD have fallen by 33.3% to £15.4m in 2018 (2017: £23.1m). This is broadly in line with the reduction in average receivables with CCD's funding rate remaining unchanged at 6.5% in 2018 (2017: 6.5%).

Moneybarn

	2018 IFRS 9 £m	2017 IFRS 9[1] £m	*Change %*	2017 IAS 39 £m
	Year ended 31 December			
Customer numbers ('000)	62	50	*24.0*	50
Year-end receivables prior to balance reduction provision[2]	398.4	330.8	*20.4*	376.2
Reported year-end receivables	396.6	318.7	*24.4*	364.1
Average receivables[3]	377.4	303.8	*24.2*	345.1
Revenue	131.9	106.3	*24.1*	106.3
Impairment	(48.0)	(43.3)	*(10.9)*	(31.1)
Revenue less impairment	83.9	63.0	*33.2*	75.2
Annualised revenue yield[4]	35.0%	35.0%		30.8%
Annualised impairment rate[5]	12.8%	14.3%		9.0%
Annualised risk-adjusted margin[6]	22.2%	20.7%		21.8%
Costs	(33.9)	(25.5)	*(32.9)*	(25.5)
Interest	(21.9)	(15.6)	*(40.4)*	(15.6)
Adjusted profit before tax[7]	28.1	21.9	*28.3*	34.1
Annualised return on assets[8]	10.7%	10.0%		11.6%

1. *Unaudited pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented from 1 January 2017.*
2. *Year-end receivables are stated prior to the estimated balance reduction provision of £1.8m (2017: £12.1m) reflected on 31 December 2017 in respect of the FCA investigation into affordability, forbearance and termination options (see 7 below).*
3. *Calculated as the average of month end receivables for the 12 months ended 31 December prior to the impact of the estimated balance reduction provision (see 2 above).*
4. *Revenue as a percentage of average receivables for the 12 months ended 31 December.*
5. *Impairment as a percentage of average receivables for the 12 months ended 31 December.*
6. *Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.*
7. *Adjusted profit before tax is stated before: (i) the amortisation of acquisition intangibles of £7.5m (2017: £7.5m); and (ii) an exceptional cost of £20.0m in 2017 in respect of the estimated cost arising from the ongoing FCA investigation into affordability, forbearance and termination options of which £12.1m was reflected as a balance reduction provision in receivables.*
8. *Profit before interest and exceptional items after tax as a percentage of average receivables for the 12 months ended 31 December.*

The implementation of IFRS 9 has had a more significant impact on the earnings profile of Moneybarn than the Group's other divisions due to its strong growth. In a growing business such as Moneybarn, profitability is reduced as future losses are brought forward to loan inception rather than when there is evidence of an impairment such as a missed payment. When combined with the higher expected default rates from the higher risk categories of business written by Moneybarn prior to the tightening of underwriting in the second quarter of 2017, this results in unaudited pro forma IFRS 9 adjusted profits of £21.9m in 2017, 35.8% lower than IAS 39 reported profits for the same period of £34.1m. Revenue recognition in Moneybarn is unchanged following the implementation of IFRS 9 as revenue is required to be recognised in accordance with IAS 17 'Leases' reflecting the conditional sales agreements provided by Moneybarn.

Moneybarn has delivered a 28.3% increase in IFRS 9 adjusted profit before tax to £28.1m in 2018 (2017: Unaudited pro forma IFRS 9 adjusted profit before tax: £21.9m, IAS 39 adjusted profit before tax of £34.1m). This reflects the benefit from improved credit quality following the progressive tightening of underwriting over the last 18 months partly offset by the investment in strengthening the management team and collections and customer service resource.

Whilst the non-standard vehicle finance market remains competitive, there have been a number of competitors who have either withdrawn to focus on prime to near prime offerings or entirely exited the market. In addition, demand for used cars and residual values have remained robust. As a result, despite tighter underwriting standards, new business volumes during 2018 were very strong. Continued development of core broker introduced distribution channels, the introduction of fixed pricing by tier of business and the extension of the product offering, including the continued traction from light commercial vehicles, has reinforced Moneybarn's primacy amongst its broker network. As a result, new business volumes were 18% higher than last year and customer numbers ended the year at 62,000, up from 50,000 at December 2017.

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

The strong growth in new business volumes has resulted in IFRS 9 receivables ending 2018 at £396.6m, showing growth of 24.4% (2017: Unaudited pro forma IFRS 9 receivables of £318.7m). Receivables are stated after the remaining balance reduction provision of £1.8m which has reduced from £12.1m reflected at the 2017 year-end in respect of the FCA investigation into affordability, forbearance and termination options. The reduction during the year of £10.3m reflects the write down of gross receivables based on the expected outcome of the termination options and forbearance parts of the FCA investigation. In addition, the provision in respect of potential cash restitution, administration costs and an FCA fine has reduced from £7.9m to £7.5m during 2018, primarily reflecting legal costs in respect of the investigation.

Subsequent to the year end, Moneybarn has made significant progress with the FCA on the total redress and balance reductions to be paid to resolve the investigation. The cost is expected to be within the remaining provisions of £9.3m held by Moneybarn at the end of 2018 but this will not be reflected until receipt of the final settlement agreement from the FCA.

IFRS 9 revenue has increased by 24.1% compared with the growth in average IFRS 9 receivables of 24.2%. The annualised IFRS 9 revenue yield has remained stable at 35.0% to December 2018, in line with 35.0% to December 2017.

Default rates through 2016 and 2017 showed a progressive increase principally reflecting the combination of two factors. Firstly, the change in product proposition from lending up to the trade value of a vehicle to lending up to the retail value of a vehicle shortly after the acquisition of the business has increased the propensity of customers to default and the loss being experienced by the business when the customer defaults. This is primarily due to the reduced level of deposit being made by a customer. Secondly, the strong growth in new business volumes over the two year period has contributed to increased defaults as Moneybarn's peak in defaults is approximately 9 to 12 months following inception of a loan with risk-based revenue being recognised over the duration of the average contract life of between four and five years. As a result of the higher level of defaults, underwriting was tightened in the second quarter of 2017 on higher risk categories of business and a tier of lower value business which was only marginally profitable was also removed in the second quarter of 2018. Default rates and arrears levels stabilised through the second half of 2018 and the credit quality of new business being written is now materially better than two years ago. As a result of these factors, the annualised IFRS 9 impairment rate has reduced from 14.3% to December 2017 to 12.8% to December 2018.

The improvement in the impairment rate has resulted in Moneybarn's annualised IFRS 9 risk-adjusted margin strengthening from 20.7% to December 2017 to 22.2% to December 2018.

The business has continued to invest in the resources necessary to support future growth and enhance the customer experience. In particular, the executive team and first tier of management have been strengthened, including the recruitment of a Chief Credit Officer, a Commercial Director and a HR Director. Resource has also been added within customer service and collections. Accordingly, headcount has increased from 225 at the end of 2017 to 294 at the end of 2018. This has resulted in cost growth of 32.9% in 2018, higher than the growth in IFRS 9 average receivables of 24.2%.

Interest costs have shown growth of 40.4% in 2018, higher than the growth in average receivables. This reflects an increase in Moneybarn's Group funding rate from 5.0% in 2017 to 5.9% in 2018. This is due to an increase in the cost of funding for the non-bank segment of the Group now that Vanquis Bank is fully funded through retail deposits. This has more than offset the impact of the retention of profits since acquisition as the capital base is built towards the Group's minimum capital ratio of a CET 1 ratio of 25.5%. Moneybarn's funding rate is expected to increase to around 6.5% in 2019, consistent with the rate being charged to CCD.

