Provident Financial plc
Preliminary results for the year ended 31 December 2019

Provident Financial plc ('Provident Financial' or 'the group') is the leading specialist provider of credit products which provide financial inclusion for those consumers who are not well-served by mainstream lenders. The group serves 2.3 million customers and its operations consist of Vanquis Bank, Moneybarn and the Consumer Credit Division (CCD), comprising Provident home credit and Satsuma.

Group highlights

Continued good operational and financial recovery of the group underpins the Board's 150% increase in total dividend

- Group adjusted profit before tax up 1.6% to £162.6m (2018 (restated[1]): £160.1m), as the business continues to adapt to the evolving regulatory environment and successfully defended the hostile NSF bid.
- Statutory profit before tax up 32.4% to £128.8m (2018 (restated[1]): £97.3m), reflecting lower exceptional costs.
- Strategic initiatives outlined at the Capital Markets Day in November are well underway to deliver the group's 'Vision for the Future' and financial targets.
- Agreement of a £275m bilateral securitisation facility in early January 2020 to fund Moneybarn's business flows.
- ROP refund programme at Vanquis Bank and FCA investigation at Moneybarn both now complete.
- Regulatory capital headroom of approximately £90m at 1 January 2020[4].
- The Board proposes a final dividend of 16.0p per share (2018: 10.0p), up 60.0% on 2018.
- Total dividend per share of 25.0p per share (2018: 10.0p), up 150% on 2018, and representing dividend cover of 1.9 times (2018 (restated): 4.9 times).

	2019	2018 (restated[1])	Change
Adjusted profit before tax	£162.6m	£160.1m	1.6%
Amortisation of acquisition intangibles	(£7.5m)	(£7.5m)	-%
Exceptional items[2]	(£26.3m)	(£55.3m)	52.4%
Statutory profit before tax	£128.8m	£97.3m	32.4%
Adjusted basic earnings per share[3]	47.3p	48.7p	(2.9%)
Basic earnings per share	33.3p	27.3p	22.0%
Final dividend per share	16.0p	10.0p	60.0%
Total dividend per share	25.0p	10.0p	150.0%

Malcolm Le May, Group Chief Executive, commented:

"I am pleased with both the group's operational and financial performance in 2019 and the momentum behind our strategic initiatives as we enter 2020. We have delivered an increase in profits as we have continued to adapt our businesses and culture to changing customer needs and the evolving regulatory environment.

As a result of our good progress and the group's strong funding and capital positions, the Board proposes a final dividend of 16.0p per share, which represents a 150% increase in the total dividend in 2019 and a dividend cover of 1.9 times as we progress towards our dividend cover target of at least 1.4 times.

All of our businesses have progressively tightened underwriting over the last two years and we have built good momentum entering 2020 as we continue to adapt the group to the evolving regulatory landscape and to meet our customers' needs. We are making good progress towards the medium-term financial targets set out at our Capital Markets Day in November."

Divisional highlights

Vanquis Bank results in line with plan as it recalibrates the business model to changing regulation and customer needs

- As expected, Vanquis Bank's adjusted profit before tax reduced by 9.1% to £173.5m (2018 (restated[1]): £190.9m), primarily reflecting the previously guided reduction in ROP income.
- Statutory profit before tax reduced by a lower amount of 2.6% to £185.9m (2018 (restated[1]): £190.9m), mainly due to an exceptional provision release of £14.2m (2018: £nil) in respect of the ROP refund programme.
- New customer account bookings of 369,000, 3,000 higher than 2018 and ahead of management's plans, despite tighter underwriting and the impact of revised affordability processes in line with regulatory requirements.
- Improvement in the impairment rate[5] from 16.0% in 2018 to 13.6% in 2019, reflecting an improvement in delinquency trends due to tighter underwriting.
- Strong focus on cost efficiency resulted in the cost base remaining flat on 2018.
- Refreshed and strengthened Vanquis Bank management team under the leadership of the new Managing Director, Neil Chandler, who joined the business in April 2019.

Moneybarn continues to deliver strong growth in new business and receivables

- Adjusted profit before tax up 10.0% to £30.9m (2018: £28.1m), reflecting continued strong growth.
- Statutory profit before tax up by a higher level of 19.2% to £33.5m (2018: £28.1m), due to an exceptional provision release of £2.6m (2018: £nil) following completion of the FCA investigation.
- Demand for used cars has remained robust which, together with an improved customer experience, has resulted in strong growth in new business volumes of 30% and receivables growth of 20.6% to just over £500m.
- Impairment rate[5] broadly unchanged at 8.6% (2018 (restated): 8.7%) with underwriting tightened in response to a modest increase in defaults following the stronger than forecast growth during the year.

CCD finished 2019 strongly and is well-placed to deliver a break-even result in 2020

- Significant reduction of 46.3% in adjusted loss before tax to £20.8m (2018: loss before tax of £38.7m), reflecting continued improvement in new customer acquisition, collections performance and cost efficiency.
- Statutory loss before tax reduced by 48.7% to £35.2m (2018: loss before tax of £68.6m), after taking account of exceptional costs of £14.4m (2018: £29.9m) in respect of the ongoing turnaround of CCD.
- Reduction in customer numbers and receivables beginning to stabilise, ending the year at 522,000 (2018: 560,000) and £249.0m (2018: £292.5m) respectively.
- Reduction in the cost base of 14.1% in 2019 reflects the impact of headcount reductions and tight cost control over the last two years which has resulted in the annualised cost run rate entering 2020 at around £200m.
- The trial of Provident Direct, a hybrid product leveraging both home credit and Satsuma capabilities, has progressed well and roll-out of the new product has commenced.

