Provident Financial plc
Interim results for the six months ended 30 June 2018

Provident Financial plc is the leading provider of credit products to those consumers who are not well served by mainstream lenders. The group serves 2.5 million customers and its operations consist of Vanquis Bank, the Consumer Credit Division (CCD) comprising Provident 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.

Highlights

Good progress being made in delivering the group's operational aims for 2018

- IFRS 9 group adjusted profit before tax[1,2] of £74.9m (2017: pro forma IFRS 9 adjusted profit before tax[1,2] of £98.6m, IAS 39 adjusted profit before tax[2] of £115.3m), broadly in line with internal plan.
- Statutory IFRS 9 group profit before tax[1,2] of £34.6m (2017: pro forma IFRS 9 statutory profit before tax[1,2] of £73.3m, IAS 39 statutory profit before tax[1,2] of £90.0m).
- The home credit operational recovery plan is expected to be substantially completed during the second half of the year with the objective of obtaining full authorisation from the Financial Conduct Authority (FCA) by the end of the year.
- The roll-out of the Vanquis Bank Repayment Option Plan (ROP) refund programme to 1.2 million customers is underway.
- Provisions made in 2017 for the ROP refund programme and the FCA investigation at Moneybarn remain appropriate.
- The group's capital position and liquidity are both strong following completion of the rights issue in April and the refinancing of the senior bond in June.
- Announcement of Patrick Snowball as Chairman and the appointment of three new non-executive directors.
- Significant activity is underway to strengthen the group's culture and governance.
- Based on the good progress made in the first half of the year, the Board reconfirms its intention to restore dividends with a nominal final dividend for 2018.

Vanquis Bank has delivered results in line with plan

- Vanquis Bank has delivered 6.1% increase in its IFRS 9 adjusted profit before tax[1,2] to £97.2m (2017: pro forma IFRS 9 adjusted profit before tax[1,2] of £91.6m, IAS 39 adjusted profit before tax[2] of £100.1m), in line with its internal plan.
- New customer accounts of 187,000 (2017: 234,000) reflect the impact from the tightening of underwriting during the third quarter of last year as previously communicated and cessation of the Argos contract in early 2018.
- Delinquency and arrears performance have remained broadly consistent with the first half of 2017.

Good progress made on implementing the home credit operational recovery plan

- IFRS 9 adjusted loss before tax[1,2] of £23.2m (2017: pro forma IFRS 9 adjusted profit before tax[1,2] of £4.7m, IAS 39 adjusted profit before tax[2] of £6.3m) as the business continues to implement its recovery plan following the operational disruption in the second half of 2017.
- Actions to align the cost base with the reduced size of the business were completed in the first half, including a reduction in central headcount and careful management of field resource.
- Collections performance in the second quarter of the year has remained approximately 10% lower than historic levels due to underperformance of the back book. However, business written since the fourth quarter of 2017 is performing satisfactorily and a series of actions to restore performance by spring 2019 are underway.

- Provident remains the clear market leader in the home credit market and the business is expected to return to profitability in 2019.

Moneybarn delivers further strong growth in new business

- IFRS 9 adjusted profit before tax[1,2] up 2.9% to £10.6m (2017: pro forma IFRS 9 adjusted profit before tax[1,2] of £10.3m, IAS 39 adjusted profit before tax[2] of £16.9m) reflecting improved credit quality and investment in augmenting the senior management team and resources in customer services and collections.
- Significant growth in new business volumes of 16%, notwithstanding tighter credit standards.
- Default rates and arrears levels have now stabilised and the credit quality of new business being written is now materially better than 18 months ago following the tightening of underwriting in 2017.
- Moneybarn continues in a constructive dialogue with the FCA on the investigation into affordability, forbearance and termination options.

Board changes

- Patrick Snowball will join the Board on 21 September 2018 as Chairman and Stuart Sinclair, the current Interim Chairman, will retire from the Board.
- Angela Knight, Elizabeth G Chambers and Paul Hewitt join the Board as non-executive directors with effect from 31 July 2018.

Key financial results

	H1 2018 IFRS 9	H1 2017 IFRS 9[1]	Change	H1 2017 IAS 39
Adjusted profit before tax[2]	£74.9m	£98.6m	(24.0%)	£115.3m
Statutory profit before tax	£34.6m	£73.3m	(52.8%)	£90.0m
Adjusted basic earnings per share[2,3]	24.2p	37.7p	(35.8%)	44.1p
Basic earnings per share[3]	9.8p	27.4p	(64.2%)	33.8p
Annualised return on assets[4]	5.3%	11.9%		13.1%
Interim dividend per share	-p	-p		-p

Malcolm Le May, Chief Executive, commented:

“I am pleased to report good progress against the 2018 goals we set out at results back in February. The implementation of the home credit operational recovery plan is going well, we have commenced our ROP refund programme after a successful pilot, and we remain engaged in constructive dialogue with the FCA on their investigation at Moneybarn. I am confident we are well placed to make good progress on all three goals during the second half of the year and within the provisions we made in 2017.

Today we have also significantly strengthened the Board, another key objective, with the appointment of Patrick Snowball as Chairman, and three new non-executive directors. These appointments will add to the Board’s financial services, consumer finance, regulatory and non-executive director skill set.

Operationally we have made good progress. Collections performance in home credit in the second quarter did not show the improvement we expected mainly due to lower collections from customers who were live during the poorly executed migration to the new operating model last summer. However, customers who took credit from us since then are performing in line with historic levels, indicating to me the changes we are making to our model are working. Vanquis Bank continues to perform well and in line with our expectations and has made the necessary changes required to meet the new regulatory requirements introduced by the FCA’s new rules addressing persistent debt. Moneybarn has delivered strong growth and continues to perform in line with our expectations.

I believe the group is well placed to champion the underserved, and through greater collaboration across our businesses we can provide them with the credit they need, when they need it, and on responsible terms. I look forward to continuing the journey of repositioning the group as the leading provider of credit to this underserved sector, and would like to thank all my colleagues for their hard work over the last six months."

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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 pro forma 2017 income statement and balance sheet comparatives as though IFRS 9 had been implemented retrospectively.*

[2] *Adjusted profit before tax is stated before: (i) £3.7m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2017: £3.7m); and (ii) an exceptional charge of £36.6m (2017: £21.6m) comprising £18.1m 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: £21.6m) and £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).*

[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 30 June.*

Note:

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

INTERIM REPORT

Chief Executive's review

Introduction

Provident Financial is the leading provider of credit products to the 10 to 12 million consumers who are not well served by mainstream lenders. The group serves 2.5 million customers through four brands; Vanquis Bank credit cards, Provident home credit, Satsuma online loans, and Moneybarn car finance. Our aim is to enable our customers to build brighter financial futures by providing them with the access to the credit they need and then helping them to develop their credit profile through offering them clearly differentiated products which responsibly serve them with the right solution. There remains a significant opportunity 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 be central to maintaining our market leading positions. The delivery of the group's 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.

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

Home credit recovery plan

Good progress has been made on implementing the home credit operational recovery plan, customer satisfaction measures have seen a substantial rebound and management is heavily focused on continuing a constructive relationship with the regulator, including in respect of the FCA's recent review of the high-cost credit market. The actions required to implement fully the recovery plan are expected to be substantially in place during the second half of the year and the business has the objective of obtaining full authorisation from the FCA by the end of the year. The business has implemented a large number of improvements to its control environment during the first half of the year including:

- Implementation of recording customer interactions, including mandatory recording for all sales transactions.
- Implementation of a new arrears strategy to support field activity with centrally led letters and SMS reminders to assist customers in managing their account better together with advanced plans for the re-establishment of a new central collections team in Vanquis Bank.
- Further development of the Lending App, including digital document capture to assist in verifying income.
- Process enhancements and training within the field organisation focused on the monitoring of Customer Experience Manager (CEM) activity by field managers and improving the quality of interactions with customers.
- The piloting of a new field structure in 20 locations which involves 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 customers. The new structure will reduce spans of control with a clear focus on enhancing the control environment and will be fully rolled-out in the second half of the year.

Despite the continued development of field activities and further significant improvements in customer service, the progressive improvement in the shortfall in underlying collections experienced since September 2017 did not continue during the second quarter of the year. The shortfall has remained at around 10% versus historical performance, which is consistent with the level at the end of the first quarter and compares to 12% at the start of the year and 30% shortly after transition to the new operating model in July 2017. This fell short of internal plans which assumed that the shortfall would further narrow in the second quarter. The absence of any improvement in collections performance during the second quarter is primarily attributable to lower than expected collections from customers who were live during the migration to the new operating model. In particular, there is currently a higher than expected proportion of customers making payments lower than their contracted rate and the rate of reconnection with non-paying customers has also been running below plan. Very importantly, however, the collections performance of credit originated since the fourth quarter of 2017 is performing in line with historic levels.

The enhanced controls and processes delivered during the first half of the year together with the roll-out of the new field structure are expected to deliver further improvements in collections performance. In addition, once the recovery plan is completed and the business is authorised, the business is intending to introduce an enhanced performance management system based on a balanced scorecard and some element of variable performance related pay, subject to agreement with the FCA. The business expects to restore collections performance to historic levels by spring 2019.

Delivery of the recovery plan, securing full authorisation and returning collections performance to historic levels remain the key priorities of the home credit business.

In June, 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 continue to support her family through these difficult times.

Vanquis Bank refund programme and regulatory changes

The systems and operational capability required for Vanquis Bank to deliver the refund programme to some 1.2 million ROP customers has largely been built. A pilot into a small segment of customers was successfully completed in early June and the roll-out of the full refund programme has now commenced. So far some 200,000 customers have entered the programme. To date, there has been no material change in the level of ROP complaints following the announcement of the settlement on 27 February 2018. Nonetheless, the total provisions and balance reductions set aside in the 2017 financial statements of £172.1m have been retained as management's best estimate of the total cost of the refund programme.

In response to the policy rule on persistent debt arising from the FCA's credit card market study, the business has recently increased the contractual minimum payments that customers are required to make on a monthly basis and is in the process of rolling out recommended payments and other communication strategies across its customer base. In addition, the business has recently implemented enhanced affordability assessments following the principles established during the FCA's wide ranging review into creditworthiness in consumer credit. The impact on growth of both of these changes will be reflected over the next 12 months as their impact becomes fully embedded within the receivables book and the expected impact has already been included in the guidance for 2018 and the returns targets for the group.