Moneybarn has delivered an annualised IFRS 9 return on assets of 10.7% to December 2018, up from 10.0% to December 2017, reflecting the strengthening of the annualised IFRS 9 risk-adjusted margin partly offset by the investment in strengthening the management team and collections and customer service resource.

Central costs

Central costs in 2018 were £20.2m up from £12.8m in 2017. The increase reflects two factors. Firstly, the Group has invested further in strengthening its governance framework including the recruitment of a central risk team to work under the Interim Chief Risk Officer, the co-ordination of IT under a new Interim Group Chief IT Officer, the recruitment of a new Interim Group Chief Internal Auditor and a Group Head of Human Resources. Secondly, as a result of the adverse trading performance in 2017, the 2017 results benefited from a share-based payment credit of £2.2m compared with a small charge in 2018. Central costs in 2019 are expected to remain broadly stable reflecting a tight control of costs.

Exceptional items

Exceptional charges of £55.3m (2017: £224.6m) have been recognised in 2018 comprising: (i) £29.9m (2017: £32.5m) in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017; (ii) £18.5m (2017: £nil) in respect of the 8% premium and fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019; and (iii) £6.9m (2017: £nil) of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018. 2017 exceptional costs also included £172.1m following resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn.

Exceptional costs in 2019 are expected to comprise: (i) approximately £10m in relation to the voluntary redundancy programme announced in CCD in January 2019; and (ii) any costs associated with NSF's unsolicited offer for the Group.

Tax

The tax charge for 2018 represents an effective tax rate of 27.3% (2017: Unaudited pro forma IFRS effective tax rate of 11.5%; IAS 39 effective tax rate of 15.1%) on profit before tax, amortisation of acquisition intangibles and exceptional items which reflects: (i) the mainstream corporation tax rate of 19.0% on Group profits (2017: 19.25%); and (ii) the 8.0% bank corporation tax surcharge on Vanquis Bank's profits in excess of £25m (2017: 8.0%). The tax charge in 2017 benefited from a tax credit in respect of prior years, including the release of provisions for uncertain tax liabilities of approximately £20m. The Group is expected to benefit in future years from the further reduction in the mainstream corporate tax rate to 17% on 1 April 2020 announced by the Government and enacted in 2016.

The tax credit (2017: tax credit) in respect of exceptional costs in 2018 (2017: exceptional costs) amounts to £10.2m (2017: £3.8m) and represents: (i) tax relief of £5.5m in respect of the exceptional restructuring costs in CCD (2017: £6.2m); (ii) tax relief of £3.5m in respect of the premium and fees paid on redemption of £222.5m of the £250m senior bonds (2017: £nil); and (iii) tax relief of £1.2m in respect of the GMP equalisation charge in respect of the Group's defined benefit scheme (2017: £nil). The tax credit in 2017 also comprised: (i) tax relief of £6.3m in respect of the estimated balance reductions and restitution payable to Moneybarn customers in respect of the FCA investigation and administration costs in respect of the FCA investigation into ROP in Vanquis Bank; and (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to customers as part of the settlement of the FCA investigation into ROP in Vanquis Bank which are treated as bank compensation payments and the release of the related impairment provision.

Funding and capital

The Group's funding and capital positions are robust following completion of the rights issue and the refinancing of the senior bonds in the first half of 2018.

The rights issue was successfully completed in April 2018 raising net proceeds of £300m. The rights issue recapitalised the Group following the recognition in the 2017 financial statements of the costs of the resolution into the FCA's investigation into ROP and the ongoing FCA investigation at Moneybarn amounting to a combined £192m and the subsequent increase of approximately £100m in the regulatory capital requirement set by the PRA.

The Group's minimum regulatory capital requirement set by the PRA post the rights issue, together with the fully loaded capital conservation buffer (2.5%) and counter cyclical buffer (1.0%) effective from 1 January 2019, represents a total capital requirement of 25.5%. The Board expects to maintain headroom in excess of £50m against this requirement and a capital structure to support ongoing access to funding from the bank and debt capital markets. The Group's CET 1 ratio on an accrued profits basis at 31 December 2018 was 29.7% compared with the Group's fully loaded minimum capital requirement of 25.5%. On this basis, the regulatory capital headroom was 4.2%, equivalent to approximately £95m based on the Group's risk weighted assets of £2.2bn. This is consistent with the Board's current risk appetite of maintaining a regulatory capital buffer in excess of £50m.

As previously reported, the impact from the adoption of IFRS 9 on the Group's net assets of £184.0m is being phased into regulatory capital on a transitional basis over five years as follows: 5% taken at the start of 2018 (£9m), 15% taken on 1 January 2019 (£18m), 30% in 2020 (£28m), 50% in 2021 (£37m), 75% (£46m) in 2022 and 100% (£46m) from the start of 2023. The impact of the IFRS 9 transitional arrangements on CET 1 as at 31 December 2018 was £174.8m. For illustrative purposes, after adjusting for the impact on risk weighted assets, the CET 1 ratio at 31 December 2018 would reduce from 29.7% to 22.3% if the IFRS 9 transitional arrangements did not apply.

As a result of the second year transitional impact of IFRS 9 (£18m) together with the implementation of IFRS 16 'Leases' which brings the Group's lease assets and liabilities on balance sheet, the Group's regulatory capital headroom reduced by approximately £43m on 1 January 2019.

The Group's funding strategy is to maintain committed facilities to meet contractual maturities and fund growth for at least the following 12 months and maintain access to three main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; and (iii) retail deposits which now fully funds a ring-fenced Vanquis Bank. The Group will continue to explore further funding options as appropriate, including but not limited to the refinancing of the syndicated revolving bank facility and further bond issuance.

During the first half of 2018, the Group completed a refinancing of its senior bonds. On 23 May 2018, the Group launched and priced £250m of 5-year fixed rate bonds carrying a semi-annual coupon of 7%. The proceeds of the bond issue were used to finance the tender offer for the £250m existing senior bonds which carry a coupon of 8% and mature in October 2019. 89% of the existing bonds were tendered and redeemed at an 8% premium on 30 May 2018 resulting in an exceptional cost of £18.5m. The remaining existing senior bonds of £27.5m will mature on their original maturity date in October 2019.

The flow of retail deposits within Vanquis Bank has continued in line with its internal funding plan and, at the end of 2018, Vanquis Bank had retail deposit funding of £1,431.7m, up from £1,301.0m at 31 December 2017. This has allowed Vanquis Bank to repay its residual intercompany loan from Provident Financial of £55m in November 2018. As noted above, Vanquis Bank is now fully funded with retail deposits.

Headroom on the Group's committed debt facilities was £327.4m at 31 December 2018. Together with the ongoing retail deposits programme, this is sufficient to fund contractual debt maturities and projected growth in the Group until May 2020, when the Group's syndicated revolving bank facility matures. The Group is in discussions with its lending banks with a view to refinancing the current syndicated bank facility 12 months in advance of its maturity in line with the Group's treasury policy.