Enquiries:

Media

Richard King, Provident Financial	01274 351 900
Nick Cosgrove/Simone Selzer, Brunswick	020 7404 5959

Investor Relations

Gary Thompson/Vicki Turner, Provident Financial	01274 351 900

investors@providentfinancial.com

[1] *2018 comparatives have been restated for: (i) the change in treatment of directly attributable acquisition costs in Vanquis Bank following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profit before tax compared with previous plans; and (ii) the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn which have resulted in a reduction in revenue, impairment and administrative and operating costs but have had no impact on Moneybarn's profits. See note 2 to the financial information.*

[2] *Exceptional items in 2019 represent net exceptional charges of £26.3m (2018: exceptional charges of £55.3m) comprising: (i) £23.8m (2018: £nil) of defence costs associated with Non-Standard Finance plc's (NSF's) unsolicited offer for the group; (ii) £19.3m (2018: £29.9m) of restructuring costs, primarily in respect of the ongoing turnaround of the home credit business in CCD following the migration to the employed operating model in July 2017; (iii) a credit*

of £14.2m (2018: £nil) in Vanquis Bank in respect of the release of provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally; and (iv) a credit of £2.6m (2018: £nil) in Moneybarn in respect of the release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options. Exceptional costs in 2018 also included £18.5m in respect of the refinancing of the senior bonds maturing in October 2019 and £6.9m of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018. See note 3 to the financial information.

[3] *Profit after tax, prior to the amortisation of acquisition intangibles and exceptional items, divided by the weighted average number of shares in issue.*

[4] *Regulatory capital headroom against the group's Total Capital Requirement (TCR) of 25.5% at 31 December 2019 was approximately £117m, prior to the third year transitional impact of IFRS 9 on 1 January 2020 of £28m.*

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

Note:

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

No statement in this announcement is intended as a profit forecast or estimate for any period. No statement in this announcement should be interpreted to indicate a particular level of profit and, as a consequence, it should not be possible to derive a profit figure for any future period from this announcement.

Chief Executive's review

Introduction

Provident Financial is the market leader in helping the underserved access finance, as we have been for the past 140 years. We are excited about using our market-leading proposition as a platform for growth to provide more and better customer propositions. Growth can, and will, be achieved by attracting new customers, by launching new products as demanded by our customers, and by expanding into new markets. This is our Vision for the Future as we set out at our Capital Markets Day (CMD) in November 2019.

Our market

There are approximately 10 to 12 million adults in the UK, or 1 in 5 of the adult population, who are not well served by mainstream lenders. The market is reasonably dynamic with 1.5 to 2 million consumers moving in and out of it each year and it is often counter-cyclical with the number of consumers increasing during and immediately following a downturn as prime lenders tighten their risk appetite. Provident Financial is the biggest provider of consumer finance in this market and has 2.3 million customers.

There are no high street banks in our market, nor do we believe the more established banks have any desire to enter the space with a material presence. The more stringent regulatory environment requires companies to operate at much higher standards of compliance with positive customer outcomes a priority, which we fully support. To operate at these standards requires scale and smaller companies find this environment tougher to operate within. With our market-leading position, Provident Financial has a platform to deliver attractive and sustainable growth.

Our businesses, products and customers

We operate through three divisions: Vanquis Bank, which provides credit cards, loans and savings products; Moneybarn, which provides vehicle finance; and CCD, which comprises Provident home credit and Satsuma digital loans. Each of our businesses seeks to lend responsibly and has a tailored business model and product suite for underserved customers.

Though served by different products from different divisions, our customers have common traits. They manage their everyday lives on low to average incomes; they may have irregular or variable earnings; they are often new to credit in the UK and have little or no credit history; or they may have experienced a significant life event, for example divorce or loss of a job. Our customers are also typically less sensitive to changes in economic conditions as they are more used to managing on tight budgets and they have lower levels of debt than prime customers. They are, therefore, often better placed to manage a recession than prime customers which is why our businesses have proven to be resilient during a downturn in economic conditions. Nevertheless, we have progressively tightened underwriting over the last two years to alleviate the impact of any weakening in the UK economy.

Given their circumstances, it is not surprising our customers need a lender to deliver them the tailored products and service they need. Provident Financial is the largest specialist credit provider to this segment of society, and, if companies like us did not exist, alternative customer options would be severely limited.

Adapting to regulation

Regulators have quite rightly had a more intensive focus on customer outcomes recently, which has led to increased regulatory standards. To do business in our markets, and have a sustainable business, stakeholders need to know we operate to both the highest customer conduct rules and with prudence.

Since early 2018, Provident Financial has been at the forefront of changing its business model and approach to evolving sector-wide regulation. We see this as a competitive advantage for us going forward.