Governance and culture

The group is making good progress in strengthening its governance framework, improving its relationship with regulators and implementing the changes necessary to culture to place the customer firmly at the heart of the group's strategy. This will provide the basis for delivering attractive and sustainable returns to shareholders.

Patrick Snowball will join the Board on 21 September 2018 as Chairman. He is an experienced Chairman, non-executive director and chief executive officer and has extensive experience in financial services with a focus on delivering good customer outcomes, strong governance and execution. Stuart Sinclair, the current Interim Chairman, will retire from the Board on the same date.

The group is also announcing today that Angela Knight, Elizabeth G Chambers and Paul Hewitt are joining the Board as non-executive directors with effect from 31 July 2018. All three bring with them strong financial, consumer finance and regulatory expertise.

The group has invested further in strengthening its governance framework by recruiting a central risk team to work under the Interim Chief Risk Officer, the group co-ordination of IT and procurement under a new Interim Group Chief IT Officer and the recent recruitment of a new Interim Head of Internal Audit and a Group Head of Human Resources. Plans to recruit a Head of Regulation are also well advanced.

The group Executive Committee, which was reconstituted in late 2017 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.

Significant activity is underway to realign the group's culture more closely to the developing needs of the customer, and to collaborate better internally across businesses to deliver better customer outcomes. This will continue to be a significant priority during the second half of the year.

A new Board committee focusing on the customer, culture and ethics will be constituted shortly to help drive changes in behaviours and attitudes across the group.

Moneybarn FCA investigation

The group is continuing to work with the FCA into their investigation into affordability, forbearance and termination options at Moneybarn. The scope of the investigation is well understood and the estimated cost of £20.0m, which was reflected in the 2017 financial statements, continues to be management's best estimate of the expected outcome in respect of the investigation. A final resolution to the investigation is likely to take up to 18 months.

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 June 2018 is 30.0% compared with a fully loaded regulatory capital requirement of 25.5%. This provides headroom of approximately £90m, and is consistent with historic levels and the Board's risk appetite.

The group has made very good progress in strengthening the group's funding position during the first half of the year.

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.

On 4 June 2018, the group 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 group has sufficient debt facilities, together with access to retail deposits, to fund the growth in the business and contractual maturities until May 2020.

Outlook

The focus for the second half of the year will remain firmly on delivering the necessary actions to achieve the five key objectives for 2018; implementing the home credit recovery plan and obtaining FCA authorisation in CCD, delivering the ROP refund programme in Vanquis Bank, further developing the group's governance and culture, progressing the FCA investigation at Moneybarn and continuing to strengthen the group's funding position.

Following completion of the rights issue and the refinancing of the senior bond, the group has a strong capital and funding position. Each of the group's businesses enjoy a market-leading position and the group will continue to build on its core capabilities in distribution, underwriting and collections through greater collaboration, enhanced use of data and analytics and further developments in the group's digital capability. This will reinforce the delivery of good customer outcomes and attractive shareholder returns, consistent with the group's objective of delivering sustainable annual receivables growth of between 5% and 10% and a return on assets of at least 10% once the home credit recovery plan has been fully delivered.

Based on the good progress made in the first half of the year, the Board reconfirms its intention to restore dividends with a nominal final dividend for 2018, before adopting a progressive dividend, in line with its stated dividend policy, from the 2019 financial year.

Financial review

Group performance

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 ('loss given default'). 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 first half 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 will distort comparability with the 2018 income statement and balance sheet which is on a full IFRS 9 basis, the group has also provided 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 first half results can be summarised as follows:

	Six months ended 30 June			
	2018	2017		2017
	IFRS 9	IFRS 9[1]	Change	IAS 39
	£m	£m	%	£m
Adjusted profit/(loss) before tax:				
– Vanquis Bank	97.2	91.6	6.1	100.1
– CCD	(23.2)	4.7	(593.6)	6.3
– Moneybarn	10.6	10.3	2.9	16.9
– Central costs	(9.7)	(8.0)	(21.3)	(8.0)
Adjusted profit before tax[2]	74.9	98.6	(24.0)	115.3
Adjusted EPS[3]	24.2p	37.7p	(35.8)	44.1p
Annualised ROA[4]	5.3%	11.9%		13.1%

1. *Pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented retrospectively.*
2. *Adjusted profit before tax is stated before: (i) £3.7m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2017: £3.7m); and (ii) an exceptional charge of £36.6m (2017: £21.6m) comprising £18.1m in respect of the implementation of the home credit recovery plan (2017: £21.6m) and £18.5m in respect of the refinancing of the £250m senior bonds maturing in October 2019 (2017: £nil).*
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 30 June.*

The group has reported IFRS 9 profit before tax, amortisation of acquisition intangibles and exceptional items down by 24.0% to £74.9m (2017: pro forma IFRS 9 profit before tax, amortisation of acquisition intangibles and exceptional items of £98.6m, IAS 39 profit before tax, amortisation of acquisition intangibles and exceptional items of £115.3m), broadly in line with internal plans. Vanquis Bank has delivered a 6.1% increase in IFRS 9 adjusted profit before tax to £97.2m (2017: pro forma IFRS 9 adjusted profit before tax of £91.6m, IAS 39 adjusted profit before tax of £100.1m), principally reflecting the impact from reduced new booking volumes in the first half of 2018 together with the benefit of operational leverage. CCD has reported an IFRS 9 adjusted loss before tax of £23.2m (2017: pro forma IFRS 9 adjusted profit before tax of £4.7m, IAS 39 adjusted profit before tax of £6.3m) as the business continues to implement the recovery plan after the significant disruption in the second half of 2017. Moneybarn's IFRS 9 adjusted profit before tax has increased by 2.9% to £10.6m (2017: pro forma IFRS 9 adjusted profit before tax of £10.3m, IAS 39 adjusted profit before tax of £16.9m), reflecting improved credit quality following the tightening of underwriting in 2017 and 2018 substantially offset by the investment in augmenting the senior management team and the resources in customer services and collections.

IFRS 9 adjusted basic earnings per share of 24.2p (2017: pro forma IFRS 9 adjusted basic earnings per share of 37.7p, IAS 39 adjusted basic earnings per share of 44.1p) fell by 35.8%, reflecting the impact of the rights shares issued in April 2018 and the reduction in adjusted earnings. Reported IFRS 9 profit before tax reduced by 52.8% to £34.6m (2017: pro forma

IFRS 9 profit before tax of £73.3m, IAS 39 profit before tax of £90.0m) and IFRS 9 basic earnings per share reduced by 64.2% to 9.8p (2017: pro forma IFRS 9 basic earnings per share of 27.4p, IAS 39 basic earnings per share of 33.8p). Exceptional costs in the first half of 2018 amounted to £36.6m (2017: £21.6m) comprising £18.1m in respect of the implementation of the home credit recovery plan (2017: £21.6m) and £18.5m in respect of the refinancing of the £250m senior bonds maturing in October 2019 (2017: £nil).

Vanquis Bank

	Six months ended 30 June				Year ended 31 December	
	2018 IFRS 9 £m	2017 IFRS 9[1] £m	Change %	2017 IAS 39 £m	2017 IFRS 9[1] £m	2017 IAS 39 £m
Customer numbers ('000)	1,764	1,645	*7.2*	1,645	1,720	1,720
Period-end receivables prior to balance reduction[2]	1,501.7	1,345.5	*11.6*	1,476.8	1,480.6	1,630.1
Reported period-end receivables	1,432.4	1,345.5	*6.5*	1,476.8	1,405.2	1,554.7
Average receivables[3]	1,487.1	1,321.5	*12.5*	1,440.6	1,366.8	1,497.3
Revenue	331.9	319.0	*4.0*	311.1	650.5	638.8
Impairment	(117.3)	(109.5)	*(7.1)*	(93.1)	(223.5)	(186.6)
Revenue less impairment	214.6	209.5	*2.4*	218.0	427.0	452.2
Annualised revenue yield[4]	45.0%	48.8%		43.9%	47.6%	42.7%
Annualised impairment rate[5]	15.7%	17.1%		12.5%	16.4%	12.5%
Annualised risk-adjusted margin[6]	29.3%	31.7%		31.4%	31.2%	30.2%
Costs	(99.2)	(98.9)	*(0.3)*	(98.9)	(209.1)	(209.1)
Interest	(18.2)	(19.0)	*4.2*	(19.0)	(36.5)	(36.5)
Adjusted profit before tax[7]	97.2	91.6	*6.1*	100.1	181.4	206.6
Annualised return on assets[8]	11.2%	12.2%		12.8%	11.8%	11.9%

1 *Pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented retrospectively.*

2 *Period-end receivables at 30 June 2018 and 31 December 2017 are stated prior to the estimated balance reduction of £69.3m and £75.4m respectively 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 30 June/31 December excluding the impact of the balance reduction adjustment (see 2 above).*

4 *Revenue as a percentage of average receivables for the 12 months ended 30 June/31 December.*

5 *Impairment as a percentage of average receivables for the 12 months ended 30 June/31 December.*

6 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June/31 December.*

7 *Adjusted profit before tax for the year ended 31 December 2017 is stated before an exceptional cost of £172.1m in respect of the estimated cost of restitution, other costs and a fine following resolution* on 27 *February 2018 of the FCA investigation into ROP of which £75.4m was reflected as a reduction in receivables, comprising a gross balance reduction of £90.1m less release of impairment provisions of £14.7m, and £96.7m was reflected within provisions (six months ended 30 June 2018: £nil, six months ended 30 June 2017: £nil).*

8 *Profit before interest and exceptional items after tax as a percentage of average receivables for the 12 months ended 30 June/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, IFRS 9 pro forma profits of £91.6m in the first half of 2017 are 8.5% lower than IAS 39 reported profits for the same period of £100.1m. Full-year pro forma IFRS 9 profits for 2017 were £181.4m, 12.2% lower than reported IAS 39 profits for 2017 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 6.1% increase in its IFRS 9 adjusted profit before tax to £97.2m in the first half of 2018 (June 2017: pro forma IFRS 9 adjusted profit before tax of £91.6m, IAS 39 adjusted profit before tax of £100.1m), in line with its internal plan. The increase in profits reflects slower growth in new account bookings and receivables and the benefit of operational leverage partly offset by the continued moderation in the annualised risk-adjusted margin from reduced penetration of ROP and a modest 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 187,000 were in line with management's plans and reflect the impact of the tightening of underwriting during the third quarter of last year and the cessation of the Argos contract in early 2018. Bookings were 47,000 lower than the very strong first half in 2017 which benefited from the marketing programme being more heavily weighted towards the earlier part of the year. Customer numbers ended the first half at 1,764,000, 7.2% higher than June 2017.