During February 2018, the Group agreed amendments and waivers of certain covenants with the Group's banks in respect of the syndicated revolving bank facility and with M&G in respect of the term loan in order to provide the Group with greater covenant headroom to address the impact arising from the disruption in the home credit business in 2017 and the impact of the provisions taken by the Group in the balance sheet as at 31 December 2017 relating to the FCA investigations. The net worth covenant was temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant was temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant was temporarily reduced from 2.0 times to 1.25 times for the 12 months ended 31 March 2018 and 30 June 2018. The Group was in compliance with the temporarily reduced covenants and has continued to comply with the unadjusted covenants subsequently.

On 1 March 2018, Fitch Ratings reaffirmed the Group's credit rating at BBB- with a negative outlook and removed the Group from ratings watch negative.

The Group's funding rate during 2018 was 4.4%, down from 4.5% in 2017. The modest reduction primarily reflects Vanquis Bank now being fully funded with lower rate retail deposits.

Regulation

Transfer of regulation to the FCA

CCD received full authorisation from the FCA on 9 November 2018 following implementation of the home credit recovery plan over the previous 12 months. Vanquis Bank and Moneybarn received their change of permission and full authorisation respectively in 2016.

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

FCA review of high-cost credit

On 18 December 2018, the FCA published CP18/43 in respect of its review of high-cost credit, including final rules and guidance in respect of home-collected credit. The rules introduce a package of reforms to raise standards in disclosure and sales practices to prevent home credit firms from offering new loans or refinancing existing loans during home visits without the customer specifically requesting it. The changes made by CCD to the UK home credit operating model over the last 18 months, in particular the recording of all sales interactions with customers, means that the business will be able to evidence compliance with the revised requirements by the deadline of 19 March 2019.

FCA credit card market study

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

The proposals in PS 18/4 came into force on 1 March 2018 and firms had 6 months to be fully compliant. Vanquis Bank increased its minimum payment rates in the second half of 2018 and will introduce further measures, such as recommended payments, to encourage increased monthly repayments in early 2019.

FCA review of creditworthiness in consumer credit

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

The final rules and guidance from PS18/19 came into effect on 1 November 2018. All of the Group's businesses have taken the necessary measures to meet the affordability principles arising from this review.

FCA review of the motor finance market

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

Moneybarn has flat fee commission structures and has never given discretion to brokers in setting the interest or commission levels. Customers are made aware of the existence of a payment of commission in Moneybarn's pre-contractual paperwork that all brokers must provide to the customer and evidence that the customer has received it. Moneybarn has an active physical audit programme for all of its brokers and was the first in the market to have such an audit process in place. Like all of the group's other businesses, Moneybarn has made all necessary changes to its processes required by PS18/19 in advance of the 1 November 2018 deadline.

Irish Consumer Credit Bill on a cap on moneylenders' rates

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

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

The Group's operations in the Republic of Ireland are in respect of the home credit business which has approximately 65,000 customers.

Consolidated income statement for the year ended 31 December

	Note	IFRS 9 2018 £m	IAS 39 2017 £m
Revenue	3	1,124.4	1,196.3
Finance costs		(91.7)	(77.0)
Impairment charges		(410.4)	(476.1)
Administrative and operating costs		(531.6)	(766.2)
Total costs		(1,033.7)	(1,319.3)
Profit/(loss) before tax	3	90.7	(123.0)
Profit before tax, amortisation of acquisition intangibles and exceptional items	3	153.5	109.1
Amortisation of acquisition intangibles	3	(7.5)	(7.5)
Exceptional items	3	(55.3)	(224.6)
Tax charge	4	(30.4)	(11.4)
Profit/(loss) for the period attributable to equity shareholders		60.3	(134.4)

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	IFRS 9 2018 £m	IAS 39 2017 £m
Profit/(loss) for the year attributable to equity shareholders		60.3	(134.4)
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	9	(21.7)	17.5
– tax on items taken directly to other comprehensive income	4	4.1	(3.4)
– impact of change in UK tax rate	4	(0.5)	0.4
Items that may be reclassified subsequently to the income statement:			
– fair value movements in investments	10	2.2	1.9
– fair value movements on cash flow hedges		-	0.2
– exchange differences on translation of foreign operations		-	(0.2)
– tax on items taken directly to other comprehensive income	3	(0.5)	(0.4)
– impact of change in UK tax rate	3	(0.2)	(0.1)
Other comprehensive (expense)/income for the year		(16.6)	15.9
Total comprehensive income/(expense) for the year		43.7	(118.5)

Earnings/(loss) per share

	Note	IFRS 9 2018 pence	IAS 39 2017 (restated) pence
Basic	5	25.2	(66.4)
Diluted	5	25.1	(66.4)

Dividends per share

	Note	IFRS 9 2018 pence	IAS 39 2018 pence
Proposed final dividend		10.0	-
Total dividend for the year	6	10.0	-
Paid in the period*	6	-	91.4

* The total cost of dividends paid in the year was £nil (2017: £133.4m).

Consolidated balance sheet as at 31 December

	Note	IFRS 9 2018 £m	IAS 39 2017 £m
ASSETS			
Non-current assets			
Goodwill		71.2	71.2
Other intangible assets	7	55.0	79.4
Property, plant and equipment		24.6	30.9
Financial assets:			
– amounts receivable from customers	8	349.6	328.2
Retirement benefit asset	9	83.9	102.3
Deferred tax assets		38.3	-
		622.6	612.0
Current assets			
Financial assets:			
– investment held as fair value through other comprehensive income	10	47.8	45.8
– amounts receivable from customers	8	1,813.3	1,981.2
– cash and cash equivalents		387.9	282.9
– trade and other receivables		49.6	44.0
		2,298.6	2,353.9
Total assets	3	2,921.2	2,965.9
LIABILITIES			
Current liabilities			
Financial liabilities:			
– retail deposits		(339.3)	(350.8)
– bank and other borrowings		(49.8)	(38.1)
Total borrowings		(389.1)	(388.9)
– derivative financial instruments		-	(0.1)
– trade and other payables		(91.8)	(96.9)
Current tax liabilities		(24.6)	(15.9)
Provisions	11	(53.2)	(104.6)
		(558.7)	(606.4)
Non-current liabilities			
Financial liabilities:			
– retail deposits		(1,092.4)	(950.2)
– bank and other borrowings		(574.0)	(853.9)
Total borrowings		(1,666.4)	(1,804.1)
Deferred tax liabilities		-	(20.3)
		(1,666.4)	(1,824.4)
Total liabilities		(2,225.1)	(2,430.8)
NET ASSETS	3	696.1	535.1
SHAREHOLDERS' EQUITY			
Share capital		52.5	30.7
Share premium		273.2	273.0
Other reserves		292.1	13.4
Retained earnings		78.3	218.0
TOTAL EQUITY		696.1	535.1