There have been a significant number of changes within the group over the last two years in response to the change in regulation and our focus on delivering the right customer outcomes. Provident home credit has changed and adapted to its employed business model, became Financial Conduct Authority (FCA) authorised in late 2018 and implemented the home credit part of the high-cost credit review earlier in 2019. Satsuma has continued to adapt its business model to reflect evolving FCA guidance following the high-cost, short-term credit review. Vanquis Bank has completed its Repayment Option Plan (ROP) remediation programme following the FCA investigation in 2017/2018, has introduced new affordability criteria at the end of 2018, and is on track in implementing measures to meet the new FCA persistent debt requirements. Moneybarn has now completed its customer redress programme and received the final notice following the FCA investigation into affordability, forbearance and termination options. It also does not pay variable commission so will not be impacted by the FCA review into motor finance that came out in the third quarter of 2019.

Regulation will of course continue to evolve in our sector, as it does in all financial sectors. We continue to work with the Financial Ombudsman Service (FOS), particularly in CCD, in respect of any customer complaints referred to them. In addition, we also continue to assist HM Revenue & Customs (HMRC) on its market-wide review of the self-employed status of agents prior to the change in the home credit operating model in 2017.

We believe we are well prepared given the changes we have made and the improved relationships we have with our regulators. Customer outcomes are now front and centre at Provident Financial, which benefits all stakeholders and will help to deliver long-term attractive sustainable growth.

Our Blueprint

Linked closely to regulatory attitudes, we launched a new Blueprint in early 2019 to define our purpose and create a stronger culture across the group. Our purpose sets out what we do for our customers, and why we need to exist. A strong purpose running through the organisation improves the culture and helps deliver the right outcome for customers, and is increasingly an important consideration for all stakeholders.

Our purpose at Provident Financial is: "We help put customers on a path to a better everyday life." This purpose is the guiding principle for everything we do, and we have continued to successfully embed our purpose throughout the group in 2019. Initial key performance indicators have been devised for the Blueprint, are being monitored by the Culture, Customer & Ethics Board committee and are embedded in employee performance objectives.

Our purpose is supported by strategic business drivers and behaviours. These, in combination with our purpose and new culture, help to deliver more sustainable business models, increase customer centricity and unify colleagues, thereby creating a business advantage for Provident Financial.

Our performance in 2019

Despite the distractions of the hostile NSF bid, we have made good operational and financial progress over the last 12 months. Adjusted profit before tax, prior to the impact of the amortisation of acquisition intangibles and exceptional items, of £162.6m was up 1.6% on 2018 (2018 (restated): £160.1m). Statutory profit before tax increased by 32.4% to £128.8m (2018 (restated): £97.3m) due to a reduction in exceptional costs from £55.3m in 2018 to £26.3m in 2019, of which £23.8m related to defending the NSF hostile bid.

Adjusted basic earnings per share, prior to the impact of the amortisation of acquisition intangibles and exceptional items, reduced by 2.9% to 47.3p (2018 (restated): 48.7p) due to the impact of the rights issue shares issued in April 2018. Basic earnings per share of 33.3p increased by 22.0% (2018 (restated): 27.3p) due to lower exceptional costs.

Divisional performance

<u>Vanquis Bank</u>

Vanquis Bank has continued to successfully evolve its business model in 2019, increasing its customer centricity and responding to the regulatory direction of travel. It introduced new measures in relation to the FCA's new persistent debt regime, which are designed to help customers pay debt off faster, pay less in total, and prevent customers getting into persistent debt. We have also made changes to our interest and fees structure, including downwards repricing for around 100,000 customers, and reduced late and over-limit fees. The ROP settlement was successfully completed in the year and we have been able to release, as an exceptional credit, £14.2m of the provisions originally established in 2017.

As expected, the transition to the new regulatory and customer-focused measures has impacted receivables and customer growth in 2019, but puts us in a strong position going forward. The receivables book ended the year 2.2% down on 2018, with customer numbers down 3.0% to 1.7 million. Vanquis Bank continues to proactively support customers meeting the definition of persistent debt and we are on track with our plans set out at the CMD to reduce the level of customers meeting the persistent debt definition as we approach the first 36-month checkpoint in March 2020.

Vanquis Bank's adjusted profit before tax, prior to the impact of exceptional items, of £173.5m was, as expected, 9.1% lower than last year (2018 (restated): £190.9m), mainly due to the £20m reduction in ROP income and 2018 benefiting from the release of £10m of remuneration-related accruals. Statutory profit before tax reduced by a lower amount of 2.6% to £185.9m (2018 (restated): £190.9m), principally due to the impact of the aforementioned exceptional provision release of £14.2m in respect of the ROP refund programme.

The business has already started delivering on the strategic objectives outlined at the CMD which focus on growth, cost efficiency and a number of funding and capital opportunities. Significant progress on these objectives is planned for 2020.

The bank came under new leadership with the appointment of Neil Chandler as Managing Director in the first half of 2019. Neil has made a number of management changes during the second half of 2019 and the business has a stronger leadership team to develop a broader bank offering for the underserved and return the business to profitable growth over the medium term.

<u>Moneybarn</u>

Moneybarn delivered a 10.0% increase in adjusted profit before tax, prior to the impact of exceptional items, to £30.9m (2018: £28.1m). The business has grown its customer numbers, receivables and profits for five consecutive years since its acquisition and the business now serves 77,000 customers with a receivables book of just over £500m. Statutory profit before tax increased by a higher rate of 19.2% to £33.5m (2018: £28.1m), due to an exceptional provision release of £2.6m following completion of the FCA investigation.

