Provident Financial plc
Final results for the year ended 31 December 2017

This announcement contains inside information for the purposes of article 7 of the Market Abuse Regulation (EU) No 596/2014.

Provident Financial plc is the leading non-standard lender in the UK. The group serves 2.5 million customers and its operations consist of Vanquis Bank, the Consumer Credit Division (CCD), comprising Provident home credit and Satsuma, and Moneybarn.

Highlights

Settlement agreed with the Financial Conduct Authority (FCA) on Vanquis Bank's Repayment Option Plan (ROP) investigation

- Resolution reached on 27 February 2018 in respect of the FCA investigation into ROP within Vanquis Bank for failure to adequately disclose the potential charging of interest on ROP charges.
- Total estimated cost of settlement of £172.1m reflected in the 2017 financial statements comprising customer restitution in the form of balance reductions and cash settlements of £127.1m, other estimated costs and provisions of £43.0m and a fine levied by the FCA of just under £2.0m.
- Vanquis Bank will be working with the FCA on a plan to resume sales of ROP to new customers.
- Moneybarn continues to cooperate with the FCA in its ongoing investigation into affordability, forbearance and termination options with an estimated liability of £20.0m.

Rights issue launched to ensure the group has appropriate levels of regulatory capital to meet its current and future requirements and position the group to deliver attractive returns for shareholders

- Fully-underwritten rights issue launched to raise approximately £300m net proceeds (gross proceeds of £331m less expenses of £31m) to meet the estimated costs of the FCA investigations and ensure the group has appropriate levels of buffer over increased regulatory capital requirements, primarily due to an increase of approximately £100m in respect of conduct and operational risk assessments.
- Group's common equity tier (CET) 1 ratio of 14.5% at 31 December 2017 (2016: 21.9%) reflects full provision for the estimated costs of the FCA investigations, with an unaudited pro forma ratio, after the proposed rights issue proceeds, of 28.7%, comfortably above the revised minimum regulatory capital requirement of 25.5%.
- Invesco Limited and Woodford Investment Management Limited, who in aggregate hold 48.3% of the company's share capital, are supportive of the group's plans and the rights issue.

Good progress made in implementing the home credit recovery plan whilst Vanquis Bank and Moneybarn continue to deliver good growth

- Actions taken by management in home credit since August 2017 are delivering a significant improvement in customer service and operational performance, and the business enters 2018 with 527,000 active customers and receivables of £352.2m, consistent with the recovery plan.
- Rationalisation of home credit central support functions underway reflecting the reduced size of the business.
- Vanquis Bank new customer bookings of 437,000, up from 406,000 in 2016, reflects expansion in the credit card proposition, including the Chrome near prime credit card.
- Customer numbers and average receivables growth in Vanquis Bank of 11.3% and 14.6% respectively, against credit standards which were tightened in the third quarter of the year, recognising the uncertainties faced by the UK economy.
- Strong growth in Moneybarn new business volumes of 17%.

Group performance significantly impacted by the operational disruption in home credit following the poorly executed migration to the new operating model in July 2017

- Adjusted profit before tax[1] in 2017 reduced by 67.3% to £109.1m (2016: £334.1m) and adjusted basic earnings per share[1] down by 64.8% to 62.5p (2016: 177.5p).
- Exceptional costs of £224.6m reflected in 2017 (2016: exceptional gain of £17.3m) comprising estimated cost of settlement in respect of the FCA investigations in Vanquis Bank (£172.1m) and Moneybarn (£20.0m) together with costs incurred in CCD in respect of the migration to the new home credit operating model and subsequent implementation of the recovery plan (£32.5m).
- Statutory loss before tax reduced by 135.8% to £123.0m (2016: profit of £343.9m) and basic loss per share down 149.9% to 90.7p (2016: earnings per share of 181.8p).
- As previously indicated, the interim dividend was withdrawn in August 2017 (2016: 43.2p) and no final dividend is proposed in respect of 2017 (2016: 91.4p) in order to retain liquidity and balance sheet stability.

Group's businesses have strong positions in their respective markets with clear path to future growth and attractive returns for shareholders

- Significant actions underway to strengthen culture and governance with positive customer outcomes placed firmly at the centre of the group's strategy.
- Target financial model updated to reflect a moderation in the target group ROA to approximately 10%, sustainable receivables growth targets of between 5% and 10% per annum, maintaining an appropriate buffer over the group's revised minimum capital requirement of a CET 1 ratio of 25.5% and a dividend cover ratio of at least 1.4 times.
- The Board intends to restore dividends with a nominal dividend for the 2018 financial year before adopting a progressive dividend, in line with the above dividend policy, from the 2019 financial year.

Key financial results

	2017	2016	Change
Adjusted profit before tax[1]	£109.1m	£334.1m	(67.3%)
Statutory (loss)/profit before tax	(£123.0m)	£343.9m	(135.8%)
Adjusted basic earnings per share[1]	62.5p	177.5p	(64.8%)
Basic (loss)/earnings per share	(90.7p)	181.8p	(149.9%)
Annualised return on assets[2]	6.9%	15.3%	
Final dividend per share	-p	91.4p	n/a
Total dividend per share	-p	134.6p	n/a

Malcolm Le May, Chief Executive Officer (CEO), commented:

"When I became group CEO, I stated my key objective was to execute a turnaround of the group. Today we have made progress on that objective by agreeing a resolution with the FCA in relation to Vanquis Bank and we now have a clear view on the estimated cost of the FCA investigation of Moneybarn.

To grow the business and deliver long-term sustainable returns to our shareholders, PFG needs to strengthen its balance sheet. Today we have announced a proposed rights issue to raise net proceeds of £300m which the Board believes will allow the group to implement its strategy and restart paying a progressive dividend in 2019.

The group's businesses of Vanquis Bank, Provident home credit, Satsuma, and Moneybarn are all well positioned in their markets, with products that customers' value and which operate well throughout the economic cycle. The recovery in Provident home credit is on track with collections performance continuing to improve.

In 2018, the group will continue to rebuild trust with our customers, regulators, shareholders and employees. The group's turnaround is making progress, but the Board and I realise there is still much to do to achieve a customer centric business delivering long-term sustainable returns to our shareholders."

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[1] *Adjusted profit before tax in 2017 is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2016: £7.5m); and (ii) exceptional costs of £224.6m comprising £172.1m in respect of the estimated cost of restitution, other costs and provisions and a fine following resolution on 27 February 2018 of the FCA investigation into ROP in Vanquis Bank, £20.0m in respect of the estimated cost arising in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn and £32.5m in respect of redundancy, retention, training and consultancy costs associated with the migration to the new home credit operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration (2016: net exceptional credit of £17.3m).*

[2] *Adjusted profit before interest after tax as a percentage of average receivables.*

Chairman's statement

Introduction

Provident Financial prides itself on its 140 year history of providing valued customers with access to credit where others will not. However, recent events have demonstrated a need to refresh the group's direction, focus and culture. The Board is determined to achieve these objectives. The Board firmly believe that the group continues to have an important role to play in serving customers responsibly in the non-standard credit market, and that it can do so whilst providing an attractive return to shareholders. However, in order to do this, there is a need to restore the group's capital base.

On 27 February 2018, the group agreed a settlement with the FCA on its investigation into Vanquis Bank's ROP. The agreed settlement relates to a failure by Vanquis Bank to disclose in its sales calls that the charges for ROP would be treated as a purchase transaction and therefore potentially incur interest. Vanquis Bank will refund those customers with the interest element of ROP charges in the period between inception of the product in 2003 and the communication to ROP customers which was conducted in December 2016. The total cost of settlement is estimated to be £172.1m and has been reflected as an exceptional cost in the 2017 results. The settlement comprises balance reductions for existing customers, cash refunds, a higher expected forward flow of ROP complaints more generally in respect of which compensation may have to be paid, costs of administering the settlement and an FCA fine. Vanquis Bank will be working with the FCA on a plan to resume sales of ROP to new customers.

Moneybarn continues to cooperate with the FCA in its ongoing investigation into affordability, forbearance and termination options. The scope of the investigation is understood and the estimated cost of £20.0m, being management's prudent estimate of the expected outcome in respect of the investigation, has been reflected as an exceptional cost in the 2017 results. A final resolution to the investigation is likely to take up to 24 months.

Following the operational disruption in home credit as a result of the poorly executed migration to the new operating model and the estimated costs of resolving the FCA investigations, the group's CET 1 capital ratio reduced to 14.5% as at 31 December 2017, which is below the group's regulatory capital requirements set by the Prudential Regulation Authority (PRA). In addition, the group has agreed a revised regulatory capital requirement with the PRA. This has resulted in the group's total regulatory capital requirement increasing, primarily due to an increase of approximately £100m in respect of conduct and operational risk assessments.

Following a thorough review of the various options available to the group to improve its capital position in light of the group's short and medium-term priorities, the Board has decided to pursue a fully underwritten rights issue. The group is seeking to raise additional capital of approximately £300m (£331m gross proceeds before deduction of expenses of £31m) through the proposed rights issue, which is subject to shareholder approval at a general meeting on 21 March 2018. Full details of the rights issue are provided in a separate announcement.

The net proceeds of the proposed rights issue will ensure that the group has appropriate levels of regulatory capital to meet its current and future regulatory capital requirements as well as ensure its balance sheet is strengthened with the appropriate level of buffers in order to enable it to pursue underlying organic growth opportunities. In addition, the Board believes that this level of capital is aligned with leverage expectations for investment grade credit status and as such, the group expects to re-establish normal access to funding from the bank and debt capital markets. Taking into account the receipt of the net proceeds of the proposed rights issue and the intended use of proceeds, on a pro forma unaudited basis the CET 1 capital ratios of the group and Vanquis Bank would have been 28.7% and 25.4% respectively, up from 14.5% and 21.6% respectively at 31 December 2017.

The company expects to use the net cash proceeds of the proposed rights issue to: (i) inject approximately £50m into Vanquis Bank by way of a subscription of equity as an additional management buffer; (ii) repay an £85m bridge facility provided by Barclays Bank plc and JP Morgan Securities in February 2018 which will be used to allow Vanquis Bank to draw down £85m under an intercompany term loan facility between the group and Vanquis Bank, reducing the reliance of Vanquis Bank on Provident Financial plc; and (iii) create £165m of additional liquidity headroom by either holding cash on deposit or repaying amounts due under the syndicated revolving credit facility.

The Board continues to believe in the strong growth opportunities available to the group's attractive businesses and aims to leverage the rights issue and its revised strategy to build a robust foundation for the long-term strength of the group. The Board remains confident of the group's underlying prospects and value, and is committed to restoring sustainable earnings growth and reliable operational performance, together contributing to attractive future shareholder returns.

Developments over the last 12 months

On 28 February 2017, the group announced developments to the home credit business's operating model that focused on changing from a self-employed agency model to an employed workforce, aimed at delivering a more efficient and effective business. The proposals were intended to enhance the home credit operating model by: (i) serving customers through full-time employed Customer Experience Managers (CEMs) rather than self-employed agents to take direct control of all aspects of the relationship with the customer; (ii) changing the field management structure in the UK, with newly defined roles and ways of working; and (iii) developing further technology to improve efficiency and effectiveness. The migration to the new home credit operating model, with more centralised control over a distributed workforce and greater evidencing of customer interactions through voice recording technology (currently unique to Provident in the home credit sector), was also intended to enhance regulatory standards. It sought to achieve this by improving first line oversight of field staff through more consistent evidencing of interactions with customers than might be the case in circumstances where dual visits (when self-employed agents were accompanied by field management to monitor the interaction between the agent and the customer for regulatory purposes) and apps are utilised to perform the same function.

On 20 June 2017, the group provided an update on the transition to the new home credit operating model indicating that operational disruption associated with the transition was higher than anticipated, with agent attrition rates and vacancy levels adversely impacting collections, sales penetration, customer retention and profits. At that time, it was expected that collections would normalise after the transitional period but the disruption relating to the transition to the new operating model would result in 2017 full-year pre-exceptional pre-tax profits for CCD reducing to around £60m (2016: £115.2m).

On 22 August 2017, the group released a further trading update on the home credit and Vanquis Bank businesses. The disruption in the home credit business was more severe than originally anticipated, and the full year profit guidance for CCD was significantly reduced to a pre-exceptional pre-tax loss of between £80m and £120m for 2017. The group also announced that the FCA was conducting an investigation into Vanquis Bank's ROP and that in April 2016 it had agreed to enter into a voluntary requirement with the FCA to suspend all new sales of ROP and to conduct a customer contact exercise, which has since been completed. Vanquis Bank also agreed to enter into a voluntary requirement with the PRA pursuant to which it agreed not to: (i) pay dividends to or make any distribution of capital to the group; (ii) provide loans or facilities to the group; (iii) conduct non business as usual liquidity transactions which have or may have the effect of transferring any cash or assets in favour of any member of the group; or (iv) provide any security for the obligations of any member of the group, without the PRA's consent. As a result of the impact of the disruption and the investigation, the interim dividend for the 2017 financial year was withdrawn and the Board indicated that a full year 2017 dividend was unlikely, to retain liquidity and balance sheet stability (on 13 October 2017, the Board confirmed no final dividend would be paid). Under the circumstances, Peter Crook stepped down as group CEO and Manjit Wolstenholme assumed the role of Executive Chairman.