Consolidated statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 31 December 2016 and 1 January 2017	30.6	272.7	24.3	462.5	790.1
Loss for the period	-	-	-	(134.4)	(134.4)
Other comprehensive income/(expense):					
– fair value movement in investments	-	-	1.9	-	1.9
– fair value movement on cash flow hedges	-	-	0.2	-	0.2
– actuarial movements on retirement benefit asset (note 9)	-	-	-	17.5	17.5
– exchange differences on translation of foreign operations	-	-	-	(0.2)	(0.2)
– tax on items taken directly to other comprehensive income	-	-	(0.4)	(3.4)	(3.8)
– impact of change in UK tax rate	-	-	(0.1)	0.4	0.3
Other comprehensive income for the period	-	-	1.6	14.3	15.9
Total comprehensive income/(expense) for the period	-	-	1.6	(120.1)	(118.5)
Transactions with owners:					
– issue of share capital	0.1	0.3	-	-	0.4
– purchase of own shares	-	-	(0.1)	-	(0.1)
– transfer of own shares on vesting of share awards	-	-	1.1	(1.1)	-
– share-based payment charge	-	-	(3.4)	-	(3.4)
– transfer of share-based payment reserve	-	-	(10.1)	10.1	-
– dividends	-	-	-	(133.4)	(133.4)
At 31 December 2017	30.7	273.0	13.4	218.0	535.1
Impact of adoption of IFRS 9 'Financial instruments' (note 14)	-	-	-	(184.0)	(184.0)
At 1 January 2018	30.7	273.0	13.4	34.0	351.1
Profit for the period	-	-	-	60.3	60.3
Other comprehensive income/(expense):					
– fair value movement in investments	-	-	2.2	-	2.2
– actuarial movements on retirement benefit asset (note 9)	-	-	-	(21.7)	(21.7)
– tax on items taken directly to other comprehensive income	-	-	(0.5)	4.1	3.6
– impact of change in UK tax rate	-	-	(0.2)	(0.5)	(0.7)
Other comprehensive income for the period	-	-	1.5	(18.1)	(16.6)
Total comprehensive income for the period	-	-	1.5	42.2	43.7
Transactions with owners:					
– proceeds from rights issue	21.8	-	278.2	-	300.0
– issue of share capital	-	0.2	-	-	0.2
– share-based payment charge	-	-	1.1	-	1.1
– transfer of share-based payment reserve	-	-	(2.1)	2.1	-
At 31 December 2018	52.5	273.2	292.1	78.3	696.1

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

Consolidated statement of cash flows for the year ended 31 December

	Note	IFRS 9 2018 £m	IAS 39 2017 £m
Cash flows from operating activities			
Cash generated from operations	12	67.2	72.0
Finance costs paid		(66.1)	(73.7)
Premium and fees paid on refinancing of senior bonds	3	(18.5)	-
Tax paid		(22.3)	(55.0)
Net cash used in operating activities		(39.7)	(56.7)
Cash flows from investing activities			
Purchase of intangible assets		(7.6)	(20.5)
Purchase of property, plant and equipment		(5.3)	(12.2)
Proceeds from disposal of property, plant and equipment		1.5	1.7
Sale/(purchase) of government gilts held as an investment		0.2	(35.9)
Net cash used in investing activities		(11.2)	(66.9)
Cash flows from financing activities			
Proceeds from bank and other borrowings		737.1	650.0
Repayment of bank and other borrowings		(885.3)	(332.1)
Dividends paid to Company shareholders	6	-	(133.4)
Net proceeds from rights issue		300.0	-
Proceeds from issue of share capital		0.2	0.4
Purchase of own shares		-	(0.1)
Net cash generated from financing activities		152.0	184.8
Net increase in cash, cash equivalents and overdrafts		101.1	61.2
Cash, cash equivalents and overdrafts at beginning of year		279.8	218.6
Cash, cash equivalents and overdrafts at end of year		380.9	279.8
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		387.9	282.9
Overdrafts (held in bank and other borrowings)		(7.0)	(3.1)
Total cash, cash equivalents and overdrafts		380.9	279.8

Cash at bank and in hand includes £384.9m (2017: £227.5m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. As at 31 December 2018, £106.5m (2017: £22.3m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

Notes to the financial information

1. Basis of preparation

The financial information, which comprises the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes, is derived from the consolidated financial statements for the year ended 31 December 2018, which have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information does not constitute the statutory financial statements of the Group within the meaning of Section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2017 have been filed with the Registrar of Companies. The report of the auditor was unqualified but did include an emphasis of matter in relation to the Group's ability to continue as a going concern. Without the benefit of the net proceeds from the rights issue, the Group was unable to meet certain regulatory capital requirements, namely the minimum level of regulatory capital which the PRA expected the Group to hold and covenant waivers and relaxations which had been obtained would cease to be effective. The proceeds were received, as intended in April 2018, which enabled the Group to meet its regulatory capital requirements and continue to meet the covenant waivers and relaxations which had been obtained. The report of the auditor did not contain any statement under section 498(2) or (3) of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2018 will be filed with the Registrar of Companies following the AGM. The report of the auditor was unqualified and did not contain any statements under Section 498(2) or (3) of the Companies Act 2006.

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

2. Accounting policies

The accounting policies applied in preparing the financial information are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2017 with the exception of the adoption of IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers' from 1 January 2018.

The impact of new standards adopted by the Group from 1 January 2018

<u>IFRS 9</u>
IFRS 9 has been adopted by the Group from the mandatory adoption date of 1 January 2018. Full details of the impact of adoption can be found in note 14.

<u>IFRS 15</u>
IFRS 15 has been adopted from 1 January 2018. The standard establishes the principles to determine the nature, amount and timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Interest income in both Vanquis Bank and CCD is accounted for in accordance with IFRS 9. Interest income generated from Moneybarn's conditional sales agreements continues to be accounted for in accordance with IAS 17 'Leases'.

Non-interest income generated by Vanquis Bank is now accounted for in accordance with IFRS 15. However, there has been no change in the recognition of revenue to the approach adopted previously under IAS 39.

The impact of new standards not yet effective and not adopted by the Group from 1 January 2018

<u>IFRS 16</u>
IFRS 16 'Leases' will replace IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors.

2. Accounting policies (continued)

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

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

The adoption of IFRS 16 into the Group's opening balance sheet on 1 January 2019 results in an increase in assets of £82m and liabilities of £89m, which net of deferred tax of £1m, results in a reduction in net assets of £6m.

Disclosure reclassification

Historically, interest accruals on borrowings and retail deposits have been presented within trade and other payables in the balance sheet. They have now been disclosed as part of the principal balances to which they relate within borrowings, replicating the presentation of interest on customer receivables. Prior year comparatives have also been reclassified.

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

3. Segment reporting

	Revenue		Profit/(loss) before tax	
	IFRS 9 2018 £m	IAS 39 2017 £m	IFRS 9 2018 £m	IAS 39 2017 £m
Vanquis Bank	650.3	638.8	184.3	206.6
CCD	342.2	451.2	(38.7)	(118.8)
Moneybarn	131.9	106.3	28.1	34.1
Central costs	-	-	(20.2)	(12.8)
Total Group before amortisation of acquisition intangibles and exceptional items	1,124.4	1,196.3	153.5	109.1
Amortisation of acquisition intangibles (note 7)	-	-	(7.5)	(7.5)
Exceptional items	-	-	(55.3)	(224.6)
Total Group	1,124.4	1,196.3	90.7	(123.0)

All of the above activities relate to continuing operations.

Revenue between business segments is not significant.

An exceptional charge of £55.3m (2017: £224.6m) has been recognised in 2018 comprising: (i) £29.9m (2017: £32.5m) in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017; (ii) £18.5m (2017: £nil) in respect of the 8% premium and fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019; and (iii) £6.9m (2017: £nil) of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018 (see note 8). 2017 exceptional costs also included £172.1m following resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn (see note 11).