The strong growth in 2019 led to a modest pick-up in impairment. However, underwriting standards were quickly tightened and collections processes enhanced early in the fourth quarter and we expect impairments to stabilise in 2020.

Moneybarn successfully moved into a new office in Petersfield which will facilitate the growth plans of the business in the attractive and growing used-car finance sector.

The customer redress in respect of the FCA investigation into affordability, forbearance and termination was completed in 2019 and the final notice was received from the FCA in February 2020. The total cost of the investigation has come in below the £20m provision originally established in 2017 leading to the release, as an exceptional credit, of £2.6m of the provision as noted above.

After 12 years with the business, Moneybarn's Managing Director, Shamus Hodgson, will be stepping down from his role at the end of the first quarter of 2020 to pursue other career opportunities. I would like to thank Shamus for his leadership of Moneybarn over the last three years and for building a strong team to take the business forward as it continues its growth and becomes a larger part of the group. A search for his successor is well underway.

<u>CCD</u>

CCD has made significant operational and financial progress in 2019. The customer base has now started to stabilise at just over 500,000 and the receivables book ended the year at nearly £250m. The adjusted loss before tax, prior to the impact of exceptional items, was significantly reduced by 46.3% to £20.8m (2018: loss before tax of £38.7m) as the business has successfully introduced a new performance management framework and delivered on its cost efficiency programme. The business enters 2020 with an annual run rate cost base of around £200m, down from £260m in late 2017. CCD's statutory loss before tax reduced by 48.7% to £35.2m (2018: loss before tax of £68.6m), after taking account of exceptional costs in respect of the ongoing turnaround of the business.

CCD has successfully tested Provident Direct, which leverages the capabilities in both home credit and Satsuma, with the relationship managed in the home by a Customer Experience Manager (CEM) and payments collected remotely via Continuous Payment Authority (CPA). This product enhancement allows CCD to attract new and former customers of suitable quality who value the face-to-face home relationship but who either do not wish to have a weekly collections visit by a CEM or for whom it is simply inconvenient. The test has demonstrated that there is strong demand for Provident Direct from both the customer and the field force. I am excited about the potential of Provident Direct and it will be rolled out nationally in the UK during 2020.

Satsuma, CCD's online digital lending platform, took the decision to temporarily reduce volumes towards the end of the year as it continues to adapt its business model in line with the evolving dialogue with the FCA. A number of competitors have exited the market and we expect home credit and Satsuma to work more closely together going forward, especially with the roll-out of Provident Direct in 2020.

CCD remains the market leader in the UK and Republic of Ireland home credit markets and is now also a leading player in digital loans within the high-cost, short-term credit market through Satsuma. Our actions over the last two years and our ongoing strategic initiatives mean that we are well placed to return the business to breakeven in 2020 and profitable growth in the medium term.

Our significant growth opportunities

The work on reshaping the group over the last two years under increased regulatory standards means we are well-placed to continue to evolve going forward. Indeed, we see our ability to adapt to the regulatory environment as a competitive advantage and a key underpin of the delivery of sustainable shareholder returns. We now also believe that, following our evolution, we are in a strong position to focus on growth in 2020 and beyond through a number of areas.

Firstly, we firmly believe that we can deliver organic growth in each of our key markets and gain market share, particularly as competitors find it difficult to adapt to increased regulatory standards and scrutiny.

Secondly, our businesses have the opportunity to expand their product range and distribution and increase their digitisation. For example, we will be rolling out Provident Direct in home credit in 2020 as well as launching a pilot of longer, larger digital personal loans in Satsuma towards the end of 2020 as we continue to develop a pathway to cheaper credit for our customers. We are also expanding into other non-mainstream segments, with digital personal loans in Vanquis Bank and near-prime motor finance in Moneybarn.

Thirdly, we are ensuring that Vanquis Bank and Moneybarn work much more closely together in developing a number of these areas to deliver increased synergies.

Provident Financial is the market leader in a large market, where there are clear opportunities to grow customers, market share, product, distribution, and move into new market segments. There are very few financial services companies out there that have this opportunity set, and we have built a management team with the appropriate skills which is committed to delivering our vision.

Capital, funding and cost efficiency

Capital, funding and cost efficiency will also play a part in delivering better customer propositions and sustainable returns for shareholders. The composition of our returns is changing due to lower revenue yields across our sector. Our response has been to tighten underwriting to improve quality and lower impairment, and we have also taken action to reduce the cost base by 7.5% in 2019. In addition, the group has historically focused primarily on the assets side of the balance sheet and we see an opportunity on the liability side which will support delivery of our target returns to shareholders.

The group's CET1 ratio at the end of 2019 was 30.7% which provides headroom of approximately £117m compared with the fully loaded minimum regulatory capital requirement of 25.5%. The headroom reduced to approximately £90m on 1 January 2020 following the third year transitional impact of IFRS 9 and this level is consistent with the Board's risk appetite of maintaining regulatory capital headroom in excess of £50m and progressively absorbing the remaining transitional impact of IFRS 9 on regulatory capital by 1 January 2023. The group's next capital review (C-SREP) with the Prudential Regulation Authority (PRA) is scheduled for March 2020 with the results expected in the second quarter of the year. The group has a strong capital base and we continue to review options to improve our capital efficiency.