During this time the group continued to assess and discuss with the FCA the processes applied by Moneybarn in relation to customer affordability assessments for vehicle finance and the treatment of customers in financial difficulties. This included Moneybarn entering into a voluntary requirement with the FCA pursuant to which it agreed to amend its processes for dealing with loan terminations to ensure that customers receive information which enables them to make an informed decision as to which termination option to adopt. On 5 December 2017, however, the group was informed that the FCA had commenced an investigation into Moneybarn covering the adequacy of creditworthiness assessments as well as the treatment of customers in default or arrears with forbearance and due consideration, and the provision of information about termination processes.

As the issues above emerged during the summer of 2017, the group moved swiftly to put in place a near-term action plan focused on ensuring stability and addressing the immediate challenges. The most pressing issues were stabilising and turning around the performance of the home credit business, reaching a resolution with the FCA in relation to its investigation into ROP in Vanquis Bank, continuing to cooperate with the FCA with its ongoing investigation into Moneybarn and ensuring that the group’s capital base and liquidity were appropriate to rebuild the business.

Over the last six months, the group has taken the following actions:

- Conducted a search to identify suitably qualified candidates for the role of group CEO. On 2 February 2018, the group announced the appointment of Malcolm Le May as group CEO. In making this decision, the Board has consulted with, and received support from, certain of the group’s leading shareholders, as well as discussing his appointment with the FCA. The Board firmly believes that under Malcolm’s leadership the group can once again return to delivering attractive returns for shareholders whilst establishing strong relationships with all the group's stakeholders, including customers and regulators;

- Undertaken a review to clearly understand the root causes of the issues in deploying the new operating model in the home credit business which included insufficient recognition of the importance of the front line customer relationship to the performance of the business. In addition, an inflexible approach was adopted in implementing the new operating model which lacked customer focus. These were clearly largely managerial failings in implementation, rather than fundamental flaws in the main concepts behind the new approach;

- Strengthened leadership of the home credit business through the reappointment of Chris Gillespie as Managing Director of CCD at the end of August 2017 with a mandate to improve the operating model in order to re-establish relationships with customers and restore collections and stability in the business. Chris Gillespie previously acted as Managing Director of CCD from 2007 to 2013;

- Swiftly designed and implemented the recovery plan for the home credit business based on a revised and more flexible operating model alongside a right-sizing of the cost base, with a focus on re-establishing customer service levels and relationships. The recovery plan is expected to be substantially implemented by the end of the first half of 2018;

- Assessed conduct risks and improved internal controls, including commissioning an external review of the effectiveness of CCD's first and second-lines of defence in the risk management process, as well as its governance and culture in general;

- Worked closely with the FCA to resolve the group's immediate challenges, including implementing the home credit recovery plan, improving risk management controls and oversight in CCD and to resolve fully the FCA's investigation into Vanquis Bank's ROP and to continue to cooperate with the FCA with its ongoing investigation into certain issues in Moneybarn;

- Addressed governance and culture issues more widely across the group, refocusing on the customer first. The Board has placed positive customer outcomes and enhanced regulatory engagement firmly at the centre of the group's strategy;

- Closely monitored the capital and liquidity position of the group on a consolidated basis and of Vanquis Bank on a solo basis, whilst maintaining regular and frequent dialogue with the group's bank lending group, M&G, rating agency, the PRA (primarily through Vanquis Bank) and the FCA;

- Developed a new capital plan based on revised forecasts for the group's three businesses to establish the appropriate scale and nature of resources required to execute the group's strategy and generate capital with a view to restoring the shareholder dividend as soon as possible; and

- Assessed the various options available to the group to meet the potential costs of restitution and to ensure the group has appropriate levels of regulatory capital.

During this time, while working to push forward these actions Manjit Wolstenholme tragically died suddenly on 23 November 2017. Malcolm Le May assumed the role of Interim Executive Chairman until his appointment on 2 February 2018 as group Chief Executive Officer (CEO). Stuart Sinclair was appointed as Interim Chairman on 2 February 2018 pending the completion of the group's search for a new external Chairman.

On 16 January 2018, the group released a trading update which disclosed the expectation of a pre-exceptional pre-tax loss for CCD of approximately £120m, consistent with the upper end of the guidance previously issued on 22 August 2017. Although the actions taken by management had delivered a significant improvement in customer service and operational performance in the home credit business since August 2017, the rate of reconnection with those home credit customers whose relationship had been adversely impacted following the poorly executed migration to the new operating model in July 2017 was at the lower end of expectations through the fourth quarter of 2017.

As part of an ongoing process of reviewing its cost base, the home credit business announced at this time a proposed rationalisation of its central support functions which is subject to workforce consultation. This is a necessary step to align the cost base to the reduced size of the business. In addition, the business expects to secure improvements in the effectiveness and efficiency of the field organisation as the new business model continues to be embedded. However, customer facing resource is being managed very carefully in order to ensure that further improvements in customer service are delivered.

Culture and governance

Provident Financial was founded 140 years ago with a clear social purpose of providing much valued access to credit for customers in the non-standard credit market who often find themselves ignored or under-served by mainstream lenders. The group's customers, who come from many different walks of life, have always valued highly the way the group provides access to credit closely tailored to their needs and the realities of their lives, often involving smaller sums, shorter terms and more flexible repayment options. Customers on modest and less predictable incomes want, and deserve, access to credit to help them cope with everyday challenges, and to allow them to participate fully in the traditional and online economies.

Recent events have demonstrated that although the group's intentions were good in what it was seeking to do for customers, the delivery methods and the culture and governance around them have not always been at the high standards which should have been expected. As a result of these shortcomings, it is clear to the Board that the group needs to address culture and governance, refocusing on the customer first, thereby improving regulatory compliance and as a result begin to rebuild and enhance its reputation with regulators. Malcolm Le May has a clear agenda of engagement to address these issues that the Board is fully supportive of.

The group has completed an initial review of governance arrangements. The review has identified where enhancement and change was needed to ensure greater Board effectiveness, clarity of group purpose and divisional roles and responsibilities, and significantly improve group risk and conduct management.

Following completion of the review, the group has:

- Appointed a new group CEO and initiated the recruitment of a new external Chairman;
- Reaffirmed a clear purpose, vision, mission and set of values which are centred firmly on the customer, and helping them to help themselves to build brighter financial futures;
- Re-constituted a wider group Executive Committee which will play a far greater role in delivering on the group's vision and in enhancing the information flows and control between the group and its divisions;
- Brought together all its senior executive and non-executive management from the whole group to discuss where the group has fallen short and why, what the group's aspirations should be going forward, and what needs to change as a result;
- Re-initiated a clear and consistent 'tone from the top' from the Board in line with these customer-centric values that also emphasises the need to collaborate more effectively and work together across the group;
- Provided greater clarity over the roles and responsibilities of each of the divisions as well as those that exist at the broader group level, and in doing so begun to disseminate the more consistent and clear vision, mission and values more widely;
- Established a group Chief Risk Officer (CRO) role for the first time who will, once appointed, work closely with the Board and the group CEO to provide group-wide oversight of governance, risk and conduct and ensure that these all remain a key focus of the group and appointed an interim group CRO;
- Begun the recruitment of a number of executives to create key group functions. An interim IT Strategy & Procurement Executive has been appointed and the group also intends to appoint a Group HR Executive. These appointments are intended to improve coordination, cooperation and efficiency across the group in pursuit of the group's aims and in support of the Executive Committee;
- Initiated the recruitment of two additional new non-executive directors with directly relevant experience (and in line with a Board skills needs assessment), to work alongside the new group CEO to deliver on the Board's vision; and
- Begun the process of establishing a new Board committee, to be chaired by one of the new non-executive directors noted above, focusing on the customer, culture and ethics to help drive changes in behaviours and attitudes across the group.

The changes listed above have already been implemented or initiated. Additional changes are planned in the longer-term through to 2020 in order to continue to refocus the culture on the customer first thereby improving regulatory compliance, and the group will reassess its structure to ensure the changes made endure.

The group plans to realign its culture more closely to the developing needs of the customer, and to better coordinate and cooperate internally across businesses to deliver better customer outcomes more efficiently as a result. More specifically, the group will focus on helping customers on their creditworthiness journey, where possible helping them to help themselves build brighter financial futures, using all its resources and offers, going beyond granting the much valued financial inclusion to as many people as is responsible within each area of the group.

Remuneration has an important part to play in realigning the group's culture. The group plans to continue to operate within the constraints of the remuneration policy approved by shareholders at the 2017 AGM. However, in light of recent events, and the latest shareholder feedback, in the short-term director remuneration has been reduced so as to operate well within the parameters of the current policy. In addition to reducing the level of pension and benefits for new executive director appointments, there will be no further grants of matching shares under the performance share plan (PSP), although part of the annual bonus will continue to be deferred for three years. For awards under the Long Term Incentive Scheme (LTIS), the group plans to change the performance condition from absolute Total Shareholder Return (TSR) to a more common relative TSR metric, in relation to a suitable comparator group for all new grants. LTIS awards and the annual bonus will also be subject to a more rounded set of metrics designed to improve culture and performance by focusing on risk, balance sheet and customer performance indicators. Furthermore, the group will introduce a post-vesting sale restriction period of two years to all new LTIS grants, and have enhanced the withholding (malus) and recovery (clawback) provisions currently in place. In the longer-term, the group will work with external advisors to develop a more comprehensive balanced scorecard approach to performance management with an appropriate balance of financial, customer, risk and strategic metrics which is reflected in a revised executive remuneration policy to support the group's desired culture and approach to greater coordination of group resources for the benefit of customers. In due course, any proposed new remuneration policy will be discussed fully with shareholders and submitted for their approval thereafter at a subsequent AGM.

Given the position of the group in the non-standard credit sector, there is an opportunity and an expectation that the group will lead by example, becoming a true champion for less creditworthy customers and taking positive steps to help them. The group plans to leverage the newly established role of the group CRO (once appointed) to champion the interests of the customer internally and thereby begin to transform the nature of interactions with regulators and provide greater consistency and coordination across the group's regulated businesses. The group has begun to build and staff a group risk and compliance function for the first time under the leadership of the interim group CRO. This new function will lead the design and implementation of the governance and risk management changes required, and improve group oversight of divisional risk and compliance functions. The interim group CRO is, and once appointed, the permanent group CRO will be, responsible for maintaining involvement in all regulatory interactions across the group so as to ensure consistency with the culture, direction and risk appetite set by the Board, reflecting the greater importance being placed on the group's key regulatory relationships.

Having taken action to strengthen governance in the short-term, the Board believes that the group is well placed to address the longer-term matter of implementing an appropriate corporate structure, including the nature and interaction of the regulated entities within the group. The group, under the direction of the new group CEO, Malcolm Le May, will consider all opportunities to improve coordination and organisation of resources to deliver better customer outcomes and regulatory interactions in a more effective and efficient manner. In evaluating these opportunities, the group aims to carefully balance the benefits and advantages of any changes with the costs and risks involved, in light of the need to continue to grow the group's businesses and adapt to the changing external environment.

Strategy

The group plays an important social purpose in providing access to credit to the approximately 10 to 12 million people (equivalent to approximately 20% of the UK adult population as at 31 December 2017) in the UK non-standard market which remains in demand and highly valued. The Board believes that the need and demand for responsibly provided affordable credit, delivered in a way that is tailored to the needs of non-standard customers, remains strong across the product sectors in which the group operates. Therefore, the Board believes that there remains an attractive opportunity for specialised non-standard lenders such as the group in the UK.

The group's businesses hold strong positions in their respective markets and the future prospects of the group's businesses will be strengthened by the governance and cultural changes already made and planned. The actions required to refocus on the customer first, together with any further actions that may be required, will result in a moderation of returns. However, the Board believes that a target ROA of around 10% per annum alongside receivables growth of between 5% and 10% per annum is both achievable and sustainable for the group as the home credit business moves to profitability in 2019, subject to economic conditions.

The group’s businesses have strong customer focused growth strategies going forward which position them well to deliver attractive returns for shareholders:

- Vanquis Bank aims to maintain its leading position in non-standard credit cards, continue to expand into the near-prime sector and develop an instalment loans business.

- CCD aims to retain and build upon its market-leading position in home credit based on a differentiated approach to customer service and compliance in the sector.

- Moneybarn aims to maintain its leadership position in non-standard car finance through widening its channel presence and product range including building a larger direct business.

- Satsuma aims to continue its growth and move into profitability.

Underpinning the plans of each of the businesses is the effective use of proven new technologies to deliver better customer experiences and deliver them more efficiently. The group has successfully evolved its product offering and operations over time through the deployment of new technologies and sophisticated techniques that better meet customer needs, help demonstrate compliance with regulatory requirements and increase efficiency. For example, in Vanquis Bank, non-voice promises to pay from customers have surpassed call centre interactions as customers increasingly want to use online, automated, app-based and mobile account management options introduced by the business. Across the group, apps have been successfully deployed and developed to replace paper and manual processes, as well as to interact more effectively with customers in the way they prefer. The group plans to continue to evolve and seek to use new proven technologies to meet the needs and preferences of its customers better, and improve the efficiency of resources deployed in serving them. For example, the group is developing innovative ways to help customers understand and monitor their financial health more clearly and simply, along with the options open to them, which could help improve their standing or reduce the overall costs of borrowing. This use of technology also makes it easier for customers to take action based on an up to date and comprehensive view of their situation.