3. Segment reporting (continued)

	Segment assets		Segment net assets/(liabilities)	
	IFRS 9 2018 £m	IAS 39 2017 £m	IFRS 9 2018 £m	IAS 39 2017 £m
Vanquis Bank	1,958.7	1,854.5	381.3	295.4
CCD	342.6	454.4	(9.5)	112.6
Moneybarn	438.9	393.5	17.0	42.7
Central	368.7	182.7	307.3	84.4
Total before intra-group elimination	3,108.9	2,885.1	696.1	535.1
Intra-group elimination	(187.7)	80.8	-	-
Total Group	2,921.2	2,965.9	696.1	535.1

Historically, segment net assets have reflected the statutory basis of the companies forming the Group's business segments adjusted to assume repayment of intra-group balances and rebasing of the borrowings of CCD to reflect the Group's target capital ratio. Due to the significant losses incurred by CCD in 2017, CCD's statutory net assets are now considerably lower than the Group's target capital ratio. As a result, the presentation of segment net assets has been adjusted to show 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. Comparatives have been restated onto a similar basis which has resulted in CCD's net assets at 31 December 2017 reducing from £180.1m to £112.6m and central net assets increasing from £16.9m to £84.4m.

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

4. Tax charge

The tax charge in the income statement is as follows:

	IFRS 9 2018 £m	IAS 39 2017 £m
Current tax:		
– UK	(32.3)	(5.1)
– overseas	0.3	(0.2)
Total current tax	(32.0)	(5.3)
Deferred tax	2.2	(6.7)
Impact of change in UK tax rate	(0.6)	0.6
Total tax charge	(30.4)	(11.4)

The tax credit (2017: tax credit) in respect of exceptional costs in 2018 (2017: exceptional costs) amounts to £10.2m (2017: £3.8m) and represents: (i) tax relief of £5.5m in respect of the exceptional restructuring costs in CCD (2017: £6.2m); (ii) tax relief of £3.5m in respect of the premium and fees paid on redemption of £222.5m of the £250m senior bonds (2017: £nil); and (iii) tax relief of £1.2m in respect of the GMP equalisation charge in respect of the Group's defined benefit scheme (2017: £nil). The tax credit in 2017 also comprised: (i) tax relief of £6.3m in respect of the estimated balance reductions and restitution payable to Moneybarn customers in respect of the FCA investigation and administration costs in respect of the FCA investigation into ROP in Vanquis Bank; and (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to customers as part of the settlement of the FCA investigation into ROP in Vanquis Bank which are treated as bank compensation payments and the release of the related impairment provision.

The tax credit in respect of the amortisation of acquisition intangibles amounts to £1.3m (2017: £1.4m).

4. Tax charge (continued)

The effective tax rate for 2018, prior to the amortisation of acquisition intangibles and exceptional items, is 27.3% (2017: 15.1%). The increase in the rate principally reflects a tax credit in 2017 in respect of prior years, including a release of part of the provision for uncertain tax liabilities.

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015, changes were also enacted reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In 2016, a further change was enacted, which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2018 have been measured at 17% (2017: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2017: 25%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). In 2018, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.00% (2017: 19.25%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.00% (2017: 27.25%). A tax charge of £0.6m (2017: credit of £0.6m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.7m (2017: credit of £0.3m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

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

	IFRS 9 2018 £m	IAS 39 2017 £m
Deferred tax charge on fair value movements in investments	(0.5)	(0.4)
Deferred tax credit/(charge) on actuarial movements on retirement benefit asset	4.1	(3.4)
Tax credit/(charge) on items taken directly to other comprehensive income prior to impact of change in UK tax rate	3.6	(3.8)
Impact of change in UK tax rate	(0.7)	0.3
Total tax credit/(charge) on items taken directly to other comprehensive income	2.9	(3.5)

The deferred tax charge of £0.5m (2017: £0.4m) on the fair value movements in investments represents the deferred tax at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.0% (2017: 27.25%) on the change in the valuation of the Visa Inc. preferred stock during the year.

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

	IFRS 9 2018 £m	IAS 39 2017 £m
At 1 January as previously reported	(20.3)	(10.7)
Credit on adjustment arising on transition to IFRS 9 (note 14)	54.1	-
At 1 January as restated	33.8	(10.7)
Credit/(charge) to the income statement	2.2	(6.7)
Credit/(charge) on other comprehensive income prior to impact of change in UK tax rate	3.6	(3.8)
Impact of change in UK tax rate:		
– (charge)/credit to the income statement	(0.6)	0.6
– (charge)/credit to other comprehensive income	(0.7)	0.3
At 31 December	38.3	(20.3)

The deferred tax credit of £54.1m (2017: £nil) arising on transition to IFRS 9 represents the deferred tax arising on the opening balance sheet adjustment to restate the IAS 39 balance sheet on to an IFRS 9 basis. The adjustment is tax deductible over 10 years commencing in 2018 and deferred tax has been measured at the UK corporation tax rate and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates, at which the temporary differences on which deferred tax has been recognised will reverse.

4. Tax charge (continued)

The rate of tax charge on the profit (2017: loss) before taxation for the year is higher than (2017: higher than) the average rate of mainstream corporation tax in the UK of 19.00% (2017: 19.25%). This can be reconciled as follows:

	IFRS 9 2018 £m	IAS 39 2017 £m
Profit/(loss) before taxation	90.7	(123.0)
Profit/(loss) before taxation multiplied by the average rate of mainstream corporation tax in the UK of 19.00% (2017: 19.25%)	(17.2)	23.7
Effects of:		
– impact of lower tax rates overseas	(0.4)	0.1
– adjustment in respect of prior years	1.2	22.5
– write off of deferred tax asset on share-based payments	-	(0.9)
– non-deductible general expenses	(0.1)	(0.2)
– tax rate difference on tax losses carried back to prior years	-	0.6
– impact of change in UK tax rate	(0.6)	0.6
– non-deductible bank compensation expenses	-	(35.3)
– additional 10% of bank compensation expenses	-	(3.5)
– non-deductible fines and expenses	-	(1.2)
– impact of bank corporation tax surcharge	(13.3)	(17.8)
Total tax charge	(30.4)	(11.4)

The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2017: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.00% (2017: 19.25%). In 2018, the home credit business in the Republic of Ireland made a loss (2017: profit) which can only be relieved against profits of the business in the Republic of Ireland at the 12.5% statutory tax rate rather than the 19.00% UK statutory tax rate. This gives rise to an adverse impact on the Group tax charge of £0.4m in 2018 (2017: beneficial impact of £0.1m).

The £1.2m credit (2017: £22.5m) in respect of prior years represents the benefit of resolving historic tax liabilities, securing tax deductions for employee share awards which are higher than those originally anticipated and, in the case of 2017, the release of part of the provision for uncertain tax liabilities which is no longer required.

In 2017, the £0.6m impact of the change in UK tax rate on tax losses carried back represents the benefit of carrying back 2017 tax losses in CCD to 2016 when the higher mainstream corporation tax rate of 20% applied.

Deferred tax assets are typically recognised on share-based payment charges on the basis that these represent a good estimate of the tax relief that will be available when the share awards vest. In 2017, the write off of the deferred tax asset of £0.9m represents the reduction in tax relief expected to arise because of the reduction in the share price, where such reduction in share price has not been reflected through the share-based payments charges.