We have made excellent progress in strengthening the group's funding position. In January 2020, the group successfully completed a bilateral securitisation facility to fund Moneybarn business flows. This new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months. After taking account of this securitisation and the ongoing retail deposit programme in Vanquis Bank, the group has sufficient facilities to fund contractual debt maturities and projected growth in the group until mid-2022.

Looking ahead, we have identified a programme of further funding opportunities to diversify our funding sources and ultimately reduce the cost of funding, including potentially funding some of Moneybarn's receivables through retail deposits. By operating an efficient capital and funding structure, we are confident in delivering attractive and sustainable returns for shareholders.

Our medium-term vision to be a broader bank

Our aim in the medium term is to create a bank for the underserved. A market of 12 million customers needs a bank that can cater for all their financial needs.

To do this we are working towards bringing the Provident Financial group and Vanquis Bank closer together. This will take time and will need regulatory approval, and could potentially involve bringing Moneybarn into the bank structure. This would allow Moneybarn to be funded in part through retail deposits which would deliver further funding synergies. CCD remains an important part of the group, but would not naturally sit under a bank umbrella.

This potential new group structure would be optimal for all stakeholders - customers, employees, regulators and shareholders - allowing us to serve more customers with the products and services they need in the most efficient manner.

Our financial targets

As part of our Vision for the Future, we have developed a clear set of financial targets to measure our success. The outcome for our shareholders will be sustainable attractive returns based upon two very clear pillars.

Firstly, we plan to deliver receivables growth within a range of between 5% and 10% per annum over the next five years from a loan book which is currently £2.2 billion. We expect growth to be weighted more towards years three, four and five as our growth initiatives gain traction.

Secondly, through a series of management actions we plan to deliver a reduction in the cost income ratio from 43% in 2019 to 38% by 2022 as previously guided.

As a result, from the current return on equity (ROE) of approximately 18%, we expect to be delivering an ROE within our target range of 20% to 25% in 2021, sooner than the timeframes for the receivables and cost income targets.

Importantly, the returns that we generate will allow us to evolve our dividend cover to at least 1.4 times as the home credit business recovers and returns to profitability.

Chief Financial Officer (CFO)

As we announced in July 2019, Simon Thomas, CFO, informed the Board he was stepping down from the role for personal health reasons following the 2019 preliminary results announcement. Simon has been a great CFO and I would like to thank him for everything he has achieved and wish him all the best for the future.

In December 2019, we announced that Neeraj Kapur will join the Board and replace Simon as CFO on 1 April 2020. Neeraj has deep retail banking, consumer finance and savings experience and expertise, and will be an excellent addition to the senior leadership team as we continue to re-establish Provident Financial as the market-leading lender for the underserved.

Outlook

Our good performance in 2019 means that, despite continuing regulatory headwinds, we are well placed both operationally and financially as we enter 2020.

I am pleased to report that collections performance and impairment trends have remained stable in the important post-Christmas period.

Our focus in 2020 will be on progressing our strategic initiatives outlined in the CMD, in particular rolling out Provident Direct, developing Vanquis Bank loans, delivering funding and capital opportunities, and continuing to improve our cost efficiency through digitisation.

We will be relentless in adapting our businesses to evolving customer needs and working closely with the regulator to ensure that our businesses lead the way in our sector and provide us with a competitive advantage to deliver sustainable returns for our shareholders.

The economic outlook post-Brexit remains uncertain and we need to see the full impact of persistent debt regulation on receivables and impairment in Vanquis Bank. However, our actions in 2019, and our strong funding and capital positions, give me confidence that we will continue to make good progress towards our medium-term financial targets in 2020.

I would like to thank everyone in the group for their hard work throughout 2019 and their continued efforts in helping put our customers on a path to a better everyday life.

Malcolm Le May
Chief Executive Officer
27 February 2020

Financial review

Group performance

The group's 2019 results can be summarised as follows:

	Year ended 31 December 2019	2018 (restated[1])	Change
	£m	£m	%
Adjusted profit/(loss) before tax:			
– Vanquis Bank	173.5	190.9	(9.1)
– Moneybarn	30.9	28.1	10.0
– CCD	(20.8)	(38.7)	46.3
– Central costs	(21.0)	(20.2)	(4.0)
Adjusted profit before tax	162.6	160.1	1.6
Amortisation of acquisition intangibles	(7.5)	(7.5)	-
Exceptional items	(26.3)	(55.3)	52.4
Statutory profit before tax	128.8	97.3	32.4
Receivables	2,212.6	2,204.0	0.4
Cost income ratio[2]	42.8%	42.3%	
Return on assets[3]	7.9%	7.7%	
Return on equity[4]	18.2%	19.1%	
Adjusted basic EPS	47.3p	48.7p	(2.9)
Basic EPS	33.3p	27.3p	22.0
DPS	25.0p	10.0p	150.0

1 *2018 comparatives have been restated for: (i) the change in treatment of directly attributable acquisition costs in Vanquis Bank following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profit before tax compared with previous plans; and (ii) the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn which have resulted in a reduction in revenue, impairment and administration and operating costs but have had no impact on Moneybarn's profits. See note 2 to the financial information.*

2 *Administrative and operating costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.*

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

4 *Adjusted profit after tax as a percentage of average equity (average equity is stated after deducting the pension asset, net of deferred tax) for the 12 months ended 31 December. 2018 average equity has been restated as though the £300m rights issue in April 2018 had occurred on 1 January 2018.*

Group adjusted profit before tax of £162.6m was 1.6% higher than 2018 (2018 (restated): £160.1m). Statutory profit before tax increased by 32.4% to £128.8m (2018 (restated): £97.3m) mainly due to a reduction in exceptional items.