The group’s businesses have worked together very effectively in certain areas to share resources and expertise, such as Vanquis Bank's collections capabilities which support Satsuma. There are also some areas where supplier relationships have been successfully shared and leveraged, and where shared customer relationships have been piloted. However, the group’s businesses have largely been developed and operated separately which provides an opportunity to serve customers better and improve efficiency over time by implementing greater coordination and cooperation going forward. The group will increasingly seek to drive the building and organising of its resources and skills by what serves the customer needs the best, in the most efficient way, rather than necessarily being based on individual businesses operating in isolation. The group’s revised approach will also help implement the cultural shift that the group is seeking to achieve resulting in a more seamless group product offering and customer progression.

Capital, balance sheet and financial model

To support the delivery of the group’s strategy, the group will continue to operate a financial model that is founded 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.

Having taken steps focused on ensuring that the customer comes first, the Board accepts that returns will moderate as a result, although the Directors believe that they remain attractive. The Board consider that a target ROA of approximately 10% is a sustainable level of return for the group as the home credit business moves to profitability in 2019 and after taking account of the outcome of the FCA's investigation into Vanquis Bank's ROP, meeting forthcoming changes in regulation which include anticipated changes arising out of the FCA's Credit Card Market Study and CP17/27 (‘Assessing creditworthiness in consumer credit’) and delivering good customer outcomes. The Directors also believe that there are attractive growth opportunities available to each of the group’s businesses within the non-standard credit market which would allow for receivables growth of between 5% and 10% per annum, subject to economic conditions and maintaining the group’s minimum returns thresholds.

The revised minimum regulatory capital requirement of the group is a CET 1 ratio of 25.5%, which includes an additional capital requirement of approximately £100m in respect of conduct and operational risks compared with the previous requirement. The Board expects to maintain a suitable level of headroom against the minimum regulatory capital requirement to support ongoing access to funding from the bank and debt capital markets.

Based on the target level of returns and maintaining an appropriate capital structure, 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 Board remains strongly committed to the payment of future dividends and delivering long-term value to shareholders. The group will therefore aim to restore dividends with a nominal dividend for the 2018 financial year before adopting a progressive dividend, in line with the above dividend policy, from the 2019 financial year.

The group has engaged with its lending banks and M&G and, subject to a successful rights issue, the lending banks and M&G have agreed to amend certain covenants attaching to the syndicated revolving bank facility and the M&G term loan respectively. The net worth covenant has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. These amendments would cease to have effect if the rights issue were not to proceed and complete.

The Directors believe that once the proceeds of a successful rights issue have been deployed, the business model is attractive and sustainable within a robust governance and oversight framework, and the future prospects of the group are strong. The Directors also believe that the group offers an attractive proposition for shareholders based firmly on good outcomes for customers and a sound financial model.

Financial review

Group summary

The group has reported a profit before tax, amortisation of acquisition intangibles and exceptional items of £109.1m (2016: £334.1m), down by 67.3% on 2016, reflecting the significant impairment arising as a result of the operational disruption in home credit following the poorly executed migration to the new operating model in July 2017. Vanquis Bank, Moneybarn and Satsuma have continued to experience good growth. Adjusted basic earnings per share of 62.5p (2016: 177.5p) reduced by 64.8%, broadly in line with the reduction in adjusted profit before tax.

Exceptional costs of £224.6m have been charged in 2017 comprising: (i) the estimated cost of £172.1m in respect of customer restitution, other expenses and a fine following resolution of the FCA investigation into ROP in Vanquis Bank; (ii) the estimated cost of £20.0m arising from the ongoing FCA investigation into affordability and forbearance at Moneybarn; and (iii) £32.5m in respect of redundancy, retention, training and consultancy costs associated with the migration to the new home credit operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation.

As a result of the exceptional costs charged in the year, the group reported a statutory loss before tax of £123.0m (2016: profit of £343.9m) and a basic loss per share of 90.7p (2016: earnings per share of 181.8p).

Vanquis Bank delivered an adjusted profit before tax of £206.6m, 1.0% higher than 2016 (2016: £204.5m). This reflects the impact of a more stable delinquency performance compared with the improving profile in the first nine months of 2016, the reduction in ROP income following the voluntary suspension of sales in April 2016 and an additional year-on-year investment of approximately £12m to augment the medium-term growth potential of the business. New credit card customer bookings of 437,000 were up 7.6% on last year, benefiting from the actions put in place during the second half of 2016 to develop the credit card proposition and enhance distribution, including the launch of the Chrome near prime credit card. Year-on-year customer growth of 11.3% and average receivables growth of 14.6% have been delivered against credit standards that were tightened in the third quarter, recognising the uncertainties faced by the UK economy. In line with previous guidance, the annualised risk-adjusted margin has moderated from 32.2% to December 2016 to 30.2% to December 2017, reflecting a reduction in the revenue yield due to a further decline in the penetration of ROP within the customer base and some moderation in the interest yield from the changing mix of business. The loans proposition, initially offered to the established Vanquis Bank customer base, continues to make encouraging progress, and has now moved from pilot phase.

CCD reported an adjusted loss before tax in 2017 of £118.8m (2016: profit of £115.2m), reflecting significant impairment arising as a result of the operational disruption in home credit following the poorly executed migration to the new operating model in July 2017.

The new home credit operating model, which involves employing full-time CEMs to serve customers rather than using self-employed agents, was launched on 6 July 2017. During the period in the run-up to the launch of the new model in May and June, the business experienced higher operational disruption than anticipated, with agent attrition rates and vacancy levels adversely impacting collections, sales penetration, customer retention and profits. Following the launch of the new model, poor execution in implementation resulted in a significant amount of further unforeseen disruption in July and August as the model was too prescriptive in the way the workforce was managed and the re-design of territories and CEM rounds resulted in both discontinuity and disruption to customer relationships. The combination of these factors resulted in a significant increase in arrears and impairment and led to the home credit business reporting a pre-exceptional loss of approximately £114m in the year compared with a pre-exceptional profit of approximately £121m in 2016.

The leadership team in CCD was changed in late August 2017 with Chris Gillespie returning to the group as Managing Director, having previously held this role until 2013. A recovery plan was developed through September which retains the employed operating model in the UK which in due course should allow the business to own and manage all aspects of the customer journey and exercise greater control over customer interactions. The primary focus of the recovery plan is to re-establish relationships with customers, stabilise the operation of the business and improve collections performance. Good progress has been made in implementing the recovery plan since September with the actions taken by management delivering a significant improvement in customer service and operational performance. On 16 January 2018, the business also announced the rationalisation of the home credit central support functions in order to align the cost base to the reduced size of the business. The home credit business ended the year with 527,000 (2016: 782,000) active customers and a receivables book of £352.2m (2016: £560.0m) and is on-track and well-placed to continue with execution of the recovery plan.

Satsuma has continued to make further progress in developing its product distribution, digital platform and further lending capability during 2017. The business is generating a strong flow of new business and further lending following the improvements made to the customer journey and product proposition in the second half of 2016, including the introduction of a monthly product. In addition, the business has continued to successfully develop its multi-channel distribution capability including the recent roll-out of the new mobile app. As a result, new business and further lending volumes increased by 30% on 2016 and customer numbers increased from 55,000 at 31 December 2016 to 79,000 at 31 December 2017 and receivables increased from £18.2m to £35.8m over the same period. The business reported a loss before tax of approximately £5m in 2017, modestly lower than around £6m in 2016, which was adverse to internal plans. The loss reflects the strong growth in the monthly product during 2017, the underwriting of which has been tightened during the latter part of the year in response to higher than planned impairment.

Moneybarn has delivered a 9.6% increase in adjusted profits to £34.1m in 2017 (2016: £31.1m). Extension of both the product offering and distribution channels and further service enhancements to intermediaries has generated new business volumes approximately 17% higher than 2016. As a result, customer numbers were 50,000 at the end of the year, showing year-on-year growth of 22.0%, and receivables, prior to balance reduction, were £376.2m, showing year-on-year growth of 26.5%. The annualised risk-adjusted margin has moderated from 24.1% to December 2016 to 21.8% to December 2017 reflecting additional impairment associated with the step-up in new business volumes and the flow through of impairment from higher risk categories of business prior to the tightening of underwriting in the second quarter.

The group's CET 1 ratio as at 31 December 2017 was 14.5% (2016: 21.9%) and is stated after the provision for the estimated cost of the FCA investigations of £192.1m which has been reflected in the 2017 year-end balance sheet. This is below the group's minimum regulatory capital requirement of a CET 1 ratio of 25.5%, which has increased primarily due to an increase of approximately £100m in respect of conduct and operational risk assessments. On an unaudited pro forma basis, after assuming receipt of the proposed rights issue net proceeds of £300m, the group's CET 1 ratio at 31 December 2017 would increase to 28.7%.

At 31 December 2017, the group had cash resources of £34m, excluding the liquid assets buffer held by Vanquis Bank, and headroom on the group's committed debt facilities amounted to £66m. The flow of retail deposits within Vanquis Bank has continued in line with its internal funding plan and the additional capacity for Vanquis Bank to take retail deposits amounted to £77m at the end of 2017.

The group's funding strategy will be broadly unchanged following the proposed rights issue. This will include maintaining committed facilities to meet contractual maturities and fund growth for at least the following 12 months and continued 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. In addition, the group will actively consider other funding options following completion of the proposed rights issue. Completion of the proposed rights issue is designed to allow the group to re-establish normal access to funding from the bank and debt capital markets. Following the proposed rights issue, the group will be funded through to May 2020 when the group's revolving syndicated bank facilities mature.

Vanquis Bank

Vanquis Bank generated a profit before tax and exceptional items of £206.6m in 2017 (2016: £204.5m) analysed as set out below:

	Year ended 31 December		
	2017	2016	Change
	£m	£m	%
Customer numbers ('000)	1,720	1,545	11.3
Year-end receivables prior to balance reduction[1]	1,630.1	1,424.7	14.4
Reported year-end receivables	1,554.7	1,424.7	9.1
Average receivables[2]	1,497.3	1,307.0	14.6
Revenue	638.8	583.7	9.4
Impairment	(186.6)	(162.4)	(14.9)
Revenue less impairment	452.2	421.3	7.3
Annualised revenue yield[3]	42.7%	44.7%	
Annualised risk-adjusted margin[4]	30.2%	32.2%	
Costs	(209.1)	(174.4)	(19.9)
Interest	(36.5)	(42.4)	13.9
Adjusted profit before tax[5]	206.6	204.5	1.0
Annualised return on assets[6]	11.9%	13.8%	

1 *Receivables are stated prior to the estimated balance reduction in receivables of £75.4m, comprising a gross balance reduction of £90.1m less release of impairment provisions of £14.7m, arising as a result of the resolution of the FCA investigation into ROP reached on 27 February 2018 (see 5 below).*

2 *Calculated as the average of month end receivables for the 12 months ending 31 December excluding the impact of the balance reduction of £75.4m reflected on 31 December 2017 (see 1 above).*

3 *Revenue as a percentage of average receivables for the 12 months ending 31 December.*

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

5 *Adjusted profit before tax in 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 has been 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 has been reflected within provisions. Adjusted profit before tax in 2016 was stated before an exceptional gain on disposal of £20.2m in respect of Vanquis Bank's interest in Visa Europe following completion of Visa Inc.'s acquisition of Visa Europe on 21 June 2016.*

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

Vanquis Bank delivered an adjusted profit before tax of £206.6m in 2017, 1.0% higher than 2016. Despite the growth in customer numbers and receivables, this primarily reflects a reduction in margins due to the stable delinquency performance compared with the improving profile in the first nine months of 2016 and the reduction in ROP income following the voluntary cessation of sales in April 2016. In addition, the business has continued to make additional investment in the initiatives to augment medium-term growth. As a result, the business has delivered an annualised return on assets of 11.9% to December 2017, lower than 13.8% to December 2016.

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. The business has delivered a 7.6% year-on-year increase in new credit card customer bookings to 437,000 (2016: 406,000), reflecting the benefit from the actions put in place in the second half of last year to develop the credit card proposition and enhance distribution. These include the launch of the Chrome near prime credit card, an 'Express Check' service which allows customers to check their likelihood of acceptance without affecting their credit score and strong volumes through price comparison websites following enhancements to improve Vanquis Bank's ranking.

Fourth quarter new customer bookings of 93,000 showed a reduction of 20% from the same period in 2016. In the context of the heightened macroeconomic uncertainties, underwriting was tightened during the third quarter of the year and reduced new booking volumes by approximately 10%. In addition, volumes delivered by the Argos partnership during the seasonally busier fourth quarter were 1,000 in 2017 compared with 15,000 in 2016. Following its acquisition by Sainsbury's in September 2016, Argos has reviewed all its strategic financial services partnerships and in late December 2017 informed Vanquis Bank of its intention to exit the partnership arrangement when the contract expires in early 2018 and to take all of their card-issuing activities in-house. The business continues to work on a number of partnering opportunities with other lending institutions, brokers and providers of retail finance.