The settlements payable to Vanquis Bank customers following the resolution with the FCA in 2017 are, in accordance with the bank compensation provisions which apply to banking companies, non-deductible in computing Vanquis Bank's profits for tax purposes. Accordingly, this gave rise to an adverse impact on the 2017 tax charge of £35.3m. It also gave rise to an additional 10% deemed taxable receipt under the bank compensation provisions which is intended to equate to a disallowance of the administration costs associated with the compensation. This gave rise to a further adverse impact on the 2017 tax charge of £3.5m.

In 2017, the actual and estimated fines levied by the FCA and certain other expenses are not tax deductible for both Vanquis Bank and Moneybarn. This gave rise to an adverse impact on the 2017 tax charge of £1.2m.

The adverse impact of the bank corporation tax surcharge amounts to £13.3m (2017: £17.8m) and represents tax at the bank corporation tax surcharge rate of 8% on Vanquis Bank's taxable profits in excess of £25m where taxable profits are calculated after adding back bank compensation payments, the 10% deemed taxable receipt, the FCA fine and other add backs.

5. Earnings/(loss) per share

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

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

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

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

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. Accordingly, as the Group has reported a basic loss per share in 2017, the dilutive effect of share options and awards was removed.

Reconciliations of basic and diluted earnings/(loss) per share are set out below:

		IFRS 9 2018			IAS 39 2017 (restated)	
	Earnings £m	Weighted average number of shares m	Per share amount pence	Loss £m	Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	60.3	239.5	25.2	(134.4)	202.5	(66.4)
Dilutive effect of share options and awards	-	0.7	(0.1)	-	-	-
Diluted earnings/(loss) per share	60.3	240.2	25.1	(134.4)	202.5	(66.4)

The directors have elected to show an adjusted earnings/(loss) 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 underlying operations. A reconciliation of basic and diluted earnings/(loss) per share to adjusted basic and diluted earnings/(loss) per share is as follows:

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

	IFRS 9 2018 Earnings £m	IFRS 9 2018 Weighted average number of shares m	IFRS 9 2018 Per share amount pence	IAS 39 2017 (restated) (Loss)/ earnings £m	IAS 39 2017 (restated) Weighted average number of shares m	IAS 39 2017 (restated) Per share amount pence
Basic earnings/(loss) per share	60.3	239.5	25.2	(134.4)	202.5	(66.4)
Amortisation of acquisition intangibles, net of tax	6.2	-	2.6	6.2	-	3.1
Exceptional items, net of tax	45.1	-	18.8	220.8	-	109.0
Adjusted basic earnings per share	111.6	239.5	46.6	92.6	202.5	45.7
Basic earnings/(loss) per share	60.3	239.5	25.2	(134.4)	202.5	(66.4)
Dilutive effect of share options and awards	-	0.7	(0.1)	-	0.9	0.3
Diluted earnings/(loss) per share	60.3	240.2	25.1	(134.4)	203.4	(66.1)
Amortisation of acquisition intangibles, net of tax	6.2	-	2.6	6.2	-	3.0
Exceptional items, net of tax	45.1	-	18.8	220.8	-	108.6
Adjusted diluted earnings per share	111.6	240.2	46.5	92.6	203.4	45.5

6. Dividends

	2018 £m	2017 £m
2016 final - 91.4p per share	-	133.4
Total dividends paid	-	133.4

The directors are recommending a final dividend in respect of the financial year ended 31 December 2018 of 10.0p per share (2017: nil) which will amount to an estimated dividend payment of £25.1m (2017: £nil). If approved by the shareholders at the annual general meeting on 21 May 2019, this dividend will be paid on 21 June 2019 to shareholders who are on the register of members at 24 May 2019. This dividend is not reflected in the balance sheet as at 31 December 2018 as it is subject to shareholder approval.

7. Other intangible assets

	2018 Acquisition intangibles £m	2018 Computer software £m	2018 Total £m	2017 Acquisition intangibles £m	2017 Computer software £m	2017 Total £m
Cost						
At 1 January	75.0	92.1	167.1	75.0	72.4	147.4
Additions	-	7.6	7.6	-	20.5	20.5
Disposals	-	(23.5)	(23.5)	-	(0.8)	(0.8)
At 31 December	75.0	76.2	151.2	75.0	92.1	167.1
Accumulated amortisation and impairment						
At 1 January	25.0	62.7	87.7	17.5	51.8	69.3
Charged to the income statement	7.5	11.7	19.2	7.5	11.7	19.2
Exceptional impairment charge (note 3)	-	12.8	12.8	-	-	-
Disposals	-	(23.5)	(23.5)	-	(0.8)	(0.8)
At 31 December	32.5	63.7	96.2	25.0	62.7	87.7
Net book value						
At 31 December	42.5	12.5	55.0	50.0	29.4	79.4
At 1 January	50.0	29.4	79.4	57.5	20.6	78.1

Acquisition intangibles represents the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014. The intangible asset has been calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years.

8. Amounts receivable from customers

	IFRS 9 2018 £m	IAS 39 2017 £m
Vanquis Bank	1,473.8	1,554.7
CCD	292.5	390.6
Moneybarn	396.6	364.1
Total Group	2,162.9	2,309.4
Analysed as:		
– due in more than one year	349.6	328.2
– due within one year	1,813.3	1,981.2
Total Group	2,162.9	2,309.4

Vanquis Bank receivables comprise £1,447.8m (2017: £1,538.9m) in respect of credit cards and £26.0m (2017: £15.8m) in respect of loans. The balance at 31 December 2018 is stated net of an estimated balance reduction provision of £3.7m (2017: £75.4m) following the resolution of the FCA investigation into ROP on 27 February 2018. The balance reduction provision of £75.4m created at the end of 2017 comprised a gross balance reduction of £90.1m less release of impairment provisions of £14.7m.

CCD receivables comprise £251.9m in respect of the home credit business (2017: £352.2m), £39.5m in respect of Satsuma (2017: £35.8m) and £1.1m in respect of the collect-out of glo (2017: £2.6m).

Moneybarn receivables are stated net of an estimated balance reduction provision of £1.8m (2017: £12.1m) in respect of the FCA investigation into affordability, forbearance and termination options. The balance reduction provision of £12.1m created at the end of 2017 comprised a gross balance reduction of £32.5m less release of impairment provisions of £20.4m.

8. Amounts receivable from customers (continued)

IFRS 9: 'Financial instruments' has been adopted by the Group from the mandatory adoption date of 1 January 2018. Full details of the impact of adoption can be found in note 14. An analysis of receivables by IFRS 9 stages at the end of 2018 is set out below:

	Stage 1 2018 £m	Stage 2 2018 £m	Stage 3 2018 £m	Total 2018 £m
Vanquis Bank	1,101.4	114.1	258.3	1,473.8
CCD	171.6	35.5	85.4	292.5
Moneybarn	272.9	97.5	26.2	396.6
Total Group	1,545.9	247.1	369.9	2,162.9

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

	IFRS 9 2018 £m	IAS 39 2017 £m
Vanquis Bank	241.6	186.6
Exceptional release of impairment provision as part of balance reduction	-	(14.7)
Total Vanquis Bank	241.6	171.9
CCD	120.8	293.5
Moneybarn	48.0	31.1
Exceptional release of impairment provision as part of balance reduction	-	(20.4)
Total Moneybarn	48.0	10.7
Total Group	410.4	476.1

The Vanquis Bank allowance account as at 31 December 2018 amounted to £502.7m (2017: £288.9m under IAS 39), the Moneybarn allowance account amounted to £137.9m (2017: £44.4m under IAS 39) and CCD's allowance account amounted to £433.1m. Under IAS 39, impairment in CCD was deducted directly from amounts receivable from customers without the use of an allowance account.