There are now approximately 750,000 registered users of Vanquis Bank's new mobile app launched last year. The new app has been designed to be highly customer centric and features a number of functions to 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 group-wide Provident Knowledge Universe (PKU) customer database is now in the process of being rolled out, first within Vanquis Bank and then across the rest of the group. PKU provides a unique richness and granularity of data for all of 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 growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 12.5% increase in IFRS 9 average receivables. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of around 65% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

IFRS 9 receivables, prior to the balance reduction of £69.3m in respect of the resolution of the FCA investigation into ROP, ended the first half at £1,501.7m, showing year-on-year growth of 11.6% (June 2017: pro forma IFRS 9 receivables of £1,345.5m), reflecting the growth in customer numbers and the continued success of the credit line increase programme. In response to the definition of persistent debt arising from the FCA's credit card market study, the business has recently increased its minimum payments 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. In addition, the business has recently implemented enhanced affordability assessments following the principles established during the FCA's wide ranging review into creditworthiness in consumer credit. The impact on growth of both of these changes will be reflected over the next 12 months as their impact becomes fully embedded within the receivables book and the expected impact has already been included in the guidance for 2018 and the returns targets for the group.

The focus of the Vanquis Bank loans proposition remains on providing unsecured loans to existing credit card customers, with volumes and credit quality in line with expectations. Accordingly, the IFRS 9 receivables book has increased from £14.8m at December 2017 to £25.1m at June 2018 (June 2017: pro forma IFRS 9 receivables of £3.5m).

IFRS 9 revenue has increased by 4.0%, a lower rate of increase compared with the 12.5% increase in average IFRS 9 receivables. The annualised IFRS 9 revenue yield has moderated from 48.8% to June 2017 to 45.0% to June 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 £7m. 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.

Delinquency and arrears performance have remained broadly consistent with the first half of last year, after the benefit of the tightening of credit standards during 2017 and the modest shift in receivables mix towards near prime. The annualised IFRS 9 impairment rate to June 2018 of 15.7% of average receivables improved from 17.1% to June 2017. This reflected the 20% year-on-year reduction in new customer bookings as opposed to any improvement in credit quality.

The annualised IFRS 9 risk-adjusted margin has moderated from 31.7% to June 2017 to 29.3% to June 2018, reflecting the reduction in the annualised IFRS 9 revenue yield partly offset by the reduction in the impairment rate discussed above.

The level of investment spend on digital development through the first half of 2018 was consistent with the first half of 2017. Together with cost efficiencies, this has allowed Vanquis Bank to access operational leverage as demonstrated by the cost base showing only a modest increase of 0.3% to £99.2m (June 2017: £98.9m).

Interest costs of £18.2m reduced by 4.2% during the first half of 2018 (June 2017: £19.0m). 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 the first half of 2017 to 3.5% in the first half of 2018. This reflects a lower average interest rate on retail deposits and a lower average level of intercompany loan from PFG which represents a higher cost of funding for Vanquis Bank.

Vanquis Bank's annualised IFRS 9 return on assets has reduced to 11.2% (June 2017: pro forma IFRS 9 annualised return on assets of 12.2%), reflecting the moderation in the annualised IFRS 9 risk-adjusted margin partly offset by positive operational leverage.

CCD

	Six months ended 30 June				Year ended 31 December	
	2018	2017		2017	2017	2017
	IFRS 9	IFRS 9[1]	*Change*	IAS 39	IFRS 9[1]	IAS 39
	£m	£m	*%*	£m	£m	£m
Customer numbers ('000)	765	801	*(4.5)*	801	780	780
Period-end receivables	293.7	444.2	*(33.9)*	501.4	347.4	390.6
Average receivables[2]	309.7	467.0	*(33.7)*	515.8	406.0	443.8
Revenue	179.4	265.3	*(32.4)*	258.4	481.2	451.2
Impairment	(70.6)	(124.0)	*43.1*	(115.5)	(311.0)	(293.5)
Revenue less impairment	108.8	141.3	*(23.0)*	142.9	170.2	157.7
Annualised revenue yield[3]	120.7%	100.9%		100.9%	118.5%	101.7%
Annualised impairment rate[4]	78.6%	31.9%		31.9%	76.6%	66.2%
Annualised risk-adjusted margin[5]	42.1%	69.0%		69.0%	41.9%	35.5%
Costs	(124.0)	(125.2)	*1.0*	(125.2)	(253.4)	(253.4)
Interest	(8.0)	(11.4)	*29.8*	(11.4)	(23.1)	(23.1)
Adjusted (loss)/profit before tax[6]	(23.2)	4.7	*(593.6)*	6.3	(106.3)	(118.8)
Annualised return on assets[7]	(28.3%)	14.9%		15.8%	(16.5%)	(17.4%)

[1] *Pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented retrospectively.*

[2] *Calculated as the average of month end receivables for the 12 months ended 30 June/31 December.*

[3] *Revenue as a percentage of average receivables for the 12 months ended 30 June/31 December.*

[4] *Impairment as a percentage of average receivables for the 12 months ended 30 June/31 December.*

[5] *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June/31 December.*

[6] *Adjusted (loss)/profit before tax for the six months ended 30 June 2018 is stated before exceptional costs of £18.1m 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 (six months ended 30 June 2017: £21.6m, year ended 31 December 2017: £32.5m).*

[7] *Adjusted (loss)/profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June/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 pro forma profits of £4.7m in the first half of 2017, were only marginally lower than IAS 39 reported profits for the same period of £6.3m, reflecting the impact of the strong growth in Satsuma receivables. Full-year pro forma IFRS 9 losses for 2017 were

£106.3m, compared with reported IAS 39 losses for 2017 of £118.8m. The lower losses under IFRS 9 reflect the contraction in the home credit receivables book following poor execution of the change in operating model in July 2017, partly offset by higher impairment in Satsuma due to the strong growth in new business 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 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 £23.2m for the first half of 2018 (2017: pro forma IFRS 9 adjusted profit before tax of £4.7m, IAS 39 adjusted profit before tax of £6.3m) as the business continues to implement the recovery plan. This follows the losses of over £100m resulting from the disruption to the business in the second half of 2017.

CCD reported customer numbers at 30 June 2018 were 765,000 (December 2017: 780,000, June 2017: 801,000), 1.9% or 15,000 lower than at 31 December 2017. Customer numbers comprise 663,000 in respect of the home credit business (December 2017: 697,000, June 2017: 731,000) and 99,000 in respect of Satsuma (December 2017: 79,000, June 2017: 66,000) and 3,000 in respect of the run-off of glo (December 2017: 4,000, June 2017: 4,000). Within home credit, 464,000 customers are active and currently making payments (December 2017: 527,000, June 2017: 708,000), a reduction of 63,000 from December 2017 reflecting a combination of the normal seasonal reduction together with new customer recruitment being approximately 50% lower than last year as the business has primarily focused on improving collections performance. The significant reduction of 244,000 since June 2017 reflects the damage caused to customer relationships as a result of the poorly executed migration to the new operating model in July 2017. The business also has 199,000 customers (December 2017: 170,000, June 2017: 23,000) who have ceased paying, predominantly during the period of migration to the new model. These customers are either being retained in the field as the business attempts to reconnect with them or within the central collections department.

Satsuma customer numbers have shown strong growth of 50.0% since June 2017. Satsuma has continued to experience a step-up in volumes through the ongoing improvements in the customer journey and product distribution. New business plus further lending to established customers was 64% higher than the first half of 2017, despite further tightening of underwriting during the first quarter of 2018.

Total CCD IFRS 9 receivables were £293.7m at June 2018 (December 2017: pro forma IFRS 9 receivables of £347.4m, June 2017: pro forma IFRS 9 receivables of £444.2m). IFRS 9 receivables comprise £260.6m in respect of the home credit business (December 2017: pro forma IFRS 9 receivables of £319.4m, June 2017: pro forma IFRS 9 receivables of £422.0m), £31.4m in respect of Satsuma (December 2017: pro forma IFRS 9 receivables of £25.4m, June 2017: pro forma IFRS 9 receivables of £17.7m) and £1.7m in respect of the run-off of glo (December 2017: pro forma IFRS 9 receivables of £2.6m, June 2017: pro forma IFRS 9 receivables of £4.5m).

Home credit IFRS 9 receivables have fallen by 38.2% compared with June 2017 reflecting the 34.5% reduction in active customer numbers and the associated additional impairment arising from previously paying customers with whom the business has failed to reconnect. Home credit's IFRS 9 receivables are expected to show only modest growth through the second half of the year with the positive impact of the seasonal peak in lending being broadly offset by the continued focus on improving collections performance, implementing the recovery plan and obtaining full FCA authorisation. Satsuma's receivables have shown 77.4% growth on June 2017, reflecting the 50% increase in customer numbers together with the continued development of further lending to good-quality established customers.

IFRS 9 revenue in CCD has fallen by 32.4% in the first half of 2018, broadly in line with the 33.7% reduction in average receivables.

The annualised IFRS 9 revenue yield of 120.7% to June 2018 has increased from 100.9% to June 2017. Under IFRS 9, revenue is 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 accounts 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 that was abnormally high and explains why the annualised IFRS 9 revenue yield of 120.7% to June 2018 was much higher than 100.9% to June 2017. It is relevant to note that there was no change to product pricing in either home credit or Satsuma during these periods.

IFRS 9 impairment in CCD has reduced by 43.1%, higher than the rate of reduction in average receivables, primarily reflecting the significant reduction in the number of new home credit customers recruited in the first half of 2018. The annualised IFRS 9 impairment rate of 78.6% to June 2018 is significantly higher than 31.9% to June 2017 reflecting the heavy impairment arising in the second half of 2017 as a result of the operational disruption on migration to the new operating model.