Customer numbers ended the year at 1,720,000 (2016: 1,545,000), up 11.3% from 31 December 2016. The growth in customer numbers, together with the credit line increase programme to customers who have established a sound payment history, generated a 14.6% increase in average receivables. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of between 65% and 70% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

Delinquency levels have remained broadly stable through 2017 reflecting the sound quality of the receivables book and the stable UK employment market. This compares with the improving profile of delinquency experienced in the first nine months of 2016. In line with previous guidance, the annualised risk-adjusted margin has moderated from 32.2% to December 2016 to 30.2% to December 2017. This reflects a reduction in the annualised revenue yield from 44.7% to December 2016 to 42.7% to December 2017 from a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales in April 2016 and some moderation in the interest yield from the expansion of the product offering into the near prime segment of the market. Now that the FCA has concluded its investigation, Vanquis Bank will be working with the FCA on a plan to resume sales of the ROP to new customers.

Based on continued stable delinquency trends, together with the continued growth of Vanquis Bank's presence in the near prime segment of the market, the annualised risk-adjusted margin is expected to moderate to between 28% and 29% in 2018.

Costs increased by 19.9%, higher than the 14.6% growth in average receivables. The cost base in 2017 includes a £3m increase in acquisition costs associated with the step-up in new customer volumes together with a year-on-year increase of £12m in the expenditure to support the programme of initiatives to augment the medium-term growth of the business, including loans, digital and the group-wide Provident Knowledge Universe customer database.

Interest costs reduced by 13.9% during 2017. This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 4.6% in 2016 to 3.7% in 2017 due to an increase in the proportion of funding provided by retail deposits and a lower average interest rate on those deposits.

Vanquis Bank loans, which was introduced in the second half of 2016, continues to make steady progress and has now moved out of the pilot phase. The focus currently remains on providing unsecured loans to existing credit card customers prior to the development of an open market proposition towards the end of the year. Customer numbers and receivables ended 2017 at 10,000 and £15m respectively and credit quality is in line with expectations.

CCD

CCD generated a loss before tax and exceptional items of £118.8m in 2017 (2016: profit of £115.2m) as set out below:

	Year ended 31 December 2017 £m	2016 £m	Change %
Customer numbers ('000)	780	862	(9.5)
Year-end receivables	390.6	584.8	(33.2)
Average receivables[1]	443.8	508.7	(12.8)
Revenue	451.2	518.8	(13.0)
Impairment	(293.5)	(120.0)	(144.6)
Revenue less impairment	157.7	398.8	(60.5)
Annualised revenue yield[2]	101.7%	102.0%	
Annualised risk-adjusted margin[3]	35.5%	78.4%	
Costs	(253.4)	(257.0)	1.4
Interest	(23.1)	(26.6)	13.2
Adjusted (loss)/profit before tax[4]	(118.8)	115.2	(203.1)
Annualised return on assets[5]	(17.4%)	22.3%	

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

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

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

[4] *Adjusted (loss)/profit before tax in 2017 is stated before exceptional costs of £32.5m in respect of redundancy, retention, training and consultancy costs associated with the migration to the new home credit operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration (2016: exceptional impairment charge of £2.9m in respect of glo's IT platform).*

[5] *Adjusted (loss)/profit before interest after tax as a percentage of average receivables for the 12 months ending 31 December.*

CCD's 2017 trading performance has been significantly impacted by disruption caused by the poorly executed migration to a new operating model within the home credit business. The adjusted loss for the year of £118.8m compares with an adjusted profit of £115.2m in 2016 and comprises a loss of approximately £114m in home credit (2016: profit of approximately £121m) and a loss of approximately £5m in Satsuma (2016: loss of approximately £6m). The CCD loss for the year was at the upper end of the guidance of losses of between £80m and £120m provided in the August 2017 trading update. This reflects two factors. Firstly, the rate of reconnection with those home credit customers whose relationship had been adversely impacted by the migration to the new operating model was at the lower end of expectations through the fourth quarter. Secondly, the loss in Satsuma was higher than internal plans reflecting the strong growth of the monthly product during 2017, the underwriting of which has been tightened during the latter part of the year in response to higher than planned impairment.

The home credit business has made good progress in implementing the recovery plan which was developed through September 2017 following the poorly executed migration to the new operating model. The actions taken by the new management team, under the leadership of Chris Gillespie, are delivering a significant improvement in customer service and operational performance. In particular, collections performance in December of 78% was up from 65% in September and 57% in August and the business delivered both customer and receivables growth through the seasonally busy fourth quarter having experienced significant reductions in the previous two quarters.

CCD reported customer numbers at 31 December 2017 were 780,000 (2016: 862,000), 9.5% or 82,000 lower than at 31 December 2016. Customer numbers comprise 697,000 in respect of the home credit business (2016: 802,000) and 79,000 in respect of Satsuma (2016: 55,000) and 4,000 in respect of the run-off of glo (2016: 5,000). Within home credit, 527,000 customers are active and currently making payments compared with around 782,000 at the end of 2016, with the significant reduction reflecting the damage caused to customer relationships as a result of the poorly executed migration to the new operating model. The business also has 170,000 customers (2016: 20,000) who have ceased paying, predominantly following the implementation of 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. Following implementation of the recovery plan, active customer numbers showed growth of around 30,000 during the seasonally busy final quarter of the year. The business expects to maintain an active customer base of around 530,000.

Satsuma customer numbers showed strong growth of 43.6% during the year. Satsuma has continued to experience a step-up in volumes through the ongoing improvements in the customer journey and product distribution. New business volumes and further lending to established customers was 30% higher than 2016 with 40% year-on-year growth experienced during the fourth quarter.

Total CCD receivables were £390.6m at the end of 2017 (2016: £584.8m), 33.2% lower than 2016. Receivables comprise £352.2m in respect of the home credit business (2016: £560.0m), £35.8m in respect of Satsuma (2016: £18.2m) and £2.6m in respect of the run-off of glo (2016: £6.6m).

Home credit receivables fell by 37.1% compared with 2016 reflecting the 32.6% reduction in active customer numbers and the associated additional impairment arising from previously paying customers with whom the business has failed to reconnect. Receivables showed growth of approximately £36m during the seasonally busy fourth quarter of the year. Receivables are expected to show a further modest reduction during 2018 as the business focuses on embedding the new operating model, improving the risk and control framework and obtaining full authorisation from the FCA.

CCD's annualised revenue yield in 2017 was broadly unchanged at 101.7% (2016: 102.0%). This reflects an increase in the mix of lending to existing customers in the home credit business, who tend to be served with lower yielding, longer duration products, substantially offset by the increase in Satsuma volumes which tend to be higher yielding, shorter duration products.

Impairment in CCD showed a significant increase of 144.6% to £293.5m in 2017 (2016: £120.0m) reflecting the significant disruption experienced on migration to the new operating model and the rate of reconnection with those customers whose relationship had been adversely impacted being at the lower end of expectations.

The significant increase in impairment experienced during 2017 resulted in CCD's annualised risk-adjusted margin reducing from 78.4% to 31 December 2016 to 35.5% to 31 December 2017.

Costs reduced by 1.4% to £253.4m in 2017 (2016: £257.0m). The migration to the new operating model has resulted in the replacement of variable agents' commission costs with fixed cost salaries other than in the Republic of Ireland which still operates a self-employed model. As a result, the significant reduction in collections performance experienced during the year was not matched by a reduction in costs. As part of an ongoing process of reviewing its cost base, the home credit business announced a proposed rationalisation of its central support functions on 16 January 2018 which is subject to workforce consultation and is expected to result in approximately 90 redundancies. Together with the ongoing tight control of cost, this is a necessary step to align the cost base to the reduced size of the business. In addition, the business expects to secure improvements in the effectiveness and efficiency of the field organisation as the new business model continues to be embedded. Customer facing resource is being managed very carefully in order to ensure that further improvements in customer service are delivered.

Interest costs were 13.2% lower than last year, in line with the overall reduction in CCD average receivables of 12.8%. The funding rate for the business showed a modest reduction from 6.6% in 2016 to 6.5% in 2017.

The improvements in the effectiveness of the field force from the ongoing implementation of the recovery plan is expected to lead to an improvement in margins through 2018 which, together with cost efficiency, is expected to return the home credit business to breakeven on an annualised run rate basis during the second half of 2018.

Moneybarn

Moneybarn has contributed a profit before tax, amortisation of acquisition intangibles and exceptional items of £34.1m in 2017 (2016: £31.1m) as set out below:

	Year ended 31 December		
	2017	2016	Change
	£m	£m	%
Customer numbers ('000)	50	41	22.0
Year-end receivables prior to balance reduction[1]	376.2	297.3	26.5
Reported year-end receivables	364.1	297.3	22.5
Average receivables[2]	345.1	266.6	29.4
Revenue	106.3	80.7	31.7
Impairment	(31.1)	(16.4)	(89.6)
Revenue less impairment	75.2	64.3	17.0
Annualised revenue yield[3]	30.8%	30.3%	
Annualised risk-adjusted margin[4]	21.8%	24.1%	
Costs	(25.5)	(20.5)	(24.4)
Interest	(15.6)	(12.7)	(22.8)
Adjusted profit before tax[5]	34.1	31.1	9.6
Annualised return on assets[6]	11.6%	13.1%	

1 *Receivables are stated prior to the estimated reduction in receivables of £12.1m in respect of the FCA investigation into affordability, forbearance and termination options (see 5 below).*

2 *Calculated as the average of month end receivables for the 12 months ending 31 December excluding the impact of the balance reduction of £12.1m reflected on 31 December 2017 (see 1 above).*

3 *Revenue as a percentage of average receivables for the 12 months ending 31 December.*

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

5 *Adjusted profit before tax in 2017 is stated before: (i) an exceptional cost of £20.0m in respect of the estimated cost arising from the ongoing FCA investigation into affordability, forbearance and termination options of which £12.1m has been 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 has been reflected within provisions (2016: £nil); and (ii) the amortisation of acquisition intangibles of £7.5m (2016: £7.5m).*

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

Moneybarn has delivered a 9.6% increase in adjusted profit before tax to £34.1m in 2017 (2016: £31.1m), benefiting from further strong growth in the receivables book. The business delivered an annualised return on assets of 11.6% to 31 December 2017, modestly down from 13.1% to 31 December 2016, reflecting additional impairment associated with the step-up in new business volumes and the flow through of impairment from higher risk categories of business prior to the tightening of underwriting in the second quarter.

New business volumes during 2017 were strong. Extension of both the product offering and distribution channels and further service enhancements to intermediaries has generated new business volumes 17% higher than last year with growth of approximately 30% during the fourth quarter compared to the relatively weak fourth quarter in 2016. As a result, customer numbers ended the year at 50,000, up from 41,000 at December 2016 and showing year-on-year growth of 22.0%.

Moneybarn continues to explore other opportunities to extend its product offering and distribution channels through partnering with new intermediaries and developing its digital proposition.

The strong growth in new business volumes has resulted in receivables growth, prior to the estimated balance reduction of £12.1m arising as a result of the FCA investigation into affordability, forbearance and termination options, of 26.5% to £376.2m during the year (2016: £297.3m).

Default rates have increased during 2017 reflecting the impact of the step-up in new business volumes and the flow through of impairment from higher risk categories of business prior to the tightening of underwriting in the second quarter of 2017. 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 term of between four and five years. As a result, Moneybarn's annualised risk-adjusted margin was 21.8% to 31 December 2017, compared with 24.1% to 31 December 2016. The risk-adjusted margin is expected to stabilise during 2018 once the full impact of the tightening of underwriting has flowed through.

The business has continued to invest in the resources necessary to support future growth and enhance the customer experience. Accordingly, headcount has increased from 195 at the end of 2016 to 225 at the end of 2017. This has resulted in cost growth of 24.4%, lower than the growth in average receivables of 29.4% as the business has benefited from some operational leverage.

Interest costs have shown growth of 22.8% in 2017, lower than the growth in average receivables. The group's funding rate for Moneybarn has remained unchanged and, therefore, the lower rate of growth in interest costs reflects the retention of profits since acquisition as the capital base is built towards the group's target level.

Central costs

Central costs reduced to £12.8m in 2017 (2016: £16.7m), reflecting a reduction in share-based payments charges due to revised expectations of vesting levels following the group's weak performance in 2017.

Exceptional items

Exceptional costs of £224.6m (2016: exceptional gain of £17.3m) have been charged in 2017 comprising: (i) the estimated cost of £172.1m in respect of restitution, other costs and a fine following resolution of the FCA investigation into ROP in Vanquis Bank; (ii) the estimated cost of £20.0m arising from the ongoing FCA investigation into affordability, forbearance and termination options at Moneybarn; and (iii) £32.5m in respect of redundancy, retention, training and consultancy costs associated with the migration to the new home credit operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration.

Taxation

The tax charge for 2017 represents an effective rate of 15.1% (2016: 23.2%) on profit before tax, amortisation of acquisition intangibles and exceptional items which reflects: (i) the mainstream corporation tax rate of 19.25% on group profits (2016: 20.0%); (ii) the 8.0% bank corporation tax surcharge on Vanquis Bank's profits in excess of £25m (2016: 8.0%); and (iii) a tax credit in respect of prior years, including the release of provisions for uncertain tax liabilities. The group is expected to benefit in future years from the further reduction in the mainstream corporate tax rate to 17% on 1 April 2020 announced by the Government and enacted in 2016.

The tax credit (2016: tax charge) in respect of the exceptional costs in 2017 (2016: exceptional gain) amounts to £3.8m and represents: (i) tax relief of £12.5m in respect of the exceptional restructuring costs in CCD, the estimated balance reductions and restitution payable to Moneybarn customers and settlement administration costs in Vanquis Bank; net of (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to Vanquis Bank customers which are treated as bank compensation payments and the release of the impairment provision.