9. Retirement benefit asset

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

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

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

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

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

	2018 £m	2017 £m
Fair value of scheme assets	788.3	835.5
Present value of defined benefit obligation	(704.4)	(733.2)
Net retirement benefit asset recognised in the balance sheet	83.9	102.3

The amounts recognised in the income statement were as follows:

	2018 £m	2017 £m
Current service cost	(2.7)	(4.2)
Interest on scheme liabilities	(17.4)	(19.1)
Interest on scheme assets	19.9	21.1
Net charge recognised in the income statement before exceptional curtailment credit	(0.2)	(2.2)
Exceptional past service cost – Plan amendment (note 3)	(6.9)	-
Exceptional past service cost – Curtailment credit (note 3)	0.6	3.9
Exceptional past service costs	(6.3)	3.9
Net (charge)/credit recognised in the income statement	(6.5)	1.7

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

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

	2018 £m	2017 £m
Fair value of scheme assets at 1 January	835.5	830.1
Interest on scheme assets	19.9	21.1
Actuarial movements on scheme assets	(31.3)	18.2
Contributions by the Group	9.8	10.7
Net benefits paid out	(45.6)	(44.6)
Fair value of scheme assets at 31 December	788.3	835.5

9. Retirement benefit asset (continued)

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

	2018 £m	2017 £m
Present value of defined benefit obligation at 1 January	(733.2)	(757.7)
Current service cost	(2.7)	(4.2)
Interest on scheme liabilities	(17.4)	(19.1)
Exceptional past service cost – Plan amendment (note 3)	(6.9)	-
Exceptional past service cost – Curtailment credit (note 3)	0.6	3.9
Actuarial movement – experience	(9.1)	(3.7)
Actuarial movement – demographic assumptions	(31.4)	21.3
Actuarial movement – financial assumptions	50.1	(18.3)
Net benefits paid out	45.6	44.6
Present value of defined benefit obligation at 31 December	(704.4)	(733.2)

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

	2018 %	2017 %
Price inflation – RPI	3.30	3.20
Price inflation – CPI	2.20	2.10
Rate of increase to pensions in payment	3.00	2.95
Inflationary increases to pensions in deferment	2.20	2.10
Discount rate	2.80	2.40

A 0.1% change in the discount and inflation rates would change the present value of the defined benefit obligation by approximately £12m (2017: £14m) and £5m (2017: £6m) respectively.

The mortality assumptions have been updated in 2018 to be based on the self-administered pension scheme (SAPS) series 2 tables (2017: series 1 tables), with multipliers of 96% (2017: 105%) and 101% (2017: 115%) respectively for males and females. The 4% downwards (2017: 5% upwards) adjustment to mortality rates for males and a 1% upwards (2017: 15%) adjustment for females reflects higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes following an updated study of the scheme's membership. Future improvements in mortality are based on the latest available Continuous Mortality Investigation (CMI) model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
	2018 years	2017 years	2018 years	2017 years
Current pensioner aged 65	22.2	21.4	23.8	22.9
Current member aged 45 from age 65	23.6	22.9	25.3	24.5

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £30m (2017: £30m).

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

	2018 £m	2017 £m
Actuarial movements on scheme assets	(31.3)	18.2
Actuarial movements on scheme liabilities	9.6	(0.7)
Actuarial movements recognised in the statement of comprehensive income in the period	(21.7)	17.5

10. Investments

	2018	2017
	£m	£m
Government gilts	35.7	35.9
Visa Inc. shares	12.1	9.9
	47.8	45.8

Government gilts

Government gilts comprise UK government gilts which form part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime. The gilts had a maturity on origination in excess of three months and are therefore disclosed as an investment held at fair value through the income statement. Vanquis Bank's total liquid assets buffer and other liquid resources, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £420.6m (2017: £263.4m). This includes £384.9m (2017: £227.5m) held in cash and cash equivalents.

Visa Inc. shares

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

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 31 December 2018 of £12.1m (2017: £9.9m) is held at fair value through the OCI and the fair value of the deferred cash consideration of £1.2m (2017: £1.2m) is included within debtors. The increase in the fair value of the investment during the year of £2.2m (2017: £1.9m) in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates has been recognised in the statement of comprehensive income.

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. Provisions

	2018	2017
	£m	£m
At 1 January	104.6	-
Created during the period	-	104.6
Used during the period	(62.2)	-
Reclassification from balance reduction provisions	10.8	-
At 31 December	53.2	104.6

Vanquis Bank

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

The ROP refund programme is on-track to be completed in early 2019. Following a successful pilot during the summer, there was a significant step up in the volume of refunds being processed in the final quarter of 2018 and over 1 million current and former ROP customers had been refunded by the end of 2018. As a result, £61.8m of the provision established at the end of 2017 had been used during 2018. In addition, a reclassification of £10.8m was made from the balance reduction provision held against receivables during 2018 which reflects an increase in the estimate of the number of customers that will receive a cash refund rather than a balance reduction. The balance reduction provision reduced from £75.4m at the end of 2017 to £3.7m at the end of 2018 (see note 8), of which £60.9m relates to balance reductions applied to customer accounts and £10.8m relates to the reclassification to provisions. By early March 2019, the ROP refund programme was 99% complete with over 1.3m customers refunded. The cost in respect of balance reductions and cash refunds during 2019 has been within the provisions held at the end of 2018.

Moneybarn

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

Moneybarn has used £0.4m of the provision in 2018 in respect of legal costs. The balance reduction adjustment has also reduced by £10.3m from £12.1m to £1.8m during 2018 reflecting the write down of gross receivables based on the expected outcome of the termination options and forbearance parts of the FCA investigation (see note 8). In March 2019, Moneybarn agreed with the FCA the overall settlement to be paid in respect of the investigation. The cost is expected to be within the provisions held at the end of 2018 but this will not be reflected until receipt of the final settlement agreement from the FCA.

12. Reconciliation of profit after tax to cash generated from operations

	IFRS 9 2018 £m	IAS 39 2017 £m
Profit/(loss) after tax	60.3	(134.4)
Adjusted for:		
– tax charge (note 4)	30.4	11.4
– finance costs before exceptional premium and fees paid on refinancing of senior bonds	73.2	77.0
– exceptional premium and fees paid on refinancing of senior bonds (note 3)	18.5	-
– share-based payment charge/(credit)	1.1	(3.4)
– retirement benefit charge before exceptional past service costs (note 9)	0.2	2.2
– exceptional past service costs in respect of retirement benefit pension scheme (note 9)	6.3	(3.9)
– amortisation of intangible assets (note 7)	19.2	19.2
– depreciation of property, plant and equipment	9.1	9.3
– loss on disposal of property, plant and equipment	-	0.6
– exceptional impairment on intangible assets (note 7)	12.8	-
– exceptional impairment on property, plant and equipment and (note 3)	1.0	-
Changes in operating assets and liabilities:		
– amounts receivable from customers	(80.8)	(90.1)
– exceptional balance reductions applied to amounts receivable from customers (note 3)	-	87.5
– trade and other receivables	(6.2)	(8.1)
– trade and other payables	(5.9)	10.8
– contributions into the retirement benefit scheme (note 9)	(9.8)	(10.7)
– provisions (note 11)	(62.2)	104.6
Cash generated from operations	67.2	72.0

13. Contingent liabilities

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

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

The company believes the claims by the institutional investor are unmeritorious and considers the prospects of the claims being upheld to be limited. The company has responded to the claims and intends to defend its position vigorously and to the fullest extent possible. In the event these claims, or claims brought by any other investors in connection with these, or other, announcements or investor meetings, were upheld, the compensation which the company may be required to pay could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

14. IFRS 9

IFRS 9 'Financial instruments' has been adopted by the Group from the mandatory adoption date of 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'.