Exceptional items amounted to a net charge of £26.3m in 2019, 52.4% lower than the charge of £55.3m in 2018. The net exceptional charge in 2019 comprised bid defence costs of £23.8m in respect of the NSF unsolicited offer and £19.3m in respect of group restructuring costs, mainly in respect of the ongoing turnaround of the home credit business. These exceptional costs were partly offset by credits totalling £16.8m as a result of the release of provisions established in 2017 following completion of the ROP refund programme at Vanquis Bank (£14.2m) and the FCA investigation at Moneybarn (£2.6m).

Group receivables grew by 0.4% in 2019 (2018 (restated): 4.9%). This was, as expected, a lower level than the medium-term guidance of growth of between 5% and 10% per annum. Vanquis Bank receivables reduced by 2.2% to £1,461.5m (2018: (restated): £1,495.1m) which is consistent with wider industry trends and the impact of persistent debt regulation. Moneybarn receivables continued to show strong growth and were up 20.6% to £502.1m (2018 (restated): £416.4m) whilst CCD receivables are now beginning to stabilise reflecting the ongoing recovery of the home credit business, ending the year down by 14.9% to £249.0m (2018: £292.5m). The group's target is to deliver receivables growth within a range of between 5% and 10% per annum over the next five years with growth more weighted towards years three, four and five as growth initiatives gain traction.

As expected, the group's cost income ratio has shown a modest increase from 42.3% (restated) in 2018 to 42.8% in 2019, notwithstanding the 7.5% reduction in the group's cost base from tight cost control. The increase in the ratio mainly reflects the reduction in revenue at Vanquis Bank from reduced ROP income and the impact of fee changes and downwards re-pricing. The group's target is to deliver a cost income ratio of 38% by 2022 through delivery of a number of growth initiatives across the group together with continued cost efficiency.

The group's ROA has shown a marginal improvement to 7.9%, up from 7.7% (restated) in 2018, mainly due to the reduction in losses in CCD. The group's ROE has, however, moderated from 19.1% (restated) in 2018 to 18.2% in 2019, reflecting the planned retention of equity in line with group's dividend policy - the 2018 final dividend paid in June 2019 was restricted to a nominal dividend as communicated at the time of the right issue. More normalised dividends were resumed with the 2019 interim dividend which was paid in September 2019. The group's medium-term target is to deliver an ROE in the range of between 20% and 25% by 2021.

ROE is the main returns measure used in the banking sector and Vanquis Bank is now by far the biggest contributor to group profits. Accordingly, for both the group as a whole and Vanquis Bank, ROE will be the main measure of returns performance. However, for CCD and Moneybarn, which are capitalised differently, ROA is still considered to be the more appropriate returns measure. Moneybarn and CCD delivering a target ROA of 10% is consistent with the group's ROE targets.

Adjusted basic earnings per share of 47.3p (2018 (restated): 48.7p) reduced by 2.9%, reflecting the impact of the rights issue shares issued in April 2018. Basic earnings per share increased by 22.0% to 33.3p (2018 (restated): 27.3p), despite the impact of the rights issue shares issued in April 2018, reflecting the reduction in exceptional items in the year.

Vanquis Bank – Financial performance

	Year ended 31 December 2019	2018 (restated[1])	Change
	£m	£m	%
Customer numbers ('000)	1,720	1,773	*(3.0)*
Year-end receivables	1,461.5	1,495.1	*(2.2)*
Average receivables[2]	1,459.9	1,507.4	*(3.2)*
Revenue	580.9	644.9	*(9.9)*
Impairment	(198.9)	(241.6)	*17.7*
Revenue less impairment	382.0	403.3	*(5.3)*
Revenue yield[3]	39.8%	42.8%	
Impairment rate[4]	13.6%	16.0%	
Risk-adjusted margin[5]	26.2%	26.8%	
Costs	(177.1)	(176.4)	*(0.4)*
Interest	(31.4)	(36.0)	*12.8*
Adjusted profit before tax	173.5	190.9	*(9.1)*
Exceptional items[6]	12.4	-	*n/a*
Statutory profit before tax	185.9	190.9	*(2.6)*
Cost income ratio[7]	30.5%	27.4%	
Return on assets[8]	10.4%	11.1%	
Return on equity[9]	32.4%	44.0%	

1 *2018 comparatives have been restated for the change in treatment of directly attributable acquisition costs following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profit before tax compared with previous plans. See note 2 to the financial information.*