Dividends

Following the significant deterioration in home credit trading and the FCA investigation into ROP at Vanquis Bank, the proposed interim dividend for 2017 of 43.2p (2016: 43.2p) was withdrawn on 22 August 2017 in order to retain liquidity and balance sheet stability. At the same time, the Board indicated that it was unlikely that a final dividend (2017: 91.4p) would be paid and subsequently confirmed this at the third quarter trading update.

Based on the target level of returns and maintaining an appropriate capital structure following the proposed rights issue, the group's dividend policy will be to maintain a dividend cover ratio of at least 1.40 times (previously 1.25 times) once the home credit recovery plan has been fully delivered during 2018. The group will therefore aim to restore dividends with a nominal dividend for the 2018 financial year before adopting a progressive dividend, in line with the above dividend policy, from the 2019 financial year.

The voluntary requirement agreed between Vanquis Bank and the 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

During February 2018, the group took the following actions in respect of its funding and capital position, prior to the launch of the proposed rights issue:

- 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 has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. These amendments and waivers will cease to have effect if the proposed rights issue were not to proceed and complete.
- Arranged an £85m bridge facility with Barclays Bank plc and JP Morgan Securities plc. The bridge facility will be used to provide sufficient funds to allow Vanquis Bank to draw down £85m under an intercompany term loan between Provident Financial plc and Vanquis Bank, providing Vanquis Bank with an additional £85m of funding which Vanquis Bank intends to hold as additional liquid resources. At the same time, committed headroom under an existing intercompany facility was cancelled and will, in the future, reduce the reliance of Vanquis Bank on Provident Financial plc. Subject to the success of the proposed rights issue, the net proceeds of £300m will be received on 12 April 2018 and £85m of the proceeds will be used to repay the bridge facility. £50m of the proceeds will be injected into Vanquis Bank via a subscription of equity. The capital injection will be used by Vanquis Bank, together with its cash and additional borrowings from retail depositors, to pay for the costs of resolving the FCA's investigation into ROP. Subject to regulatory approval and the liquidity profile of Vanquis Bank continuing to be satisfactory, Vanquis Bank intends to repay the intercompany loan facility provided by Provident Financial by 2019 and be fully funded through retail deposits thereafter.
- Shared a revised capital plan with the PRA which has resulted in an increase in the group's regulatory capital requirement, primarily due to an increase of approximately £100m in respect of conduct risk and operational risk assessments. In finalising its new capital plan reflecting its current and expected capital requirements, the group has taken into account, amongst other things: (i) the receipt of £300m net proceeds from the proposed rights issue; (ii) the group's revised dividend policy and estimated future levels of dividends to be paid by the company and Vanquis Bank; (iii) the estimated payments to be made in connection with Vanquis Bank's settlement with the FCA in connection with ROP; (iv) Moneybarn's estimated liability in connection with the FCA's investigation; (v) the amendment and waiver of certain covenants under the syndicated revolving bank facility and M&G term loan; and (vi) management actions planned and proposed to be taken.

The group's funding strategy will be broadly unchanged following the proposed rights issue. This will include maintaining committed facilities to meet contractual maturities and fund growth for at least the following 12 months and continued 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 intention is to actively consider funding options following completion of the proposed rights issue which is designed to re-establish normal access to funding from the bank and debt capital markets. Following the proposed rights issue, the group will be funded through to May 2020 when the group's revolving syndicated bank facility matures.

The group's CET 1 ratio as at 31 December 2017 was 14.5% (2016: 21.9%) and gearing at the end of December was 4.3 times (2016: 2.3 times), compared with a banking covenant limit of 5.0 times. Both ratios are stated after the estimated cost of the FCA investigations of £192.1m which have been reflected in the 2017 year-end balance sheet. On an unaudited pro forma basis, after assuming receipt of the proposed rights issue net proceeds of £300m, the group's CET 1 ratio would increase to 28.7% and gearing would reduce to 2.2 times as follows:

	Audited Reported £m	Unaudited Rights issue[1] £m	Unaudited Pro forma £m
Receivables	2,309.4	-	2,309.4
Pension	102.3	-	102.3
Cash and cash equivalents	282.9	135.0	417.9
Borrowings	(2,174.1)	165.0	(2,009.1)
Provisions	(104.6)	-	(104.6)
Other	119.2	-	119.2
Net assets	535.1	300.0	835.1
CET 1 ratio (%)	14.5%		28.7%
Gearing (times)	4.3		2.2

[1] *Represents expected gross proceeds of £331m net of expenses of £31m. The proceeds has been assumed to be used to repay £165m of borrowings with the remaining £135m being held as liquid resources in Vanquis Bank.*

The group's minimum regulatory capital requirement expected to be set by the PRA post the rights issue together with the fully loaded capital conservation buffer (2.5%) and counter cyclical buffer (1.0%) is a CET 1 ratio of 25.5%. The Board expects to maintain a suitable level of headroom against this requirement and an efficient capital structure to support ongoing access to funding from the bank and debt capital markets. On an unaudited pro forma basis after the proposed rights issue, the group's CET 1 ratio of 28.7% is comfortably ahead of the group's minimum regulatory capital requirement.

The flow of retail deposits within Vanquis Bank has continued in line with its internal funding plan and, at the end of December, Vanquis Bank had taken £1,291.8m of retail deposits (79% of Vanquis Bank's receivables), up from £941.2m at 31 December 2016 (66% of Vanquis Bank's receivables).

At 31 December 2017, the group had cash on deposit of £34m, excluding the liquid assets buffer held by Vanquis Bank, and headroom on the group's committed debt facilities amounted to £66m. The additional capacity for Vanquis Bank to take retail deposits up to repayment of its intercompany loan from Provident Financial amounted to £77m at the end of 2017. Maturities (excluding retail deposits) in 2018 comprise the third instalment of the M&G term loan of £15m paid in January 2018 and £20m of private placement loan notes due in March 2018.

The group's funding rate during 2017 was 4.5%, down from 5.5% in 2016. This reflects a lower average blended rate on retail deposits and a lower average rate on the group's syndicated bank facility.

The group's credit rating from Fitch Ratings was downgraded from BBB to BBB- and placed on ratings watch negative following the group's announcement on 22 August 2017. The group will target maintaining a borrowings to tangible net worth ratio of 2.8 times or below in the future. The Board believes that this level of capital is aligned with leverage expectations for investment grade credit status and, as such, the group expects to be able to re-establish normal access to funding from the bank and debt capital markets following completion of the rights issue. The group's borrowings to tangible net worth ratio at 31 December 2017 was 5.4 times (2016: 2.8 times). On an unaudited pro forma basis, after assuming completion of the proposed rights issue, the group's borrowings to tangible net worth ratio reduces to 2.8 times.

The group absorbed capital of £20.1m (2016: generated capital of £233.2m) compared with dividends declared of £nil (2016: £196.2m).

IFRS 9

IFRS 9 'Financial instruments' is effective 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 whereby 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 will result in a one-off adjustment to receivables and reserves on adoption and will result in delayed recognition of profits.

To illustrate the impact of IFRS 9, the group has restated the 2017 income statement and balance sheet on an unaudited pro forma basis as follows:

	Audited IAS 39 £m	Unaudited IFRS 9 adjustment £m	Unaudited IFRS 9 £m
Adjusted profit before taxation:			
– Vanquis Bank	206.6	(17.1)	189.5
– CCD	(118.8)	14.5	(104.3)
– Moneybarn	34.1	(5.2)	28.9
– Central costs	(12.8)	-	(12.8)
Adjusted profit before taxation	109.1	(7.8)	101.3

	Audited IAS 39 £m	Unaudited IFRS 9 adjustment £m	Unaudited IFRS 9 £m	Unaudited Rights issue[1] £m	Unaudited Pro forma £m
Receivables:					
– Vanquis Bank	1,554.7	(143.1)	1,411.6	-	1,411.6
– CCD	390.6	(43.3)	347.3	-	347.3
– Moneybarn	364.1	(37.0)	327.1	-	327.1
Total receivables	2,309.4	(223.4)	2,086.0	-	2,086.0
Other	(1,774.3)	50.9	(1,723.4)	300.0	(1,423.4)
Net assets	535.1	(172.5)	362.6	300.0	662.6
Gearing (times)	4.3		7.0		2.8

[1] *Represents expected gross proceeds of £331m net of expenses of £31m.*

The group's unaudited IFRS 9 profits in 2017 of £101.3m were £7.8m lower than IAS 39 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 lower under IFRS 9 whilst conversely profits of shrinking business are higher.

Vanquis Bank unaudited IFRS 9 profits in 2017 of £189.5m were £17.1m lower than IAS 39 profits due to the step-up in new account bookings from 406,000 to 437,000 in the year.

CCD's IFRS 9 unaudited loss in 2017 of £104.3m is lower than the IAS 39 loss of £118.8m. This reflects the shrinkage in the home credit business in 2017 partly offset by higher losses in the growing Satsuma business.

Moneybarn's unaudited IFRS 9 profits in 2017 of £28.9m are £5.2m lower than under IAS 39 due to the strong growth in receivables.

The adoption of IFRS 9 results in an unaudited reduction in receivables of £223.4m at 31 December 2017, which net of deferred tax, results in an unaudited reduction in net assets of £172.5m. Gearing increases from 4.3 times under IAS 39 to 7.0 times under IFRS 9. On an unaudited pro forma basis, after assuming completion of the proposed rights issue, the group's gearing under IFRS 9 would reduce to 2.8 times.

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 will be 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 they were set. Based on finalised transitional arrangements, the regulatory capital impact of IFRS 9 will be 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.

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 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, and the group does not expect 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). The overall objective of the package of proposed remedies is to reduce the number of customers in problem credit card debt and put borrowers in greater control of their borrowing. The consultation closed on 3 July 2017 and the FCA published a further consultation paper which contained feedback on CP 17/10 and requested further consultation on 14 December 2017 (CP 17/43). CP 17/43 set out a revised analysis of the costs to businesses of the proposed remedies set out in CP 17/10 and the consultation closed on 25 January 2018 and the FCA stated that it expects to publish new rules in a policy statement as early as possible in 2018. The Directors anticipate that the results of CP17/10 and CP 17/43 are likely to impact Vanquis Bank's future credit card application acceptance rates and its ability to offer credit card credit line increases.

FCA review of high-cost credit

The FCA has also indicated that it is concerned about high-cost credit products, such as home credit, pawnbroking, logbook loans and open-ended running account credit, due to the potential over-indebtedness they may cause, and the FCA published the results of its review of high-cost credit in July 2017 (FS17/2). In FS17/2 the FCA indicated that it has some concerns regarding home-collected credit and also regarding the wider considerations relating to high-cost credit products (which could relate to other products offered by the group).

In January 2018, the FCA published an update to FS17/2 entitled 'High-cost Credit Review – update' (FS17/2 update). In the FS17/2 update, the FCA stated that while it noted there is value for consumers in having continuing access to home-collected credit and maintaining additional weekly repayments on separate loans may not be affordable, it has concerns that when consumers take out additional borrowing, where the outstanding amount from the previous loan is incorporated into the new loan, it may result in consumers paying significantly more interest on the amounts originally borrowed than they would have had they maintained separate loans. The FCA also stated that it is examining if repeat borrowing could work better for consumers and has requested data from firms on their lending patterns and nature and extent of refinancing and has commissioned consumer research to explore consumers' experience of home-collected credit and their understanding of the cost implications of refinancing and repeat borrowing. To remedy its concerns the FCA, in FS17/2, has stated it may introduce restrictions on refinancing and rollovers, impose time gaps between borrowing or time limits on the total duration of borrowing. In addition, the FCA stated, in the FS17/2 update, that it aims to report in May 2018 on its analysis concerning forms of high-cost credit outlined above (and others outlined in

FS17/2 and the FS17/2 update), and if the further research and analysis conducted by and on behalf of the FCA confirms the FCA's concerns regarding high-cost credit products, it expects to consult on proposals to address its concerns at that point. The FCA may introduce further changes to its existing consumer credit rules as a result of such work and promote competition for high-cost credit products. In these circumstances, there is a risk that the FCA may introduce new, stricter, rules designed to address particular concerns in relation to lending practices in this sector as outlined above.

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.

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, with a particular focus on personal contract purchase (PCP) agreements. The FCA has indicated that it will publish an update on this work in the first quarter of 2018. Although the group does not offer PCP agreements, it does offer vehicle finance through Moneybarn, and the views published by the FCA in its review may be predictive of future reviews that would relate to the non-standard vehicle finance sector.

Principal risks and uncertainties

The principal risks and uncertainties affecting the group are set out in the 2017 Annual Report and Financial Statements which are available on the company's website www.providentfinancial.com.

Outlook

The major regulatory and capital uncertainties faced by the group through a very difficult 2017 are now resolved and the valuable franchises of the group's business have been protected. The home credit recovery plan is on-track and the group's regulatory agenda focused on the customer first will underpin the delivery of sustainable growth and returns.

The proposed rights issue provides a strong capital base and access to the funding that will allow the group's businesses to develop their market-leading positions.

The Board remains strongly committed to resuming the payment of dividends, with a nominal dividend for the 2018 financial year before adopting a progressive dividend, in line with its revised dividend cover policy of at least 1.4 times, from the 2019 financial year.