IFRS 9 prescribes:

(i) classification and measurement of financial instruments - requires asset classification and measurement based upon business model;

(ii) hedge accounting - wider eligibility criteria to hedging of financial instruments; and

(iii) expected loss accounting for impairment - replaces an incurred loss model.

Classification and measurement

Under IFRS 9, the classification of financial assets is determined by a contractual cash flows test referred to as the "Solely payment of principal and interest" (SPPI) business model test.

Financial assets are required to be measured at amortised cost if they are held as part of a business model where the objective is to hold the financial asset in order to collect contractual cash flows. This is known as the 'hold to collect' business model.

Financial assets are required to be measured at fair value through other comprehensive income if they are held in a business model to both collect contractual cash flows and sell the financial assets. This is known as the 'hold to collect and sell' business model.

Financial assets that fail the SPPI test are required to be measured at fair value through the income statement.

There are no changes to the classification and measurement of the Group's financial assets as a result of the IFRS 9 SPPI test.

Hedge accounting

The requirements on hedge accounting are revised under IFRS 9 but adoption is optional. IAS 39 continues to be available.

The Group is continuing to apply the IAS 39 hedge accounting requirements but is implementing the amended IFRS 7 disclosure requirements.

Expected loss accounting

The area within IFRS 9 which materially affects the Group is expected loss accounting for impairment. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the typical loss arising on default:

- Stage 1 – Accounts at initial recognition. The expected loss is based on a 12 month PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.
- Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historic experience, and recognised on the gross receivable before impairment provision.
- Stage 3 – Accounts which have missed a payment and are in arrears. Provisions are based on expected losses based on historic cash flows. Revenue is recognised on the net receivable after impairment provision. This stage is effectively the previous IAS 39 treatment for impairment.

Provisions under IFRS 9 are calculated based on an unbiased probability-weighted outcome which take into account historic performance and considers the outlook for macro-economic conditions.

All credit issued is recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk either through a missed payment or an adverse change in behavioural score. Revenue recognition will be recognised on a gross basis in stage 1 and 2 and on a net basis in stage 3. A customer can only move to stage 3 for revenue recognition purposes at the Group's interim or year end.

14. IFRS 9 (continued)

Vanquis Bank

Vanquis Bank has adopted their current PD/LGD models used for capital purposes to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to the customer's credit score used in underwriting the credit card.

Lifetime losses are then recognised when a significant increase in credit risk is evident, either from a missed monthly payment or an increase in credit score used in assessing the customer's eligibility for a credit line increase. Revenue is recognised on the gross receivable until the customer defaults.

A customer is deemed to have defaulted when they are three monthly payments in arrears, they enter a payment arrangement or if there is evidence of a significant increase in credit score. Revenue is then recognised on the net receivable, after impairment provision.

A macro-economic overlay has been included which reflects changes in the expected credit losses as a result of predicted movements in the unemployment rate which is deemed to be the most relevant macro-economic indicator for Vanquis Bank.

CCD

CCD has created a PD/LGD model for customers who are up to date or have missed one payment in the last 12 weeks to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months utilising historic repayment data excluding data through 2017 which is not deemed to be indicative of future performance given the operational disruption within the home credit business.

Lifetime losses are then recognised using a discounted cash flow model when a significant increase in credit risk is evident from 2 missed weekly payments in the last 12 weeks. Revenue is recognised on the gross receivable until the customer defaults.

A customer is deemed to have defaulted when the customer would no longer be eligible for re-serving which is considered to be 5 missed weekly payments in the last 12 weeks. Revenue is then recognised on the net receivable, after impairment provision.

Moneybarn

Moneybarn has created a PD/LGD model to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined using historical customer data and outcomes.

Lifetime losses are then recognised when a significant increase in credit risk is evident from a missed monthly payment. Revenue is recognised on the gross receivable until the customer defaults.

A customer is deemed to have defaulted when they are no longer able to sustain payments under their agreement and subsequently the customer's agreement is terminated. Revenue is then recognised on the net receivable, after impairment provision.

14. IFRS 9 (continued)

The impairment approach under IFRS 9 differs from the previous incurred loss model under IAS 39 where impairment provisions were only reflected when there was objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This resulted in the following one-off adjustment to receivables, deferred tax and reserves on adoption as follows:

	IAS 39 £m	IFRS 9 adjustment £m	IFRS 9 £m
Receivables:			
– Vanquis Bank	1,554.7	(149.5)	1,405.2
– CCD	390.6	(43.2)	347.4
– Moneybarn	364.1	(45.4)	318.7
Total receivables	2,309.4	(238.1)	2,071.3
Pension asset	102.3	-	102.3
Liquid assets buffer	263.4	-	263.4
Borrowings	(2,193.0)	-	(2,193.0)
Deferred (tax liabilities)/assets (note 4)	(20.3)	54.1	33.8
Other	73.3	-	73.3
Net assets	535.1	(184.0)	351.1

The Group is not restating its 2017 statutory prior year comparatives. This is due to the IFRS 9 requirement in respect of de-recognition of a financial asset which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year which will distort comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis. However, the Group and divisional commentary on performance includes pro forma 2017 income statement, balance sheet and KPI comparatives on a full IFRS 9 basis as though IFRS 9 was adopted from 1 January 2017.

Directors' responsibility statement

Each of Patrick Snowball, Chairman; Malcolm Le May, Chief Executive Officer; Simon Thomas, Chief Financial Officer; Andrea Blance, Senior independent non-executive director; Angela Knight, non-executive director; Paul Hewitt, non-executive director; Elizabeth Chambers, non-executive director; and John Straw, 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 EU, 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 2018 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.

Publication of Annual Report and Financial Statements

Provident Financial has today published its 2018 Annual Report and Financial Statements. In compliance with LR 9.6.1R, the 2018 Annual Report and Financial Statements has been submitted to the UK Listing Authority via the National Storage Mechanism and will shortly be available to the public for inspection at www.morningstar.co.uk/uk/NSM. It will also be available on the Group's website from today at: www.providentfinancial.com/investors/results-reports-and-presentations/annual-reports/.

Information for shareholders

1. The shares will be marked ex-dividend on 23 May 2019.

2. The final dividend will be paid on 21 June 2019 to shareholders on the register at the close of business on 24 May 2019. Dividend warrants/vouchers will be posted on 19 June 2019.

3. The last date for elections to participate in the PFG Dividend Re-investment Plan for the final dividend is 7 June 2019.

4. The 2018 Annual Report and Financial Statements together with the notice of the annual general meeting will be posted to shareholders on or around 26 March 2019.

5. The annual general meeting will be held on 21 May 2019 at the offices of Clifford Chance LLP, 10 Upper Bank Street, London, E14 5JJ.