2 *Average of month-end receivables for the 12 months ended 31 December.*

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

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

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

6 *Represents a net exceptional credit of £12.4m (2018: £nil) comprising: (i) an exceptional credit of £14.2m (2018: £nil) in respect of the release of provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally; and (ii) exceptional restructuring costs of £1.8m (2018: £nil).*

7 *Costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.*

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

9 *Adjusted profit after tax as a percentage of average equity for the 12 months ended 31 December. 2018 average equity has been restated as though the £50m of rights issue proceeds injected into Vanquis Bank in April 2018 had occurred on 1 January 2018.*

Vanquis Bank is a leading specialist in the large and established credit card market. It has a strong capital base and has access to liquid funds through the resilient retail deposit markets. During 2019, Vanquis Bank has continued to make good progress in adapting and changing its business model to changes in regulation and a better understanding of customer needs. As a result, the shape of the income statement is changing, with lower revenue yields being mitigated by lower impairment, increased cost efficiency and managing the balance sheet more effectively to reduce interest costs. Management is making good progress in developing and executing plans to return the business to profitable growth in the medium term with a number of strategic initiatives underway.

Vanquis Bank's adjusted profit before tax reduced by 9.1% to £173.5m in 2019 (2018 (restated): £190.9m). The reduction in adjusted profits mainly reflects the continued moderation in ROP income of approximately £20m and 2018 benefiting from the release of £10m of remuneration-related accruals as a result of the business performing below expectations throughout 2017 and 2018. These adverse variances were partly offset by an improved impairment rate, tight control of costs and a reduction in interest costs. Vanquis Bank's statutory profit before tax reduced by 2.6% to £185.9m (2018 (restated): £190.9m), a lower rate of reduction than adjusted profits. This reflects the benefit of an exceptional provision release of £14.2m (2018: £nil) in respect of the ROP refund programme partly offset by exceptional restructuring costs of £1.8m (2018: £nil).

Demand for Vanquis Bank's credit cards continues to be strong. Despite tighter underwriting standards, including the withdrawal of the 69.9% APR product, and the implementation of revised affordability processes which have reduced new booking volumes by approximately 25%, new customer bookings of 369,000 were 3,000 higher than last year and ahead of management's plans. This reflects the benefit from the implementation of the new underwriting engine towards the end of 2018 which has enabled Vanquis Bank to enhance the customer onboarding journey. This includes the full roll-out of soft search pre-application for all channels and the pre-approval and pre-population for all affiliate channels, both of which have resulted in an improvement in application completion rates.

Despite strong booking volumes, customer numbers ended 2019 at 1,720,000, 3.0% lower than last year (2018: 1,773,000). The year-on-year reduction reflects the closure of approximately 65,000 inactive customer accounts in the fourth quarter in order to manage contingent risk if there is any deterioration in the economic environment and the sale of 56,000 customers on payment arrangements during the year.

Receivables ended 2019 at £1,461.5m, a 2.2% reduction on December 2018 (2018 (restated): £1,495.1m), and compares with management's internal plan of delivering broadly flat receivables in 2019. The reduction is consistent with recent Bank of England industry data showing that credit card customers repaid more than they borrowed in November and December 2019 and, in the case of Vanquis Bank, includes the greater than expected impact of changes in regulation in respect of persistent debt remedies and revised affordability processes.

In response to the FCA's definition of persistent debt within the Credit Card Market Study (CCMS), Vanquis Bank has introduced a number of measures including: (i) increasing minimum payments due in the last quarter of 2018 and communicating higher recommended payments in early 2019; (ii) placing restrictions on the credit line increase programme; and (iii) implementing a number of communication strategies during 2019. At September 2018, approximately 11% of active Vanquis Bank customers were up to date but met the definition of being in persistent debt (including customers in arrears and in payment arrangements this increases to 15% of active customers). The business has been actively working with these customers with a view to removing them from this position in advance of March 2020, which is the first 36-month checkpoint after which customers who still meet the definition of being in persistent debt will be offered a way to repay their balance in a reasonable period of no more than four years. Management anticipates that approximately 2% of the September 2018 cohort of customers will still meet the definition of persistent debt at March 2020. Vanquis Bank continues to proactively work with the remaining customers in advance of March 2020 as well as those customers who have met the definition of being in persistent debt after September 2018.

Vanquis Bank, consistent with the remainder of the group, implemented revised affordability processes in November 2018. Together with the impact of not extending credit to those customers meeting the definition of persistent debt, this has resulted in a reduction in the level of further credit extended to existing customers under the credit line increase programme. Credit line increases in 2019 were approximately 35% lower than in 2018.

Revenue has shown a 9.9% reduction to £580.9m in 2019 (2018 (restated): £644.9m) compared with the 3.2% reduction in average receivables. The revenue yield has moderated from 42.8% (restated) in 2018 to 39.8% in 2019 due to three factors. Firstly, there was a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales from April 2016. This resulted in a year-on-year reduction in ROP income of approximately £20m. Secondly, there has been some further moderation in the interest yield from: (i) a modest increase in the mix of nearer-prime customers; (ii) downwards repricing of higher APR accounts where the customer has improved their credit standing; and (iii) balance reductions applied to accounts as part of the ROP refund programme were typically at higher APRs. Finally, there have been some changes to the basis for charging late and over-limit fees to customer accounts.