Each of the group's businesses has performed well through the early weeks of the year.

Consolidated income statement for the year ended 31 December

	Note	2017 £m	2016 £m
Revenue	2	1,196.3	1,183.2
Finance costs		(77.0)	(81.7)
Impairment charges		(476.1)	(298.8)
Administrative and operating costs		(766.2)	(458.8)
Total costs		(1,319.3)	(839.3)
(Loss)/profit before taxation	2	(123.0)	343.9
Profit before taxation, amortisation of acquisition intangibles and exceptional items	2	109.1	334.1
Amortisation of acquisition intangibles	2	(7.5)	(7.5)
Exceptional items	2	(224.6)	17.3
Tax charge	3	(11.4)	(81.0)
(Loss)/profit for the year attributable to equity shareholders		(134.4)	262.9

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2017 £m	2016 £m
(Loss)/profit for the year attributable to equity shareholders		(134.4)	262.9
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	8	17.5	(0.1)
– gain on available for sale investment recycled to the income statement	9	-	(20.2)
– tax on items taken directly to other comprehensive income	3	(3.4)	4.7
– impact of change in UK tax rate	3	0.4	0.6
Items that may be reclassified subsequently to the income statement:			
– fair value movements on available for sale investment	9	1.9	3.1
– fair value movements on cash flow hedges		0.2	0.4
– exchange differences on translation of foreign operations		(0.2)	(1.2)
– tax on items taken directly to other comprehensive income	3	(0.4)	(0.1)
– impact of change in UK tax rate	3	(0.1)	-
Other comprehensive income/(expense) for the year		15.9	(12.8)
Total comprehensive (expense)/income for the year		(118.5)	250.1

(Loss)/earnings per share

	Note	2017 pence	2016 pence
Basic	4	(90.7)	181.8
Diluted	4	(90.7)	179.9

Dividends per share

	Note	2017 pence	2016 pence
Proposed final dividend	5	-	91.4
Total dividend for the year	5	-	134.6
Paid in the year*	5	91.4	124.1

* The total cost of dividends paid in the year was £133.4m (2016: £180.6m).

Consolidated balance sheet as at 31 December

	Note	2017 £m	2016 £m
ASSETS			
Non-current assets			
Goodwill		71.2	71.2
Other intangible assets	6	79.4	78.1
Property, plant and equipment		30.9	30.3
Financial assets:			
– amounts receivable from customers	7	328.2	307.6
Retirement benefit asset	8	102.3	72.4
		612.0	559.6
Current assets			
Financial assets:			
– available for sale investments	9	45.8	8.0
– amounts receivable from customers	7	1,981.2	1,999.2
– cash and cash equivalents		282.9	223.7
– trade and other receivables		44.0	36.1
		2,353.9	2,267.0
Total assets	2	2,965.9	2,826.6
LIABILITIES			
Current liabilities			
Financial liabilities:			
– retail deposits		(348.4)	(185.3)
– bank and other borrowings		(38.1)	(135.1)
– total borrowings		(386.5)	(320.4)
– derivative financial instruments		(0.1)	(0.2)
– trade and other payables		(115.8)	(104.8)
Current tax liabilities		(15.9)	(65.6)
Provisions	10	(104.6)	-
		(622.9)	(491.0)
Non-current liabilities			
Financial liabilities:			
– retail deposits		(943.4)	(755.9)
– bank and other borrowings		(844.2)	(778.8)
– total borrowings		(1,787.6)	(1,534.7)
– derivative financial instruments		-	(0.1)
Deferred tax liabilities	3	(20.3)	(10.7)
		(1,807.9)	(1,545.5)
Total liabilities		(2,430.8)	(2,036.5)
NET ASSETS	2	535.1	790.1
SHAREHOLDERS' EQUITY			
Share capital		30.7	30.6
Share premium		273.0	272.7
Other reserves		13.4	24.3
Retained earnings		218.0	462.5
TOTAL EQUITY		535.1	790.1

Consolidated statement of changes in shareholders' equity for the year ended 31 December

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2016		30.5	270.7	35.6	370.9	707.7
Profit for the year		-	-	-	262.9	262.9
Other comprehensive (expense)/income:						
– actuarial movements on retirement benefit asset	8	-	-	-	(0.1)	(0.1)
– gain on available for sale investment recycled to the income statement	9	-	-	(20.2)	-	(20.2)
– fair value movements on available for sale investment	9	-	-	3.1	-	3.1
– fair value movements on cash flow hedges		-	-	0.4	-	0.4
– exchange differences on translation of foreign operations		-	-	-	(1.2)	(1.2)
– tax on items taken directly to other comprehensive income	3	-	-	4.6	-	4.6
– impact of change in UK tax rate	3	-	-	-	0.6	0.6
Other comprehensive expense for the year		-	-	(12.1)	(0.7)	(12.8)
Total comprehensive (expense)/income for the year		-	-	(12.1)	262.2	250.1
Transactions with owners:						
– issue of share capital		0.1	2.0	-	-	2.1
– purchase of own shares		-	-	(0.1)	-	(0.1)
– transfer of own shares on vesting of share awards		-	-	0.1	(0.1)	-
– share-based payment charge		-	-	10.9	-	10.9
– transfer of share-based payment reserve on vesting of share awards		-	-	(10.1)	10.1	-
– dividends	5	-	-	-	(180.6)	(180.6)
At 31 December 2016		30.6	272.7	24.3	462.5	790.1
At 1 January 2017		30.6	272.7	24.3	462.5	790.1
Loss for the year		-	-	-	(134.4)	(134.4)
Other comprehensive income/(expense):						
– actuarial movements on retirement benefit asset	8	-	-	-	17.5	17.5
– fair value movements on available for sale investment	9	-	-	1.9	-	1.9
– fair value movements on cash flow hedges		-	-	0.2	-	0.2
– exchange differences on translation of foreign operations		-	-	-	(0.2)	(0.2)
– tax on items taken directly to other comprehensive income	3	-	-	(0.4)	(3.4)	(3.8)
– impact of change in UK tax rate	3	-	-	(0.1)	0.4	0.3
Other comprehensive income for the year		-	-	1.6	14.3	15.9
Total comprehensive income/(expense) for the year		-	-	1.6	(120.1)	(118.5)
Transactions with owners:						
– issue of share capital		0.1	0.3	-	-	0.4
– purchase of own shares		-	-	(0.1)	-	(0.1)
– transfer of own shares on vesting of share awards		-	-	1.1	(1.1)	-
– share-based payment credit		-	-	(3.4)	-	(3.4)
– transfer of share-based payment reserve on vesting of share awards		-	-	(10.1)	10.1	-
– dividends	5	-	-	-	(133.4)	(133.4)
At 31 December 2017		30.7	273.0	13.4	218.0	535.1

Consolidated statement of cash flows for the year ended 31 December

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	11	72.0	147.8
Finance costs paid		(73.7)	(71.7)
Tax paid		(55.0)	(64.4)
Net cash (used in)/generated from operating activities		(56.7)	11.7
Cash flows from investing activities			
Purchase of intangible assets		(20.5)	(12.8)
Purchase of property, plant and equipment		(12.2)	(10.6)
Proceeds from disposal of property, plant and equipment		1.7	0.6
Proceeds from disposal of Visa shares held as an available for sale investment	9	-	12.2
Purchase of government gilts held as an available for sale investment	9	(35.9)	-
Net cash used in investing activities		(66.9)	(10.6)
Cash flows from financing activities			
Proceeds from bank and other borrowings		650.0	505.6
Repayment of bank and other borrowings		(332.1)	(248.8)
Dividends paid to company shareholders	5	(133.4)	(180.6)
Proceeds from issue of share capital		0.4	2.1
Purchase of own shares		(0.1)	(0.1)
Net cash generated from financing activities		184.8	78.2
Net increase in cash, cash equivalents and overdrafts		61.2	79.3
Cash, cash equivalents and overdrafts at beginning of year		218.6	139.3
Cash, cash equivalents and overdrafts at end of year		279.8	218.6
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		282.9	223.7
Overdrafts (held in bank and other borrowings)		(3.1)	(5.1)
Total cash, cash equivalents and overdrafts		279.8	218.6

Cash at bank and in hand includes £227.5m (2016: £168.9m) in respect of the liquid assets buffer, including other liquid 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 financial information

1. Basis of preparation

The financial information, which comprises the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes, is derived from the full group financial statements for the year ended 31 December 2017, which have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information does not constitute the statutory financial statements of the group within the meaning of Section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2016 have been filed with the Registrar of Companies. The auditor has reported on those financial statements and on the statutory financial statements for the year ended 31 December 2017, which will be filed with the Registrar of Companies following the AGM. Both the audit reports were unqualified and did not contain any statements under Section 498(2) or (3) of the Companies Act 2006. However, the report for the year ended 31 December 2017 included an emphasis of matter in respect of going concern.

The financial statements have been prepared on a going concern basis under the historical cost convention, unless otherwise stated.

Note 12 refers to the group and Vanquis Bank's regulatory capital positions and the intention to raise net proceeds of £300m by way of a proposed rights issue to meet the costs of resolving the FCA investigations, restore the group's prudent capital position, seek to maintain the group's investment grade rating and re-establish normal access to funding from the bank and debt capital markets.

As at 31 December 2017, the group's regulatory capital on a consolidated basis is below the minimum requirement set by the PRA. Without the benefit of the net proceeds from the proposed rights issue, the group would continue to be unable to meet its minimum regulatory capital requirement. In such event, there is a risk that the PRA would have the ability to exercise its wide-ranging powers over the group which could include a variation of the group's permissions, restricting the group's business, or, in conjunction with other regulatory bodies and authorities, imposing a resolution procedure on Vanquis Bank and/or any other member of the group under the UK Banking Act 2009, as amended. Even if the PRA were to exercise forbearance in respect of such breaches of minimum regulatory capital requirements, it could at a later date revisit that decision or the basis upon which any forbearance was granted. This could have a material adverse effect on the group's business, financial condition, results of operations, cash flows and prospects.

The group has agreed with its lending banks and M&G that they will amend or waive certain covenant compliance requirements under the terms of the revolving credit facility and the M&G term loan respectively in order to provide the group with greater covenant headroom. The net worth covenant has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. If the proposed rights issue does not proceed the amendments and waivers obtained by the group will cease to remain effective and the bridge facility would also be due. In these circumstances, the group would seek to obtain further amendments and waivers of a breach of its financial covenants or the agreement of the lending banks and M&G not to accelerate repayment of the revolving credit facility and the M&G term loan respectively. However, if such waivers were not granted or such agreement was not forthcoming, then the accelerated repayment in full of any amounts outstanding thereunder might result in insolvency proceedings being initiated against the group which could result in shareholders losing all or a substantial amount of the value of their investment in the group.

The Board has concluded that the resolutions which are necessary for the proposed rights issue to proceed are likely to be passed and that the equity proceeds are likely to be raised in line with the timetable so that there will be no further breach of regulatory capital requirements or a breach of bank covenants once the capital is raised.

1. Basis of preparation (continued)

The Board acknowledges that there are risks that may prevent the proposed rights issue proceeding in line with the expected timetable or at all. There is a risk that sufficient shareholders will not vote in favour of the resolutions to enable the equity raise to occur. Note 12 explains that the proposed rights issue is fully underwritten subject to customary conditions. These conditions allow the underwriters to not fund the equity in a number of circumstances including there being a material adverse change in the affairs of the company or financial markets.

The Board believes that it is unlikely that the proposed rights issue will not occur but the consequences of not being successful indicate the existence of a material uncertainty. This may cast significant doubt about the group's ability to continue as a going concern so it is appropriate to make full disclosure as required by accounting standards. The Board believes that adopting the going concern basis in preparing the consolidated financial statements is appropriate and the financial statements do not include the adjustments that would result if the group were unable to continue as a going concern.

The accounting policies applied in preparing the financial information are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2016.

The group has made the following disclosure reclassifications within the statutory financial statements for the year ended 31 December 2017 and within the financial information:

Separate disclosure of impairment on the face of the income statement

Historically, costs have been 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 agent's commission costs have been replaced with salaries which will be shown under administrative costs. Given that impairment costs will comprise a significant proportion of the remaining operating costs and due to its significance to the group as a financial institution, 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 with 2016 comparatives reclassified.

Separate disclosure of retail deposits on the face of the balance sheet

All external borrowings held by the group have historically been 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 with 2016 comparatives reclassified.

The financial information has been agreed with the company's auditor for release.