Despite the continued development of field operations and ongoing improvements in customer service, the progressive improvement in the shortfall in underlying collections experienced since September 2017 did not continue during the second quarter of the year. The shortfall has remained at around 10% versus historical performance, which is consistent with the level at the end of the first quarter and compares to 12% at the start of the year and 30% shortly after transition to the new operating model in July 2017. This fell short of internal plans which assumed that the shortfall would further narrow in the second quarter. The absence of any improvement in collections performance during the second quarter is primarily attributable to lower than expected collections from customers who were live during the migration to the new operating model. In particular, there is currently a higher than expected proportion of customers making payments lower than their contracted rate and the rate of reconnection with non-paying customers has also been running below plan. Very importantly, however, the collections performance of credit originated since the fourth quarter of 2017 is performing in line with historic levels.

A number of actions are underway to restore collections performance to historic levels by spring 2019. These include the implementation of a new arrears strategy to support field activity through centrally led letters and SMS reminders, the re-establishment of a central collections team with the support of Vanquis Bank in Chatham and the implementation of a new field structure. During the first half of the year, the business piloted the new field structure in 20 locations within the UK. The new structure involves the introduction of a new management role beneath the current Area Manager to increase spans of control. The new role is called a Business Manager and is responsible for directly managing and supporting around 8 CEMs. The roll-out of the new structure will commence in the second half of the year. In addition, once the recovery plan is completed and the business is authorised, the business intends to introduce an enhanced performance management system based on a balanced scorecard and some element of variable performance related pay, subject to agreement with the FCA.

CCD's annualised IFRS 9 risk-adjusted margin has shown a modest improvement from 41.9% to December 2017 to 42.1% to June 2018 (June 2017: pro forma IFRS 9 annualised risk-adjusted margin of 69.0%), reflecting lower impairment due to lower new customer strain. CCD's annualised risk-adjusted margin is expected to improve through the second half of the year to between 70% and 80%, but is dependent on the rate of progress in returning collections performance in home credit to historic levels.

The necessary actions to align the cost base with the reduced size of the business were a priority through the early months of the year. The rationalisation of the home credit central support functions announced on 16 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 any compromise to customer service. Approximately, 70 employees in the Bradford head office were made redundant. Together with natural attrition and vacancies not filled, this has resulted in the overall headcount in the Bradford head office being some 200 lower than was originally planned when the business changed operating model last year. In addition, whilst the business has continued to invest in field management to bolster spans of control, the number of CEM's has reduced from around 2,700 at the start of the year to around 2,400 at the end of the first half, 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.

Notwithstanding the headcount reductions, CCD's overall cost base of £124.0m has remained broadly in line with the first half of last year (2017: £125.2m). This is due to the increased cost of strengthening the control environment, risk management and compliance. The cost base in the second half of the year is expected to show an increase on the first half of the year, reflecting further investment in replacing part of the legacy IT estate with a third party hosted solution, an increase in marketing activity and the roll-out of the new field structure.

Interest costs in CCD have fallen by 29.8% to £8.0m in the first half of 2018 (June 2017: £11.4m). This is a lower rate than the 33.7% reduction in average receivables as a result of an increase in CCD's funding rate from 5.6% in the first half of 2017 to 6.7% in the first half of 2018. The increased rate reflects the cost of funding the non-bank segment of the group now that Vanquis Bank is very substantially funded through retail deposits.

Provident remains the clear market leader in the home credit market with a strong franchise. The focus in 2018 will remain on completion of the recovery plan and securing full regulatory authorisation. The business is expected to return to profitability in 2019.

Moneybarn

	Six months ended 30 June				Year ended 31 December	
	2018	2017		2017	2017	2017
	IFRS 9	IFRS 9[1]	*Change*	IAS 39	IFRS 9[1]	IAS 39
	£m	£m	*%*	£m	£m	£m
Customer numbers ('000)	57	46	*23.9*	46	50	50
Period-end receivables prior to balance reduction[2]	372.1	303.2	*22.7*	343.8	330.8	376.2
Reported period-end receivables	360.0	303.2	*18.7*	343.8	318.7	364.1
Average receivables[3]	360.6	287.1	*25.6*	325.1	303.8	345.1
Revenue	61.2	49.9	*22.6*	49.9	106.3	106.3
Impairment	(24.7)	(19.9)	*(24.1)*	(13.3)	(43.3)	(31.1)
Revenue less impairment	36.5	30.0	*21.7*	36.6	63.0	75.2
Annualised revenue yield[4]	34.5%	34.7%		30.8%	35.0%	30.8%
Annualised impairment rate[5]	14.1%	15.3%		7.4%	14.3%	9.0%
Annualised risk-adjusted margin[6]	20.4%	19.4%		23.4%	20.7%	21.8%
Costs	(16.1)	(12.3)	*(30.9)*	(12.3)	(25.5)	(25.5)
Interest	(9.8)	(7.4)	*(32.4)*	(7.4)	(15.6)	(15.6)
Adjusted profit before tax[7]	10.6	10.3	*2.9*	16.9	21.9	34.1
Annualised return on assets[8]	9.5%	8.9%		12.8%	10.0%	11.6%

1 *Pro forma IFRS 9 comparative financial information as though IFRS 9 had been implemented retrospectively.*

2 *Period-end receivables at 30 June 2018 and 31 December 2017 are stated prior to the estimated balance reduction of £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 30 June/31 December prior to the impact of the balance reduction adjustment (see 2 above).*

4 *Revenue as a percentage of average receivables for the 12 months ended 30 June/31 December.*

5 *Impairment as a percentage of average receivables for the 12 months ended 30 June/31 December.*

6 *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June/31 December.*

7 *Adjusted profit before tax is stated before: (i) the amortisation of acquisition intangibles of £3.7m in the six months ended 30 June 2018 (six months ended 30 June 2017: £3.7m, year ended 31 December 2017: £7.5m); and (ii) an exceptional cost of £20.0m in the year ended 31 December 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 reduction in receivables, comprising a gross balance reduction of £32.5m less release of impairment provisions of £20.4m, and £7.9m was reflected within provisions (six months ended 30 June 2018: £nil; six months ended 30 June 2017: £nil).*

8 *Profit before interest and exceptional items after tax as a percentage of average receivables for the 12 months ended 30 June/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 rapid growth. In a fast growing business such as Moneybarn, profitability is reduced as future losses are brought forward to 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 pro forma IFRS 9 profits of £10.3m in the first half of 2017, 39.1% lower than IAS 39 reported profits for the same period of £16.9m. Full-year pro forma IFRS 9 profits for 2017 were £21.9m, 35.8% lower than reported IAS 39 profits for 2017 of £34.1m. Revenue recognition in

Moneybarn is unchanged following the implementation of IFRS 9 as revenue continues to be recognised in accordance with IAS 17 'Leases' reflecting the conditional sales agreements provided by Moneybarn.

Moneybarn has delivered a 2.9% increase in its IFRS 9 adjusted profit before tax to £10.6m in the first half of 2018 (2017: pro forma IFRS 9 adjusted profit before tax: £10.3m, IAS 39 adjusted profit before tax of £16.9m). This reflects the benefit from improved credit quality following the progressive tightening of underwriting over the last 12 months being substantially offset by the strain from increased new business volumes, both in terms of associated impairment and acquisition costs, together with the investment in the bench strength of the management team.

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 more near prime offerings or entirely exited the market. As a result, despite tighter underwriting standards, new business volumes during the first half of 2018 were very strong. Continued development of core broker introduced distribution channels together with 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 16% higher than the first half of last year and customer numbers ended the first half at 57,000, up from 50,000 at December 2017 and 46,000 at June 2017.

Moneybarn continues to explore other opportunities to extend its product offering and distribution channels through partnering with new intermediaries, developing its digital proposition and continuing to expand its used light commercial vehicles offer through both the existing broker network and through new sources. The business has also recently launched a motorbike offering direct to consumers which is showing encouraging early results.

The strong growth in new business volumes has resulted in IFRS 9 receivables growth, prior to the balance reduction of £12.1m reflected at the 2017 year-end in respect of the FCA investigation into affordability, forbearance and termination options, of 22.7% to £372.1m at June 2018 (June 2017: pro forma IFRS 9 receivables of £303.2m).

IFRS 9 revenue has increased by 22.6% compared with a 25.6% growth in average IFRS 9 receivables. The annualised IFRS 9 revenue yield has remained broadly stable at 34.5% to June 2018 compared with 34.7% to June 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 have now stabilised and the credit quality of new business being written is now materially better than 18 months ago. As a result of these factors, the annualised IFRS 9 impairment rate has reduced from 15.3% to June 2017 to 14.1% to June 2018.

The improvement in the impairment rate has resulted in Moneybarn's annualised IFRS 9 risk-adjusted margin strengthening from 19.4% to June 2017 to 20.4% to June 2018. The annualised risk-adjusted margin is expected to strengthen further during the second half of the year reflecting the better quality of new business now being written.

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 augmented, 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, average headcount has increased from 198 in the first half of 2017 to 263 in the first half of 2018. This has resulted in first half cost growth of 30.9%, higher than the growth in IFRS 9 average receivables of 25.6%.

Interest costs have shown growth of 32.4% in the first half of 2018, higher than the growth in average receivables. This reflects an increase in Moneybarn's group funding rate from 4.9% in the first half of 2017 to 5.5% in the first half of 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 very substantially 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 target capital ratio of 70% of receivables which broadly equates to the group's minimum regulatory capital requirement of a CET 1 ratio of 25.5%.

Moneybarn has delivered an annualised IFRS 9 return on assets of 9.5% to June 2018, up from 8.9% to June 2017, reflecting the strengthening of the annualised IFRS 9 risk-adjusted margin.

Central costs

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 group co-ordination of IT and procurement under a new Interim Group Chief IT Officer and the recent recruitment of a new Interim Head of Internal Audit and a Group Head of Human Resources. Plans to recruit a Head of Regulation are also well advanced. As a result, central costs in the first half of 2018 were £9.7m, up from £8.0m in the first half of 2017. Central costs for the 2018 full-year will reflect an uplift of some £5m in providing greater co-ordination, oversight and collaboration across divisional activities.

Exceptional items

An exceptional charge of £36.6m has been recognised in the first half of 2018 comprising: (i) £18.1m in respect of intangible and tangible asset write-offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration to the new operating model in July 2017; and (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. In the first half of 2017, an exceptional charge of £21.6m was recognised in respect of redundancy, retention and training costs associated with the migration to the new operating model within the home credit business.

Tax

The tax rate for the first half of 2018 of 27.1% (2017: 24.3%) is the estimated effective tax rate on profit before tax, amortisation of acquisition intangibles and exceptional items for the 2018 financial year and is higher than the mainstream UK statutory corporation tax rate. This reflects the impact of the bank corporation tax surcharge of 8% which applies to Vanquis Bank profits in excess of £25m and places an additional tax cost on Vanquis Bank.

Dividends

The Board does not recommend the payment of an interim dividend (2017: nil).

As set out in the rights issue prospectus issued in February 2018, based on the target level of returns and maintaining an appropriate capital structure following the proposed rights issue, the group's dividend policy is to maintain a dividend cover ratio of at least 1.4 times once the home credit recovery plan has been fully delivered during 2018. The group therefore intends to restore dividends with a nominal final dividend for the 2018 financial year before adopting a progressive dividend, in line with its stated dividend policy, from the 2019 financial year.

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 Provident Financial Group without the PRA's consent, remains in place.

Funding and capital

The group's funding and capital positions are strong 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 a suitable level of headroom against this requirement and a capital structure to support ongoing access to funding from the bank and debt capital markets. The group's CET 1 ratio on an accrued profits basis at 30 June 2018 was 30.0% compared with the group's fully loaded revised minimum capital requirement of 25.5%. On this basis, the surplus regulatory capital headroom was 4.5%, equivalent to approximately £90m based on the group's risk weighted assets of £2.1bn, which is consistent with historic levels. This is considered to be an appropriate level of regulatory capital to meet the group's current and future requirements.

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 will fully fund a ring-fenced Vanquis Bank in the short to medium term. 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 private placements.

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 June 2018, Vanquis Bank had retail deposit funding of £1,478.5m, up from £1,291.8m at 31 December 2017.

Headroom on the group's committed debt facilities was approximately £331m at 30 June 2018. Together with the ability of Vanquis Bank to take additional retail deposits and repay its current intercompany term loan with Provident Financial plc of £55m, 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.

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.

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 is operating against the unadjusted covenants going forward.

The group's funding rate during the first half of 2018 was 4.3%, down from 4.7% in the first half of 2017. This reflects a lower average blended rate on retail deposits and a lower average rate on the group's syndicated bank facilities.

IFRS 9

IFRS 9 'Financial instruments' was mandatory from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. IFRS 9 significantly changes the recognition of impairment on customer receivables by introducing an expected loss model. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss arising on default. This differs from the current incurred loss model under IAS 39 where impairment provisions are only reflected when there is objective evidence of a credit-affecting event, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This has resulted in a one-off adjustment to receivables and reserves on adoption and results in the delayed recognition of profits.

The group made an opening balance sheet adjustment at 1 January 2018 to restate the IAS 39 balance sheet onto an IFRS 9 basis but will not restate its 2017 prior year comparatives for IFRS 9 in its statutory accounts. This is due to the IFRS 9 requirement in respect of the 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. As this will distort comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis, the group is also providing pro forma 2017 income statement and balance sheet comparatives on a full IFRS 9 basis.

As part of the 2017 year end results, the group provided an illustrative restatement of the 2017 income statement and balance sheet on a pro forma basis. The group has now finalised its IFRS 9 methodology and its opening balance sheet adjustment as at 1 January 2018 and has therefore set out the following pro forma disclosures in respect of the six months ended 30 June 2017 and the year ended 31 December 2017:

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	(2,174.1)	-	(2,174.1)
Other	34.1	54.1	88.2
Net assets	535.1	(184.0)	351.1

The adoption of IFRS 9 results 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. These adjustments compare with the illustrative adjustments of £223.4m and £172.5m provided with the 2017 year end results. The differences represent relatively small adjustments in the application of IFRS 9 following finalisation of the group's methodology.

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 as follows: 5% from the start of 2018, 15% in 2019, 30% in 2020, 50% in 2021, 75% in 2022 and 100% from the start of 2023. The impact of the transitional arrangements on CET 1 as at 30 June 2018 was £174.8m, which after adjusting for the impact on risk weighted assets, would lead to a reduction in the CET 1 ratio of 7.6% from 30.0% to 22.4% at that date.

Group adjusted profit before tax

	Six months ended 30 June 2017			Year ended 31 December 2017		
	IAS 39	IFRS 9 adjustment	IFRS 9	IAS 39	IFRS 9 adjustment	IFRS 9
	£m	£m	£m	£m	£m	£m
Adjusted profit/(loss) before tax:						
– Vanquis Bank	100.1	(8.5)	91.6	206.6	(25.2)	181.4
– CCD	6.3	(1.6)	4.7	(118.8)	12.5	(106.3)
– Moneybarn	16.9	(6.6)	10.3	34.1	(12.2)	21.9
– Central costs	(8.0)	-	(8.0)	(12.8)	-	(12.8)
Adjusted profit before tax[1]	115.3	(16.7)	98.6	109.1	(24.9)	84.2
Adjusted EPS[2]	44.1p	(6.7p)	37.7p	45.7p	(8.9p)	36.8p
Annualised ROA[3]	13.3%	(1.4%)	11.9%	6.9%	-%	6.9%

1 *Adjusted profit before tax in 2017 is stated before: (i) amortisation of £3.7m for the six months ended 30 June 2017 and £7.5m for the year ended 31 December 2017 in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014; and (ii) exceptional costs of £21.6m for the six months ended 30 June 2017 in respect of the costs associated with the migration to the new home credit operating model and £224.6m for the year ended 31 December 2017. The exceptional costs for the year ended 31 December 2017 comprised £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 six months ended 30 June 2017 and the year ended 31 December 2017.*

3 *Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June 2017 and 31 December 2017.*

The group's 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.

These above adjustments for the year ended 31 December 2017 compare with the illustrative adjustment to group profits of a reduction of £7.8m provided with the 2017 year end results (£17.1m reduction in Vanquis Bank profits, £14.5m reduction in CCD losses and £5.2m reduction in Moneybarn profits). The differences represent a number of relatively small adjustments in the application of IFRS 9 following finalisation of the group's methodology.

Regulation

Transfer of regulation to the FCA

CCD continues to operate under an interim permission whilst the home credit business implements its recovery plan.

As a consequence of: (i) the disruption to the home credit business following the implementation of 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; 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 31 May 2018, the FCA published consultation papers CP18/12 and CP18/13 on high-cost credit and overdrafts. In respect of home credit, the proposals 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 group welcomes the consultation papers and the implementation under the recovery plan of recording customer interactions, which is mandatory for the issue of all new loans or repeat business, supports the FCA proposals by enabling the business to evidence compliance.

FCA credit card market study

The FCA completed its credit card market study in July 2016 after which the FCA and the UK credit card industry agreed in principle to three informational remedies which have not had, nor are likely to have in the future, a significant impact on Vanquis Bank.

In April 2017, the FCA published a consultation paper entitled Credit card market study: consultation on persistent debt and earlier intervention remedies (CP 17/10). Following consultation, the FCA published its final policy rules in PS 18/4 on 27 February 2018. 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 remained 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 have 6 months to be fully compliant. Vanquis Bank has recently increased its minimum payment rates and will introduce measures to encourage increased monthly repayments during the second half of the year. The results of PS 18/4 are likely to impact Vanquis Bank's future credit card application acceptance rates, its ability to offer credit card credit line increases and reduce receivables growth in the near term. The impact on growth of these requirements will be reflected over the next 12 months as their impact becomes fully embedded within the receivables book and the expected impact has already been included in the guidance for 2018 and the returns targets for the group.

FCA review of creditworthiness in consumer credit

In July 2017 the FCA published a consultation paper (CP17/27) entitled 'Assessing creditworthiness in consumer credit' in which the FCA set out the changes that it has proposed to its existing rules and guidance in this area. In CP 17/27 the FCA proposed to amend its rules and guidance with regards to creditworthiness (which the FCA stated comprises both credit risk and affordability) and in particular, the proposed rules introduced 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 proposals require a more detailed creditworthiness assessment including affordability at the outset for all new non-prime non-mainstream credit card customers, along with further assessments for significant individual or cumulative credit line increases thereafter. Any changes arising as a result of these proposals could reduce the initial booking rate of Vanquis Bank customers as a result of greater numbers of potential customers failing creditworthiness checks, as well as fewer credit line increases being made as a result of greater numbers of customers failing the affordability checks. The final proposals are expected shortly and Vanquis Bank has been working towards implementation of the proposals during the first half of 2018. The impact on growth of these requirements will be reflected over the next 12 months as their impact becomes fully embedded within the receivables book and the expected impact has already been included in the guidance for 2018 and the returns targets for the group.

FCA review of the vehicle finance market

In the FCA's Business Plan for 2017/18 the FCA stated that it is looking at the vehicle 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, indicating that they have narrowed their focus and are undertaking further work in two areas. Firstly, the FCA are reviewing the approach taken by motor finance lenders to the assessment of creditworthiness, including affordability. This is primarily, but not solely, focused on assessments for higher credit risk consumers with lower credit scores. Secondly, the FCA are performing further work in relation to commission arrangements, particularly those commission structures which create a strong link between the dealer commission and the interest rate charged to consumers. The FCA expects to complete its review of the motor finance market by the end of September 2018.