2. Segment reporting

	Revenue		(Loss)/profit before taxation	
	2017	2016	2017	2016
	£m	£m	£m	£m
Vanquis Bank	638.8	583.7	206.6	204.5
CCD	451.2	518.8	(118.8)	115.2
Moneybarn	106.3	80.7	34.1	31.1
Central costs	-	-	(12.8)	(16.7)
Total group before amortisation of acquisition intangibles and exceptional items	1,196.3	1,183.2	109.1	334.1
Amortisation of acquisition intangibles	-	-	(7.5)	(7.5)
Exceptional items	-	-	(224.6)	17.3
Total group	1,196.3	1,183.2	(123.0)	343.9

Exceptional costs in 2017 of £224.6m comprise:

	2017
	£m
Estimated costs of settlement of the FCA investigation into ROP at Vanquis Bank:	
– balance reduction applied to receivables in respect of existing customers	(75.4)
– cash restitution to customers, higher expected future complaints costs, expenses and fine	(96.7)
Total Vanquis Bank	(172.1)
Estimated costs arising from the FCA investigation at Moneybarn:	
– balance reduction applied to receivables in respect of existing customers	(12.1)
– cash restitution to customers, fine and other expenses	(7.9)
Total Moneybarn	(20.0)
Costs in respect of the migration to the new home credit operating model:	
– redundancy, retention, training and consultancy costs	(32.5)
Total CCD	(32.5)
Total exceptional items	(224.6)

On 27 February 2018, a resolution was reached with the FCA in respect of their investigation into ROP in Vanquis Bank. 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. A settlement has been reached with the FCA to refund those customers with the interest element of ROP charges in the period between inception of the product in 2003 and the communication to ROP customers which was conducted in December 2016. The total estimated cost of settlement amounts to £172.1m and comprises: (i) restitution to customers of £127.1m, comprising balance reductions to existing customers of £75.4m, being a gross balance reduction of £90.1m less release of impairment provisions of £14.7m, and cash settlements to customers of £51.7m; (ii) higher expected forward flow of ROP complaints more generally in respect of which compensation may have to be paid of £30.7m; (iii) administration costs of £12.3m; and (iv) the fine levied by the FCA of just under £2.0m. The release of impairment provisions of £14.7m has been reflected as a credit to impairment with the remaining estimated costs of £186.8m being reflected within administrative and operating costs.

The FCA investigation into affordability, forbearance and termination options in Moneybarn is continuing. Based on the work undertaken to date and the status of discussions with the FCA, the estimated cost of restitution and fine is estimated to be £20.0m of which £12.1m, comprising a gross balance reduction of £32.5m less release of impairment provisions of £20.4m, has been reflected as a reduction in receivables and £7.9m has been reflected as a provision in the 2017 year-end balance sheet. The release of impairment provisions of £20.4m has been reflected as a credit to impairment with the remaining estimated costs of £40.4m being reflected within administrative and operating costs.

Costs of £32.5m have been incurred in 2017 in respect of the migration to the new home credit operating model and subsequent implementation of the recovery plan to re-establish relationships with customers and stabilise the operation following the poor execution of the migration. The costs comprise redundancy, retention, training and consultancy costs which are stated 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 8).

2. Segment reporting (continued)

A net exceptional credit of £17.3m was recognised in 2016 comprising an exceptional gain of £20.2m in respect of Vanquis Bank's interest in Visa Europe following completion of Visa Inc.'s acquisition of Visa Europe on 21 June 2016 and an exceptional impairment charge of £2.9m in respect of glo's IT platform within CCD following the decision to develop guarantor loans as part of the wider Vanquis Bank loans proposition on a separate IT platform.

All of the above activities relate to continuing operations. Revenue between business segments is not material.

	Segment assets		Net assets	
	2017	2016	2017	2016
	£m	£m	£m	£m
Vanquis Bank	1,854.5	1,624.1	295.4	379.9
CCD	454.4	644.9	180.1	155.2
Moneybarn	393.5	321.5	42.7	36.3
Central	81.6	304.2	16.9	218.7
Total before intra-group elimination	2,784.0	2,894.7	535.1	790.1
Intra-group elimination	181.9	(68.1)	-	-
Total group	2,965.9	2,826.6	535.1	790.1

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing the borrowings of CCD to reflect a borrowings to receivables ratio of 75%, in line with the group's revised minimum regulatory capital requirement (prior to 2017, a borrowings to receivables ratio of 80% was used, equivalent to a gearing ratio of 3.5 times). The impact of this is a reduction in the notional allocation of group borrowings to CCD of £181.9m (2016: increase of £68.1m) and an equivalent reduction (2016: increase) in the notional cash allocated to central activities of the same amount. Historically, the notional allocation has been to increase the borrowings of CCD. However, following the significant losses incurred by CCD during 2017 the notional allocation is a reduction for the first time. The intra-group elimination adjustment removes the notional allocation to state borrowings and cash on a consolidated group basis.

3. Tax charge

The tax charge in the income statement is as follows:

	2017	2016
	£m	£m
Current tax:		
– UK	(5.1)	(79.4)
– overseas	(0.2)	(0.6)
Total current tax	(5.3)	(80.0)
Deferred tax	(6.7)	(1.0)
Impact of change in UK tax rate	0.6	-
Total tax charge	(11.4)	(81.0)

The tax credit in respect of the exceptional costs in 2017 amounts to £3.8m and represents: (i) tax relief of £12.5m in respect of the exceptional restructuring costs in CCD, the estimated balance reductions and restitution payable to Moneybarn customers and the settlement administration costs in Vanquis Bank; net of (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to Vanquis Bank customers which are treated as bank compensation payments and the release of the impairment provision.

The tax charge in respect of the exceptional gain in 2016 amounted to £5.1m and represents a £5.7m tax charge on the disposal of Vanquis Bank's interest in Visa Europe Limited at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 28% and a tax credit of £0.6m relating to tax relief for the impairment of glo intangible assets at the mainstream UK corporation tax rate of 20%.

The tax credit in respect of the amortisation of acquisition intangibles amounts to £1.4m (2016: £1.5m).

3. Tax charge (continued)

The effective tax rate for 2017, prior to the amortisation of acquisition intangibles and exceptional items, is 15.1% (2016: 23.2%). The decrease in the rate reflects a tax credit in respect of prior years, including a release of part of the provision for uncertain tax liabilities, net of the impact of the bank corporation tax surcharge of 8% which came into effect on 1 January 2016 and applies to Vanquis Bank's taxable profits in excess of £25m.

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015, changes were also enacted reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In 2016, a further change was enacted, which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2017 have been measured at 17% (2016: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2016: 25%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2016: 1 April 2020). In 2017, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.25% (2016: 20.00%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.25% (2016: 28.00%). A tax credit of £0.6m (2016: £nil) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax credit of £0.3m (2016: £0.6m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

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

	2017 £m	2016 £m
Deferred tax (charge)/credit on fair value movements in available for sale investment	(0.4)	4.7
Deferred tax charge on fair value movements in cash flow hedges	-	(0.1)
Deferred tax charge on actuarial movements on retirement benefit asset	(3.4)	-
Tax (charge)/credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	(3.8)	4.6
Impact of change in UK tax rate	0.3	0.6
Total tax (charge)/credit on items taken directly to other comprehensive income	(3.5)	5.2

The £4.7m deferred tax credit in 2016 on the available for sale investment represents the reversal of the £4.8m deferred tax charge in 2015, reflecting the sale of Vanquis Bank's interest in Visa Europe Limited in the year, net of a deferred tax charge of £0.1m arising on the movement in the valuation of the Visa Inc. preferred stock between its acquisition and the end of the year. The £0.4m deferred tax charge on the available for sale investment in 2017 represents the deferred tax at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the change in the valuation of the Visa Inc. preferred stock during the year.

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

	2017 £m	2016 £m
At 1 January	(10.7)	(14.9)
Charge to the income statement	(6.7)	(1.0)
(Charge)/credit on other comprehensive income prior to impact of change in UK tax rate	(3.8)	4.6
Impact of change in UK tax rate:		
– credit to the income statement	0.6	-
– credit to other comprehensive income	0.3	0.6
At 31 December	(20.3)	(10.7)

3. Tax charge (continued)

The rate of tax charge on the loss (2016: profit) before taxation for the year is higher than (2016: higher than) the average rate of mainstream corporation tax in the UK of 19.25% (2016: 20.00%). This can be reconciled as follows:

	2017 £m	2016 £m
(Loss)/profit before taxation	(123.0)	343.9
(Loss)/profit before taxation multiplied by the average rate of mainstream corporation tax in the UK of 19.25% (2016: 20.00%)	23.7	(68.8)
Effects of:		
– benefit of lower tax rates overseas	0.1	0.4
– adjustment in respect of prior years	22.5	3.9
– write off of deferred tax asset on share-based payments	(0.9)	-
– non-deductible general expenses	(0.2)	(0.2)
– tax rate difference on tax losses carried back to prior years	0.6	-
– impact of change in UK tax rate	0.6	-
– non-deductible bank compensation expenses	(35.3)	-
– additional 10% of bank compensation expenses	(3.5)	-
– non-deductible fines and expenses	(1.2)	-
– impact of bank corporation tax surcharge	(17.8)	(16.3)
Total tax charge	(11.4)	(81.0)

The profits of the home credit business in the Republic of Ireland have been taxed at the Republic of Ireland statutory tax rate of 12.5% (2016: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.25% (2016: 20.00%) giving rise to a beneficial impact on the group tax charge of £0.1m (2016: £0.4m).

The £22.5m credit (2016: £3.9m credit) in respect of prior years represents the benefit of settling historic tax liabilities, securing tax deductions for employee share awards which are higher than those originally anticipated and the release of part of the provision for uncertain tax liabilities which is no longer required.

Deferred tax assets are typically recognised on share-based payment charges on the basis that these represent a good estimate of the tax relief that will be available when the share awards vest. The write off of the deferred tax asset of £0.9m (2016: £nil) represents the reduction in tax relief expected to arise because of the reduction in the share price, where such reduction in share price has not been reflected through the share-based payments charges.

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

The settlements payable to Vanquis Bank customers following the resolution with the FCA are in accordance with the bank compensation provisions which apply to banking companies, and are non-deductible in computing Vanquis Bank's profits for tax purposes. This gives rise to an adverse impact on the tax charge of £35.3m (2016: £nil). It also gives rise to an additional 10% deemed taxable receipt under the bank compensation provisions which is intended to equate to a disallowance of the administration costs associated with the compensation. This gives rise to a further adverse impact on the tax charge of £3.5m. As Moneybarn is not a banking company, the bank compensation provisions do not apply to the estimated restitution payable to Moneybarn customers.

The actual and estimated fines levied by the FCA and certain other expenses are not tax deductible for both Vanquis Bank and Moneybarn. This gives rise to an adverse impact on the tax charge of £1.2m (2016: £nil).

The adverse impact of the bank corporation tax surcharge amounts to £17.8m (2016: £16.3m) and represents tax at the bank corporation tax surcharge rate of 8% on Vanquis Bank's taxable profits in excess of £25m where taxable profits are calculated after adding back bank compensation payments, the 10% deemed taxable receipt, the FCA fine and other add backs.

4. (Loss)/earnings per share

Basic (loss)/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, adjusted for treasury shares (own shares held). Diluted (loss)/earnings per share calculates the effect on (loss)/earnings per share assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

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

(ii) For share options outstanding under non-performance related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares.

Potential ordinary shares should be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share. As the group has reported a basic loss per share in 2017, the dilutive effect of share options and awards has been removed.

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

	2017 (Loss)/ earnings £m	2017 Weighted average number of shares m	2017 Per share amount pence	2016 Earnings £m	2016 Weighted average number of shares m	2016 Per share amount pence
(Loss)/earnings per share						
Shares in issue during the year		148.1			147.6	
Own shares held		-			(3.0)	
Basic (loss)/earnings per share	(134.4)	148.1	(90.7)	262.9	144.6	181.8
Dilutive effect of share options and awards	-	-	-	-	1.5	(1.9)
Diluted (loss)/earnings per share	(134.4)	148.1	(90.7)	262.9	146.1	179.9

The Directors have elected to show an adjusted (loss)/earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn on 20 August 2014 and prior to exceptional items (see note 2). This is presented to show the (loss)/earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted (loss)/earnings per share to adjusted basic and diluted earnings per share is as follows:

4. (Loss)/earnings per share (continued)

	2017 (Loss)/ earnings £m	2017 Weighted average number of shares m	2017 Per share amount pence	2016 Earnings £m	2016 Weighted average number of shares m	2016 Per share amount pence
Basic (loss)/earnings per share	(134.4)	148.1	(90.7)	262.9	144.6	181.8
Amortisation of acquisition intangibles, net of tax	6.2	-	4.2	6.0	-	4.1
Exceptional items, net of tax	220.8	-	149.0	(12.2)	-	(8.4)
Adjusted basic earnings per share	92.6	148.1	62.5	256.7	144.6	177.5
Basic (loss)/earnings per share	(134.4)	148.1	(90.7)	262.9	144.6	181.8
Dilutive effect of share options and awards	-	0.8	0.4	-	1.5	(1.9)
Diluted (loss)/earnings per share	(134.4)	148.9	(90.3)	262.9	146.1	179.9
Amortisation of acquisition intangibles, net of tax	6.2	-	4.2	6.0	-	4.2
Exceptional items, net of tax	220.8	-	148.3	(12.2)	-	(8.4)
Adjusted diluted earnings per share	92.6	148.9	62.2	256.7	146.1	175.7

5. Dividends

		2017 £m	2016 £m
2015 final	- 80.9p per share	-	117.8
2016 interim	- 43.2p per share	-	62.8
2016 final	- 91.4p per share	133.4	-
Dividends paid		133.4	180.6

Following the significant deterioration in home credit trading, the proposed interim dividend for 2017 of 43.2p (2016: 43.2p) was withdrawn on 22 August 2017 in order to retain liquidity and balance sheet stability. At the same time, the Board indicated that it was unlikely that a final dividend (2016: 91.4p) would be paid and subsequently confirmed this at the third quarter trading update.