Principal risks and uncertainties

The principal risks and uncertainties affecting the group are largely consistent with those set out in the 2017 Annual Report & Financial Statements and comprise the following risks: unsuccessful delivery of the home credit recovery plan in the UK; failure to obtain FCA authorisation in CCD; failure to deliver the risk mitigation plan in home credit's Republic of Ireland (ROI) operations; failure to assess customer credit risk throughout the group; failure to invest and upgrade CCD's IT systems; cyber security risk throughout the group; historic claims relating to the employment status of home credit agents in the UK and ROI; the availability of funding becoming limited or more expensive; potential for the company to be unable to pay dividends in the future; failure to comply with applicable legislation or regulation in the non-standard finance sector and the broader consumer credit industry in the UK and ROI; the need for the group and Vanquis Bank to maintain prudential regulatory capital and liquidity requirements; and failure by the group to comply with privacy and data protection laws and regulations. A full assessment of the risks and uncertainties, together with the controls and processes which are in place to monitor and mitigate the risks where possible, are set out on pages 47 to 50 of the 2017 Annual Report & Financial Statements which is available on the company's website, www.providentfinancial.com.

The most relevant risks and uncertainties for the remaining six months of the 2018 financial year are in respect of regulation and the execution risk relating to the implementation of the recovery plan in home credit. An update on the more important regulatory developments affecting the group and the implementation of the recovery plan within home credit is set out above.

Related party transactions

There have been no changes in the nature of the related party transactions as described in note 29 to the 2017 Annual Report & Financial Statements and there have been no new related party transactions which have had a material effect on the financial position or performance of the group in the six months ended 30 June 2018.

Unaudited condensed interim financial statements

Consolidated income statement

	Note	Six months ended 30 June IFRS 9 2018 £m	IAS 39 2017 £m
Revenue	4	572.5	619.4
Finance costs		(54.7)	(37.8)
Impairment charges		(212.6)	(221.9)
Administrative and operating costs		(270.6)	(269.7)
Total costs		(537.9)	(529.4)
Profit before tax	4	34.6	90.0
Profit before tax, amortisation of acquisition intangibles and exceptional items	4	74.9	115.3
Amortisation of acquisition intangibles	4	(3.7)	(3.7)
Exceptional items	4	(36.6)	(21.6)
Tax charge	5	(12.6)	(23.0)
Profit for the period attributable to equity shareholders		22.0	67.0

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	Six months ended 30 June IFRS 9 2018 £m	IAS 39 2017 £m
Profit for the period attributable to equity shareholders		22.0	67.0
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	9	3.6	4.1
– tax on items that will not be reclassified subsequently to the income statement		(0.7)	(0.7)
– impact of change in UK tax rate on items that will not be reclassified subsequently to the income statement		0.1	-
Items that may be reclassified subsequently to the income statement:			
– fair value movement in investments	10	1.9	1.6
– exchange differences on translation of foreign operations		-	(0.1)
– tax on items that may be reclassified subsequently to the income statement		(0.5)	(0.3)
Other comprehensive income for the period		4.4	4.6
Total comprehensive income for the period		26.4	71.6

Earnings per share	Note	Six months ended 30 June IFRS 9 2018 pence	IAS 39 2017 (restated) pence
Basic	6	9.8	33.8
Diluted	6	9.8	33.6

Dividends per share		Six months ended 30 June IFRS 9 2018 pence	IAS 39 2017 pence
Interim dividend	7	-	-
Paid in the period*	7	-	91.4

* Dividends paid in the period was £nil (2017: £133.4m).

Consolidated balance sheet

	Note	IFRS 9 30 June 2018 £m	IAS 39 31 December 2017 £m	IAS 39 30 June 2017 £m
ASSETS				
Non-current assets				
Goodwill		71.2	71.2	71.2
Other intangible assets		62.8	79.4	77.6
Property, plant and equipment		27.6	30.9	27.7
Financial assets:				
– amounts receivable from customers	8	328.2	328.2	323.3
Retirement benefit asset	9	111.5	102.3	85.0
Deferred tax asset		14.3	-	-
		615.6	612.0	584.8
Current assets				
Financial assets:				
– investment held as fair value through income statement	10	36.4	35.9	-
– investment held as fair value through other comprehensive income	10	11.8	9.9	9.1
– amounts receivable from customers	8	1,757.9	1,981.2	1,998.7
– cash and cash equivalents		518.3	282.9	206.7
– trade and other receivables		59.8	44.0	57.3
Deferred tax asset		4.9	-	-
		2,389.1	2,353.9	2,271.8
Total assets	4	3,004.7	2,965.9	2,856.6
LIABILITIES				
Current liabilities				
Financial liabilities:				
– retail deposits		(324.5)	(348.4)	(249.5)
– bank and other borrowings		(18.2)	(38.1)	(162.2)
Total borrowings		(342.7)	(386.5)	(411.7)
– derivative financial instruments	11	-	(0.1)	(0.3)
– trade and other payables		(132.5)	(115.8)	(131.9)
Current tax liabilities		(8.1)	(15.9)	(48.1)
Provisions	12	(97.9)	(104.6)	-
		(581.2)	(622.9)	(592.0)
Non-current liabilities				
Financial liabilities:				
– retail deposits		(1,154.0)	(943.4)	(816.0)
– bank and other borrowings		(591.6)	(844.2)	(705.3)
Total borrowings		(1,745.6)	(1,787.6)	(1,521.3)
Deferred tax liabilities		-	(20.3)	(11.7)
		(1,745.6)	(1,807.9)	(1,533.0)
Total liabilities		(2,326.8)	(2,430.8)	(2,125.0)
NET ASSETS	4	677.9	535.1	731.6
SHAREHOLDERS' EQUITY				
Share capital		52.5	30.7	30.7
Share premium		273.1	273.0	272.8
Other reserves		291.5	13.4	19.4
Retained earnings		60.8	218.0	408.7
TOTAL EQUITY		677.9	535.1	731.6

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
Profit for the period	-	-	-	67.0	67.0
Other comprehensive income/(expense):					
– fair value movement in investments	-	-	1.6	-	1.6
– actuarial movements on retirement benefit asset (note 9)	-	-	-	4.1	4.1
– exchange differences on translation of foreign operations	-	-	-	(0.1)	(0.1)
– tax on items taken directly to other comprehensive income	-	-	(0.3)	(0.7)	(1.0)
Other comprehensive income for the period	-	-	1.3	3.3	4.6
Total comprehensive income for the period	-	-	1.3	70.3	71.6
Transactions with owners:					
– issue of share capital	0.1	0.1	-	-	0.2
– share-based payment charge	-	-	3.1	-	3.1
– transfer of share-based payment reserve	-	-	(9.3)	9.3	-
– dividends	-	-	-	(133.4)	(133.4)
At 30 June 2017 and 1 July 2017	30.7	272.8	19.4	408.7	731.6
Loss for the period	-	-	-	(201.4)	(201.4)
Other comprehensive income/(expense):					
– fair value movement in investments	-	-	0.3	-	0.3
– fair value movement on cash flow hedges	-	-	0.2	-	0.2
– actuarial movements on retirement benefit asset (note 9)	-	-	-	13.4	13.4
– exchange differences on translation of foreign operations	-	-	-	(0.1)	(0.1)
– tax on items taken directly to other comprehensive income	-	-	(0.1)	(2.7)	(2.8)
– impact of change in UK tax rate	-	-	(0.1)	0.4	0.3
Other comprehensive income for the period	-	-	0.3	11.0	11.3
Total comprehensive income/(expense) for the period	-	-	0.3	(190.4)	(190.1)
Transactions with owners:					
– issue of share capital	-	0.2	-	-	0.2
– 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	-	-	(6.5)	-	(6.5)
– transfer of share-based payment reserve	-	-	(0.8)	0.8	-
At 31 December 2017	30.7	273.0	13.4	218.0	535.1
Impact of adoption of IFRS 9 'Financial instruments' (note 15)	-	-	-	(184.0)	(184.0)
At 1 January 2018	30.7	273.0	13.4	34.0	351.1
Profit for the period	-	-	-	22.0	22.0
Other comprehensive income/(expense):					
– fair value movement in investments	-	-	1.9	-	1.9
– actuarial movements on retirement benefit asset (note 9)	-	-	-	3.6	3.6
– tax on items taken directly to other comprehensive income	-	-	(0.5)	(0.7)	(1.2)
– impact of change in UK tax rate	-	-	-	0.1	0.1
Other comprehensive income for the period	-	-	1.4	3.0	4.4
Total comprehensive income for the period	-	-	1.4	25.0	26.4
Transactions with owners:					
– proceeds from rights issue	21.8	-	278.2	-	300.0
– issue of share capital	-	0.1	-	-	0.1
– share-based payment charge	-	-	0.3	-	0.3
– transfer of share-based payment reserve	-	-	(1.8)	1.8	-
At 30 June 2018	52.5	273.1	291.5	60.8	677.9

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

Consolidated statement of cash flows

	Note	Six months ended 30 June IFRS 9 2018 £m	IAS 39 2017 £m
Cash flows from operating activities			
Cash generated from operations	13	89.8	125.6
Finance costs paid		(35.2)	(39.6)
Premium and fees paid on refinancing of senior bonds	4	(18.5)	-
Tax paid		(7.0)	(40.5)
Net cash generated from operating activities		29.1	45.5
Cash flows from investing activities			
Purchase of intangible assets		(3.9)	(8.1)
Purchase of property, plant and equipment		(2.3)	(2.6)
Proceeds from disposal of property, plant and equipment		0.3	0.9
Purchase of government gilts		(0.5)	-
Net cash used in investing activities		(6.4)	(9.8)
Cash flows from financing activities			
Proceeds from bank and other borrowings		593.7	212.6
Repayment of bank and other borrowings		(681.1)	(134.2)
Dividends paid to company shareholders	7	-	(133.4)
Net proceeds from rights issue		300.0	-
Proceeds from issue of share capital		0.1	0.2
Net cash generated from/(used in) financing activities		212.7	(54.8)
Net increase/(decrease) in cash, cash equivalents and overdrafts		235.4	(19.1)
Cash, cash equivalents and overdrafts at beginning of period		279.8	218.6
Cash, cash equivalents and overdrafts at end of period		515.2	199.5
Cash, cash equivalents and overdrafts at end of period comprise:			
Cash at bank and in hand		518.3	206.7
Overdrafts (held in bank and other borrowings)		(3.1)	(7.2)
Total cash, cash equivalents and overdrafts		515.2	199.5

Cash at bank and in hand includes £495.0m (2017: £184.1m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. This buffer is not available to finance the group's day-to-day operations.