6. Other intangible assets

	2017			2016		
	Acquisition intangibles £m	Computer software £m	Total £m	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	75.0	72.4	147.4	75.0	59.6	134.6
Additions	-	20.5	20.5	-	12.8	12.8
Disposals	-	(0.8)	(0.8)	-	-	-
At 31 December	75.0	92.1	167.1	75.0	72.4	147.4
Accumulated amortisation						
At 1 January	17.5	51.8	69.3	10.0	39.4	49.4
Charged to the income statement	7.5	11.7	19.2	7.5	9.5	17.0
Exceptional impairment charge (note 2)	-	-	-	-	2.9	2.9
Disposals	-	(0.8)	(0.8)	-	-	-
At 31 December	25.0	62.7	87.7	17.5	51.8	69.3
Net book value						
At 31 December	50.0	29.4	79.4	57.5	20.6	78.1
At 1 January	57.5	20.6	78.1	65.0	20.2	85.2

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

7. Amounts receivable from customers

	2017 £m	2016 £m
Vanquis Bank	1,554.7	1,424.7
CCD	390.6	584.8
Moneybarn	364.1	297.3
Total group	2,309.4	2,306.8
Analysed as:		
– due in more than one year	328.2	307.6
– due within one year	1,981.2	1,999.2
Total group	2,309.4	2,306.8

Vanquis Bank receivables comprise £1,538.9m (2016: £1,424.3m) in respect of credit cards and £15.8m (2016: £3.4m) in respect of loans. The balance at 31 December 2017 is stated net of an estimated balance reduction of £75.4m, comprising a gross balance reduction of £90.1m less release of impairment provisions of £14.7m, following the resolution of the FCA investigation into ROP on 27 February 2018 (see note 2).

CCD receivables comprise £352.2m in respect of the Provident home credit business (2016: £560.0m), £35.8m in respect of Satsuma (2016: £18.2m) and £2.6m in respect of the run-off glo (2016: £6.6m).

Moneybarn receivables are stated net of an estimated balance reduction of £12.1m, comprising a gross balance reduction of £32.5m less release of impairment provisions of £20.4m, in respect of the ongoing FCA investigation into affordability, forbearance and termination options (see note 2).

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

	2017 £m	2016 £m
Vanquis Bank	186.6	162.4
Exceptional release of impairment provision as part of balance reduction (see note 2)	(14.7)	-
Total Vanquis Bank	171.9	162.4
CCD	293.5	120.0
Moneybarn	31.1	16.4
Exceptional release of impairment provision as part of balance reduction (see note 2)	(20.4)	-
Total Moneybarn	10.7	16.4
Total group	476.1	298.8

Impairment in Vanquis Bank and Moneybarn is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The Vanquis Bank allowance account as at 31 December 2017 amounted to £288.9m (2016: £261.4m) and the Moneybarn allowance account amounted to £44.4m (2016: £34.1m). Within CCD, impairment is deducted directly from amounts receivable from customers without the use of an allowance account.

8. 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. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the 2015 valuation updated to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

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

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

	2017 £m	2016 £m
Equities	68.7	83.1
Other diversified return seeking investments	75.8	73.9
Corporate bonds	141.6	141.2
Fixed interest gilts	202.9	193.0
Index-linked gilts	341.6	337.4
Cash and money market funds	4.9	1.5
Fair value of scheme assets	835.5	830.1
Present value of defined benefit obligation	(733.2)	(757.7)
Net retirement benefit asset recognised in the balance sheet	102.3	72.4

The amounts recognised in the income statement were as follows:

	2017 £m	2016 £m
Current service cost	(4.2)	(4.0)
Interest on scheme liabilities	(19.1)	(22.3)
Interest on scheme assets	21.1	24.8
Net charge recognised in the income statement before exceptional curtailment credit	(2.2)	(1.5)
Exceptional curtailment credit (note 2)	3.9	-
Net credit/(charge) recognised in the income statement	1.7	(1.5)

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

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

	2017 £m	2016 £m
Fair value of scheme assets at 1 January	830.1	666.4
Interest on scheme assets	21.1	24.8
Actuarial movement on scheme assets	18.2	153.7
Contributions paid by the group	10.7	11.7
Net benefits paid out	(44.6)	(26.5)
Fair value of scheme assets at 31 December	835.5	830.1

8. Retirement benefit asset (continued)

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

	2017 £m	2016 £m
Present value of defined benefit obligation at 1 January	(757.7)	(604.1)
Current service cost	(4.2)	(4.0)
Interest on scheme liabilities	(19.1)	(22.3)
Exceptional curtailment credit (note 2)	3.9	-
Actuarial movement on scheme liabilities	(0.7)	(153.8)
Net benefits paid out	44.6	26.5
Present value of defined benefit obligation at 31 December	(733.2)	(757.7)

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

	2017 %	2016 %
Price inflation – RPI	3.20	3.25
Price inflation – CPI	2.10	2.15
Rate of increase to pensions in payment	2.95	3.00
Inflationary increases to pensions in deferment	2.10	2.15
Discount rate	2.40	2.55

A 0.1% change in the discount and inflation rates would change the present value of the defined benefit obligation by approximately £14m (2016: £15m) and £6m (2016: £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 Continuous Mortality Investigation (CMI) 2015 model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
	2017 years	2016 years	2017 years	2016 years
Current pensioner aged 65	21.4	21.8	22.9	23.3
Current member aged 45 from age 65	22.9	23.5	24.5	25.2

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £30m (2016: £30m).

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

	2017 £m	2016 £m
Actuarial movements on scheme assets	18.2	153.7
Actuarial movements on scheme liabilities	(0.7)	(153.8)
Actuarial movements recognised in the statement of comprehensive income in the year	17.5	(0.1)

9. Available for sale investments

	2017	2016
	£m	£m
Visa shares	9.9	8.0
Government gilts	35.9	-
Total available for sale investments	45.8	8.0

Visa 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. Following completion of the transaction in the first half of 2016, the gain of £17.5m taken through equity in 2015 in respect of the Visa Europe shares was recycled through the income statement together with the £2.7m movement in the fair value of the consideration between the 2015 year end and completion of the transaction resulting in an exceptional gain on disposal of £20.2m.

The movement in the fair value of Visa shares in 2017 of £1.9m has been reflected in the statement of comprehensive income in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates.

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.

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 3 months and are therefore disclosed as an available for sale investment. Vanquis Bank's total liquid assets buffer and other liquid resources, including £227.5m held in cash and cash equivalents, held in accordance with the PRA's liquidity regime amounted to £263.4m at 31 December 2017 (2016: £168.9m).

10. Provisions

	2017	2016
	£m	£m
At 1 January	-	-
Created in the year	104.6	-
At 31 December	104.6	-

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. A settlement has been reached with the FCA to refund those customers with the interest element of ROP charges in the period between inception of the product in 2003 and the communication to ROP customers which was conducted in December 2016. The total estimated cost of settlement amounts to £172.1m and comprises: (i) restitution to customers of £127.1m comprising balance reductions to existing customers of £75.4m and cash settlements of £51.7m; (ii) higher expected forward flow of ROP complaints more generally in respect of which compensation may need to be paid of £30.7m; (iii) administration costs of £12.3m; and (iv) the fine levied by the FCA of just under £2.0m. The balance reductions of £75.4m have been applied to amounts receivable from customers at 31 December 2017 with the remaining estimated cost of £96.7m being recognised as a provision at 31 December 2017. The estimated costs of the balance reductions, cash settlements and fine are based on the settlement agreement with the FCA. The provision in respect of anticipated future claims in respect of ROP complaints more generally represents management's best estimate of the group's liability for customer restitution costs based on: (i) the total number of complaints that the group may receive; (ii) the proportion that may result in restitution; and (iii) the average cost of restitution. The timing of the resulting economic outflows is uncertain and will depend on, but not limited to, whether the claims will be made and the timing of any claims. A 10% increase/decrease in the number of expected claims would result in a +/- £3m impact on the provision for future claims. Provisions in respect of the expected costs of administering the restitution programme are based on management's best estimates, taking into account the level of the restitution programme and the current cost base of Vanquis Bank.

Moneybarn continues to cooperate with the FCA with its ongoing investigation into affordability, forbearance and termination options. Management's best estimate in respect of the potential liability in respect of the investigation, based on the work of external consultants and management's own analysis of potentially affected customers within the areas being investigated, is estimated to be £20.0m. This comprises £12.1m in respect of balance reductions to existing customers and £7.9m in respect of potential cash restitution, administration costs and an FCA fine. The balance reductions of £12.1m have been applied to amounts receivable from customers at 31 December 2017 with the remaining estimated costs of £7.9m being recognised as a provision at 31 December 2017.

11. Reconciliation of (loss)/profit after taxation to cash generated from operations

	2017 £m	2016 £m
(Loss)/profit after taxation	(134.4)	262.9
Adjusted for:		
– tax charge (note 3)	11.4	81.0
– finance costs	77.0	81.7
– share-based payment (credit)/charge	(3.4)	10.9
– retirement benefit charge prior to exceptional curtailment credit (note 8)	2.2	1.5
– exceptional curtailment credit (note 8)	(3.9)	-
– amortisation of intangible assets	19.2	17.0
– exceptional amortisation of intangible assets (note 2)	-	2.9
– exceptional gain on available for sale investment (note 9)	-	(20.2)
– depreciation of property, plant and equipment	9.3	8.7
– loss on disposal of property, plant and equipment	0.6	0.5
Changes in operating assets and liabilities:		
– amounts receivable from customers	(90.1)	(290.1)
– exceptional balance reductions applied to amounts receivables from customers (note 2)	87.5	-
– trade and other receivables	(8.1)	(2.8)
– trade and other payables	10.8	5.5
– provisions (note 10)	104.6	-
– contributions into the retirement benefit scheme (note 8)	(10.7)	(11.7)
Cash generated from operations	72.0	147.8

12. Events after the balance sheet date

The group reached resolution on 27 February 2018 with the FCA on the investigation into ROP within Vanquis Bank and continues to cooperate with the FCA in respect of its ongoing investigation into affordability and forbearance at Moneybarn. The total cost of settlement is estimated to be £172.1m in respect of the Vanquis Bank investigation and £20.0m in respect of the Moneybarn investigation.

The aggregate payments agreed to be made by Vanquis Bank in respect of the FCA investigations and the estimated cost in respect of Moneybarn has materially adversely impacted both Vanquis Bank's and the group's regulatory capital. As a result, the group has concluded that it is necessary action to raise additional capital of £300m (gross proceeds of £331m net of expenses of £31m) by way of a proposed rights issue to meet the costs of resolving the investigations, restore the group's prudent capital position, seek to maintain the group's investment grade rating and re-establish normal access to funding from the bank and debt capital markets. The proposed rights issue is expected to complete in April 2018 and has been fully underwritten subject to customary conditions.

During February 2018, the group took the following actions in respect of its funding and capital position, prior to the launch of the proposed rights issue:

- 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 has been temporarily reduced from £400m to £375m at 31 December 2017 and 31 March 2018, the net worth excluding Vanquis Bank covenant has been temporarily reduced from £155m to £100m at 31 December 2017 and 31 March 2018 and the interest cover covenant has been temporarily reduced from 2.0 times to 1.25 times for the 12 months ending 31 March 2018 and 30 June 2018. These amendments and waivers will cease to have effect if the proposed rights issue were not to proceed and complete.
- Arranged an £85m bridge facility with Barclays Bank plc and JP Morgan Securities plc. The bridge facility will be used to provide sufficient funds to allow Vanquis Bank to draw down £85m under an intercompany term loan between Provident Financial plc and Vanquis Bank, providing Vanquis Bank with an additional £85m of funding which Vanquis Bank intends to hold as additional liquid resources. At the same time, committed headroom under an existing intercompany facility was cancelled and will, in the future, reduce the reliance of Vanquis Bank on Provident Financial plc. Subject to the success of the proposed rights issue, the net proceeds of £300m will be received on 12 April 2018 and £85m of the proceeds will be used to repay the bridge facility. £50m of the proceeds will be injected into Vanquis Bank via a subscription of equity. The capital injection will be used by Vanquis Bank, together with its cash and additional borrowings from retail depositors, to pay for the costs of resolving the FCA's investigation into ROP. Subject to regulatory approval and the liquidity profile of Vanquis Bank continuing to be satisfactory, Vanquis Bank intends to repay the intercompany loan facility provided by Provident Financial by 2019 and be fully funded through retail deposits thereafter.
- Shared a revised capital plan with the PRA which has resulted in an increase in the group's regulatory capital requirement, primarily due to an increase of approximately £100m in respect of conduct and operational risk assessments. In finalising its new capital plan reflecting its current and expected capital requirements, the group has taken into account, amongst other things: (i) the receipt of £300m net proceeds from the proposed rights issue; (ii) the group's revised dividend policy and estimated future levels of dividends to be paid by the company and Vanquis Bank; (iii) the estimated payments to be made in connection with Vanquis Bank's settlement with the FCA in connection with ROP; (iv) Moneybarn's estimated liability in connection with the FCA's investigation; (v) the amendment and waiver of certain covenants under the syndicated revolving bank facility and M&G term loan; and (vi) management actions planned and proposed to be taken.

Information for shareholders

1. The 2017 annual report and financial statements together with the notice of the annual general meeting will be posted to shareholders on or around 12 March 2018.

2. The annual general meeting will be held on 9 May 2018 at the head office of Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.