Notes to the unaudited condensed interim financial statements

1. General information

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

The unaudited condensed interim financial statements do not constitute the statutory financial statements of the group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2017 were approved by the board of directors on 27 February 2018 and have been delivered to the Registrar of Companies. The report of the auditor on those financial statements 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 unaudited condensed interim financial statements for the six months ended 30 June 2018 have been reviewed, not audited, and were approved by the board of directors on 31 July 2018.

2. Basis of preparation

The unaudited condensed interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The unaudited condensed interim financial statements should be read in conjunction with the statutory financial statements for the year ended 31 December 2017 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors have reviewed the group's budgets, plans and cash flow forecasts for 2018 and 2019 together with outline projections for the three subsequent years. Based on this review, they are satisfied that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the unaudited condensed interim financial statements.

The group made the following disclosure reclassifications within the statutory financial statements for the year ended 31 December 2017 and prior year comparatives restated. The 2017 interim comparatives have therefore been restated on a consistent basis:

(a) Separate disclosure of impairment on the face of the income statement

Historically, costs were analysed between operating costs, administrative costs and finance costs on the face of the income statement. Operating costs comprised impairment, agents' commissions and marketing and acquisition costs. However, under the new home credit operating model in the UK, agent's commission costs have been replaced with salaries which are shown under administrative costs. Given that impairment costs comprise a significant proportion of the remaining operating costs and they are material to the group, it is considered appropriate to disclose impairment separately on the face of the income statement. The residual operating costs comprising marketing and acquisition costs have been incorporated within administrative and operating costs and 30 June 2017 comparatives reclassified.

(b) Separate disclosure of retail deposits on the face of the balance sheet

All external borrowings held by the group were historically shown as 'bank and other borrowings' on the face of the balance sheet and split between current (where settlement is within the subsequent 12 months) and non-current (where settlement can be deferred beyond 12 months). Retail deposits have now become the most material part of the group's funding structure. Most retail deposit taking institutions disclose retail deposits separately on the face of the balance sheet and this disclosure has now been adopted by the group and 30 June 2017 comparatives reclassified.

3. Accounting policies

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

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

The impact of new standards adopted by the group from 1 January 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 15.

<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 continues to be accounted for in accordance with IFRS 9. Interest income generated from Moneybarn's conditional sales agreements continues to be accounted for in accordance 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.

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 also 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 financing and operating cash flows respectively.

The group continues to assess the impact of IFRS 16 and will adopt the standard from the effective date of 1 January 2019. Adoption will increase assets and liabilities by a similar amount with limited impact on net assets.

4. Segment reporting

	Revenue		Profit/(loss) before tax	
	Six months ended 30 June		Six months ended 30 June	
	IFRS 9	IAS 39	IFRS 9	IAS 39
	2018	2017	2018	2017
	£m	£m	£m	£m
Vanquis Bank	331.9	311.1	97.2	100.1
CCD	179.4	258.4	(23.2)	6.3
Moneybarn	61.2	49.9	10.6	16.9
Central costs	-	-	(9.7)	(8.0)
Total group before amortisation of acquisition intangibles and exceptional items	572.5	619.4	74.9	115.3
Amortisation of acquisition intangibles	-	-	(3.7)	(3.7)
Exceptional items	-	-	(36.6)	(21.6)
Total group	572.5	619.4	34.6	90.0

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. The amortisation charge in the first half of 2018 amounted to £3.7m (2017: £3.7m).

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

In the first half of 2017, an exceptional charge of £21.6m was recognised in respect of the migration to the new home credit operating model in CCD. The exceptional charge comprised redundancy costs of £14.7m, recruitment and training costs of £7.1m, enhanced agent retention commissions of £2.7m and other costs of £1.0m net of an exceptional pension credit of £3.9m associated with those employees made redundant who were part of the group's defined benefit pension scheme (see note 9).

All of the above activities relate to continuing operations.

Revenue between business segments is not significant.

	Segment assets			Net assets		
	IFRS 9	IAS 39	IAS 39	IFRS 9	IAS 39	IAS 39
	30 June	31 December	30 June	30 June	31 December	30 June
	2018	2017	2017	2018	2017	2017
	£m	£m	£m	£m	£m	£m
Vanquis Bank	2,041.5	1,854.5	1,701.4	307.9	295.4	388.9
CCD	353.8	454.4	564.7	169.8	180.1	126.2
Moneybarn	393.6	393.5	370.9	14.5	42.7	50.3
Central	229.3	81.6	241.5	185.7	16.9	166.2
Total before intra-group elimination	3,018.2	2,784.0	2,878.5	677.9	535.1	731.6
Intra-group elimination	(13.5)	181.9	(21.9)	-	-	-
Total group	3,004.7	2,965.9	2,856.6	677.9	535.1	731.6

4. Segment reporting (continued)

Segment net assets reflect 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 a borrowings to receivables ratio of 70%. The ratio of borrowings to receivables has reduced from 80% following completion of the rights issue and the group's revised capital structure. The impact of this is an increase in the notional allocation of group borrowings to CCD of £13.5m (31 December 2017: £181.9m, 30 June 2017: £21.9m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

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

5. Tax charge

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the financial year of 27.1% (2017: 24.2%), to the profit before tax, amortisation of acquisition intangibles and exceptional items for the period. The tax rate reflects the impact of the bank corporation tax surcharge of 8% which came into force on 1 January 2016 and applies to Vanquis Bank profits in excess of £25m.

6. Earnings per share

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

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

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

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

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

	Six months ended 30 June					
	2018			2017 (restated)		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	22.0	225.3	9.8	67.0	198.1	33.8
Dilutive effect of share options and awards	-	0.3	-	-	1.1	(0.2)
Diluted earnings per share	22.0	225.6	9.8	67.0	199.2	33.6

6. Earnings per share (continued)

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

	Six months ended 30 June					
	2018			2017 (restated)		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	22.0	225.3	9.8	67.0	198.1	33.8
Amortisation of acquisition intangibles, net of tax	3.0	-	1.3	3.0	-	1.5
Exceptional items, net of tax	29.6	-	13.1	17.4	-	8.8
Adjusted basic earnings per share	54.6	225.3	24.2	87.4	198.1	44.1
Diluted earnings per share	22.0	225.6	9.8	67.0	199.2	33.6
Amortisation of acquisition intangibles, net of tax	3.0	-	1.3	3.0	-	1.5
Exceptional items, net of tax	29.6	-	13.1	17.4	-	8.7
Adjusted diluted earnings per share	54.6	225.6	24.2	87.4	199.2	43.8

7. Dividends

	Six months ended 30 June	
	2018 £m	2017 £m
2016 final - 91.4p per share	-	133.4
Total dividends paid	-	133.4

The directors have not declared an interim dividend in respect of the six months ended 30 June 2018 (2017: nil).

8. Amounts receivable from customers

	IFRS 9 30 June 2018 £m	IAS 39 31 December 2017 £m	IAS 39 30 June 2017 £m
Vanquis Bank	1,432.4	1,554.7	1,476.8
CCD	293.7	390.6	501.4
Moneybarn	360.0	364.1	343.8
Total group	2,086.1	2,309.4	2,322.0
Analysed as:			
– due in more than one year	328.2	328.2	323.3
– due within one year	1,757.9	1,981.2	1,998.7
Total group	2,086.1	2,309.4	2,322.0

Vanquis Bank receivables comprise £1,407.3m (31 December 2017: £1,538.9m, 30 June 2017: £1,342.0m) in respect of credit cards and £25.1m (31 December 2017: £15.8m, 30 June 2017: £3.5m) in respect of loans. The balance at 30 June 2018 is stated net of an estimated balance reduction of £69.3m (31 December 2017: £75.4m, 30 June 2017: £nil), comprising a gross balance reduction of £84.0m (31 December 2017: £90.1m, 30 June 2017: £nil) less release of impairment provisions of £14.7m (31 December 2017: £14.7m, 30 June 2017: £nil), following the resolution of the FCA investigation into ROP on 27 February 2018.

CCD receivables comprise £260.6m in respect of the home credit business (31 December 2017: £352.2m, 30 June 2017: £471.7m), £31.4m in respect of Satsuma (31 December 2017: £35.8m, 30 June 2017: £25.2m) and £1.7m in respect of the collect-out of glo (31 December 2017: £2.6m, 30 June 2017: £4.5m).

Moneybarn receivables are stated net of an estimated balance reduction of £12.1m (31 December 2017: £12.1m, 30 June 2017: £nil), comprising a gross balance reduction of £32.5m (31 December 2017: £32.5m, 30 June 2017: £nil) less release of impairment provisions of £20.4m (31 December 2017: £20.4m, 30 June 2017: £nil) in respect of the FCA investigation into affordability, forbearance and termination options.

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 15.

Amounts receivable from customers for Vanquis Bank can be reconciled as follows:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	30 June 2018 Total £m	31 December 2017 Total £m	30 June 2017 Total £m
Gross receivables	1,419.7	99.4	378.9	1,898.0	1,843.6	1,759.6
Provision movement:						
At 1 January (IAS 39)				(288.9)	(261.4)	(261.4)
Impact of IFRS 9 adoption				(149.5)	-	-
At 1 January (IFRS 9)	(136.2)	(50.4)	(251.8)	(438.4)		
Charge	(16.6)	(23.2)	(77.5)	(117.3)	(186.6)	(93.1)
Exceptional release of impairment provision	-	-	-	-	14.7	-
Amounts written off	6.2	20.4	79.7	106.3	176.0	87.2
Amounts recovered	-	-	(16.2)	(16.2)	(31.6)	(15.5)
At period end	(146.6)	(53.2)	(265.8)	(465.6)	(288.9)	(282.8)
Net receivables	1,273.1	46.2	113.1	1,432.4	1,554.7	1,476.8

8. Amounts receivable from customers (continued)

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.

Amounts receivable from customers for CCD can be reconciled as follows:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	30 June 2018 Total £m
Gross receivables	170.9	58.5	484.9	714.3
Provision movement:				
At 1 January (IFRS 9)	(20.4)	(15.1)	(342.3)	(377.8)
Charge	4.8	(13.0)	(62.4)	(70.6)
Transfers	4.6	13.0	(17.6)	-
Amounts written off	-	-	27.8	27.8
At period end	(11.0)	(15.1)	(394.5)	(420.6)
Net receivables	159.9	43.4	90.4	293.7

* *Under IAS 39, CCD deducted impairment directly from amounts receivable from customers without the use of an allowance account. On adoption of IFRS 9, an allowance account has been produced. The impairment charge in the period was £70.6m (31 December 2017: £293.5m, 30 June 2017: £115.5m).*

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.

8. Amounts receivable from customers (continued)

Amounts receivable from customers for Moneybarn can be reconciled as follows:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	30 June 2018 Total £m	31 December 2017 Total £m	30 June 2017 Total £m
Gross receivables	277.2	103.8	95.5	476.5	408.5	391.8
Provision movement:						
At 1 January (IAS 39)				(44.4)	(34.1)	(34.1)
Impact of IFRS 9 adoption				(45.4)	-	-
Reclassification*				(3.2)	-	-
At 1 January (IFRS 9)	(8.6)	(29.7)	(54.7)	(93.0)		
Charge	(1.5)	(2.5)	(20.7)	(24.7)	(31.1)	(13.3)
Exceptional release of impairment provision	-	-	-	-	20.4	-
Amounts recovered/ (written off)	-	-	1.2	1.2	0.4	(2.1)
At period end	(10.1)	(32.2)	(74.2)	(116.5)	(44.4)	(49.5)
Net receivables	267.1	71.6	21.3	360.0	364.1	343.8

** Reflects a reclassification between gross receivables and provision on adoption of IFRS 9 with no impact on net receivables.*

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 with reference to the customer's credit score.

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 three monthly payments in arrears, a customer has voluntarily terminated their agreement or a customer enters a payment arrangement. Revenue is then recognised on the net receivable, after impairment provision.

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 revised valuation is currently underway. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the 2015 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.

9. Retirement benefit asset (continued)

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

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

	30 June 2018 £m	31 December 2017 £m	30 June 2017 £m
Fair value of scheme assets	813.2	835.5	828.1
Present value of defined benefit obligation	(701.7)	(733.2)	(743.1)
Net retirement benefit asset recognised in the balance sheet	111.5	102.3	85.0

The amounts recognised in the income statement were as follows:

	Six months ended 30 June 2018 £m	2017 £m
Current service cost	(1.3)	(2.1)
Interest on scheme liabilities	(8.6)	(9.5)
Interest on scheme assets	9.9	10.5
Net charge recognised in the income statement before exceptional curtailment credit	-	(1.1)
Exceptional curtailment credit (note 4)	0.6	3.9
Net credit recognised in the income statement	0.6	2.8

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

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

	Six months ended 30 June 2018 £m	2017 £m
Fair value of scheme assets at 1 January	835.5	830.1
Interest on scheme assets	9.9	10.5
Actuarial movements on scheme assets	(16.4)	(4.8)
Contributions by the group	5.0	5.7
Net benefits paid out	(20.8)	(13.4)
Fair value of scheme assets at 30 June	813.2	828.1

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

	Six months ended 30 June 2018 £m	2017 £m
Present value of defined benefit obligation at 1 January	(733.2)	(757.7)
Current service cost	(1.3)	(2.1)
Interest on scheme liabilities	(8.6)	(9.5)
Exceptional curtailment credit (note 4)	0.6	3.9
Actuarial movements on scheme liabilities	20.0	8.9
Net benefits paid out	20.8	13.4
Present value of defined benefit obligation at 30 June	(701.7)	(743.1)

9. Retirement benefit asset (continued)

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

	30 June 2018 %	31 December 2017 %	30 June 2017 %
Price inflation – RPI	3.10	3.20	3.20
Price inflation – CPI	2.00	2.10	2.10
Rate of increase to pensions in payment	2.90	2.95	3.00
Inflationary increases to pensions in deferment	2.00	2.10	2.10
Discount rate	2.50	2.40	2.50

A 0.1% change in the discount and inflation rates would change the present value of the defined benefit obligation by approximately £13m (31 December 2017: £14m, 30 June 2017: £14m) and £6m (31 December 2017: £6m, 30 June 2017: £7m) respectively.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 1 tables, with multipliers of 105% and 115% respectively for males and females. The 5% upwards adjustment to mortality rates for males and a 15% upwards adjustment for females reflects the lower life expectancies within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the latest available Continuous Mortality Investigation (CMI) model with a long-term improvement trend of 1.25% per annum.

	Male			Female		
	30 June 2018 years	31 December 2017 years	30 June 2017 years	30 June 2018 years	31 December 2017 years	30 June 2017 years
Current pensioner aged 65	21.5	21.4	21.4	23.0	22.9	22.9
Current member aged 45 from age 65	22.9	22.9	22.9	24.6	24.5	24.5

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £28m (31 December 2017: £30m, 30 June 2017: £30m).

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

	Six months ended 30 June 2018 £m	2017 £m
Actuarial movements on scheme assets	(16.4)	(4.8)
Actuarial movements on scheme liabilities	20.0	8.9
Actuarial movements recognised in the statement of comprehensive income in the period	3.6	4.1

10. Investments

	30 June 2018 £m	31 December 2017 £m	30 June 2017 £m
Government gilts	36.4	35.9	-
Visa Inc. shares	11.8	9.9	9.1
	48.2	45.8	9.1

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, including £495.0m (31 December 2017: £227.5m, 30 June 2017: £184.1m) held in cash and cash equivalents, held in accordance with the PRA's liquidity regime amounted to £531.5m (31 December 2017: £263.4m, 30 June 2017: £184.1m).

Visa Inc. shares

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

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 30 June 2018 of £11.8m (31 December 2017: £9.9m, 30 June 2017: £9.1m) is held at fair value through the OCI and the fair value of the deferred cash consideration of £1.2m (31 December 2017: £1.2m, 30 June 2017: £1.2m) is included within debtors. The increase in the fair value of the investment during the year of £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. Fair value disclosures

The group holds the following financial instruments at fair value:

	30 June 2018 £m	31 December 2017 £m	30 June 2017 £m
Financial assets			
Government gilts	36.4	35.9	-
Visa Inc. shares	11.8	9.9	9.1
Total	48.2	45.8	9.1
Financial liabilities			
Interest rate swaps	-	-	(0.1)
Foreign exchange contracts	-	(0.1)	(0.2)
Total	-	(0.1)	(0.3)

11. Fair value disclosures (continued)

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

	Carrying value			Fair value		
	IFRS 9 30 June 2018 £m	IAS 39 31 December 2017 £m	IAS 39 30 June 2017 £m	IFRS 9 30 June 2018 £m	IAS 39 31 December 2017 £m	IAS 39 30 June 2017 £m
Financial assets						
Amounts receivable from customers	2,086.1	2,309.4	2,322.0	3,200.0	3,600.0	3,500.0
Financial liabilities						
Bank and other borrowings	(2,088.3)	(2,174.1)	(1,933.0)	(2,109.6)	(2,166.0)	(1,999.0)

12. Provisions

	30 June 2018 £m	31 December 2017 £m	30 June 2017 £m
At 1 January	104.6	-	-
Created during the period	-	104.6	-
Used during the period	(6.7)	-	-
At the period end	97.9	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.

Vanquis Bank has used £6.2m of the provision in the first half of 2018 in developing the systems and operational capability required to deliver the customer refund programme. A pilot into a small segment of customers was successfully completed in early June and the roll-out of the full refund programme has now commenced.

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 £0.5m of the provision in the first half of 2018 in respect of legal costs as it continues to work with the FCA on their investigation. Final resolution to the investigation is likely to take up to 18 months.

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

	Six months ended 30 June IFRS 9 2018 £m	IAS 39 2017 £m
Profit after tax	22.0	67.0
Adjusted for:		
– tax charge	12.6	23.0
– finance costs	36.2	37.8
– exceptional premium and fees paid on refinancing of senior bonds (note 4)	18.5	-
– share-based payment charge	0.3	3.1
– retirement benefit charge before exceptional curtailment credit (note 9)	-	1.1
– exceptional pension curtailment credit (note 9)	(0.6)	(3.9)
– amortisation of intangible assets	10.3	8.6
– depreciation of property, plant and equipment	4.6	4.2
– loss on disposal of property, plant and equipment	-	0.1
– exceptional loss on write off of property, plant and equipment and intangible assets (note 4)	10.9	-
Changes in operating assets and liabilities:		
– amounts receivable from customers	(14.8)	(15.2)
– trade and other receivables	(15.9)	(21.2)
– trade and other payables	17.4	26.7
– contributions into the retirement benefit scheme (note 9)	(5.0)	(5.7)
– provisions (note 12)	(6.7)	-
Cash generated from operations	89.8	125.6

14. Contingent liabilities

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

On 26 January 2018, the company received a letter on behalf of an institutional investor (which has a number of subsidiary investment funds) in connection with certain matters disclosed in its public announcement on 22 August 2017. On that date, as part of a trading update, the company announced, among other things, that Vanquis Bank was 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 responded to the claims in April 2018 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.

There have been no changes in respect of the other contingent liabilities disclosed in the 2017 financial statements.

15. 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 current 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.

15. IFRS 9 (continued)

The impairment approach under IFRS 9 differs from the current incurred loss model under IAS 39 where impairment provisions are only reflected when there is 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	(2,174.1)	-	(2,174.1)
Other	34.1	54.1	88.2
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.

Statement of directors' responsibilities

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

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

A list of current directors is maintained on the Provident Financial website: www.providentfinancial.com. David Sear resigned from the Board on 26 January 2018. Subsequently, Malcolm Le May was appointed as Chief Executive Officer on 2 February 2018 at which time Stuart Sinclair was appointed as Interim Chairman. There have been no other changes in directors during the six months ended 30 June 2018.

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

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

By order of the board

Malcolm Le May – Chief Executive
31 July 2018

Andrew Fisher – Finance Director

INDEPENDENT REVIEW REPORT TO PROVIDENT FINANCIAL PLC

We have been engaged by the company to review the unaudited condensed interim financial statements in the interim report for the six months ended 30 June 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the unaudited condensed interim financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited condensed interim financial statements in the interim report for the six months ended 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
31 July 2018

Information for shareholders

1. The interim report will be posted to shareholders on 9 August 2018.