The ROP refund programme was completed during March 2019 and the FCA has confirmed that the programme is now closed. There has been no material change in the level of complaints arising in relation to ROP following the announcement of the settlement in February 2018. Accordingly, following completion of the refund programme and a re-evaluation of the forward flow of claims expected in respect of ROP more generally, £14.2m of the provision originally established in 2017 has been released as an exceptional credit in 2019. The remaining provision held in the balance sheet of £11.7m (2018: £45.7m) reflects management's revised expectation of future claims which may arise in respect of ROP more generally together with sundry costs of dealing with those claims.

Delinquency trends showed a favourable movement compared with last year due to a shift in mix towards better quality customers. In addition, the second half of 2018 was adversely impacted by the impact of enhanced forbearance and an increase in minimum payments due in response to persistent debt regulation which resulted in a step-up in payment arrangements which has not been repeated in 2019. Accordingly, the impairment rate in 2019 has reduced to 13.6% of average receivables compared with 16.0% in 2018. Underwriting standards have been progressively tightened over the last two years which, together with the historical resilience of the business model, means that Vanquis Bank is well positioned if there is any deterioration in the UK economic environment.

The risk-adjusted margin has moderated from 26.8% (restated) in 2018 to 26.2% in 2019, reflecting the reduction in the revenue yield substantially offset by the improvement in the impairment rate discussed above.

Costs have shown a modest 0.4% increase to £177.1m in 2019 (2018 (restated): £176.4m) with cost efficiency remaining a strong focus for Vanquis Bank. The stable cost base has been delivered despite 2018 benefiting from the release of approximately £10m in respect of share-based payment, incentive and bonus arrangements as a result of the business performing below expectations throughout 2017 and 2018.

Interest costs of £31.4m have reduced by 12.8% during 2019 (2018: £36.0m) due to the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 3.5% in 2018 to 3.0% in 2019. This reflects the impact of Vanquis Bank repaying its intercompany loan from Provident Financial and becoming fully funded with retail deposits in November 2018. The intercompany loan represented a higher cost of funding for Vanquis Bank.

Vanquis Bank's return on assets has reduced to 10.4% in 2019 (2018 (restated): 11.1%) due to the moderation in the risk-adjusted margin partly offset by cost efficiency. Return on equity has reduced from 44.0% (restated) in 2018 to 32.4% in 2019. This primarily reflects the rebuilding of the equity base following the implementation of IFRS 9 on 1 January 2018 (which resulted in a £111.4m reduction in equity) and the ROP refund provision reflected at the end of 2017 (which resulted in a £178.0m reduction in equity). Vanquis Bank's return on equity is expected to moderate to the group's target range of between 20% to 25% over the medium term reflecting: (i) the average equity base stabilising; and (ii) the risk-adjusted margin reducing to between 23% to 25% due to the ongoing reduction in ROP income and the impact of downwards repricing and fee changes implemented in 2019.

Vanquis Bank paid a dividend to Provident Financial of £80m in February 2020.

Vanquis Bank – Growth initiatives

Vanquis Bank's medium-term target is to deliver £2bn receivables (currently £1.5bn) and an ROE of between 20% to 25%. In addition to growing and developing the core credit cards proposition, the business is pursuing a number of strategic initiatives to deliver these targets:

<u>Loans</u>

The focus of the Vanquis Bank loans proposition has so far remained on providing unsecured loans to existing credit card customers and the loans receivables book ended 2019 at £28.9m (2018: £26.0m). Volumes have been kept at modest levels during 2019 as Vanquis Bank has been preparing for a relaunch of the loans proposition, leveraging the capabilities of both Vanquis Bank and Satsuma, in order to provide a joined-up range of online unsecured lending products. Unsecured loans remains an attractive market for Vanquis Bank to expand into with over £1bn of credit issued each year and approximately 12% of Vanquis Bank customers already having a loan from another provider. To capitalise on this opportunity, a new Director of Loans has been appointed and a new business and financial plan has been developed based on price points up to 59.9%. The medium-term aim is to grow to a receivables book of £150m, based on serving both Vanquis Bank customers and the open market.

White label credit card partnerships

The way in which customers are researching and applying for credit cards is evolving mainly due to digitisation. Growth in traditional direct marketing channels has slowed as more customers are choosing to source credit cards through affiliates and aggregators. Vanquis Bank is very active in this area and has formed strategic distribution partnerships with key players, widening distribution reach and obtaining attractive acquisition costs. There is the opportunity for Vanquis Bank to develop this further by establishing white label credit card partnerships with affiliates, leveraging the affiliates brand and digital marketing specialism with Vanquis Bank's balance sheet, credit decisioning and customer servicing capabilities. Vanquis Bank is working toward launching a new white label partnership in the first half of 2020.

Self-employed ecosystem

Developing a tailored proposition for self-employed consumers also represents an attractive opportunity. There are approximately 5 million adults (and growing) in the UK who are self-employed and Vanquis Bank serves approximately 250,000 of those consumers. Providing the self-employed segment with a distinct card, with attractive and tailored features, represents a good fit with Vanquis Bank's core competencies. The business plans to undertake a test in 2020 and then, subject to satisfactory progress, build out the proposition through 2021 with product enhancements, including the potential to establish a broader, multi-product, self-employed ecosystem, leveraging wider group and third-party partners.

Digitisation

The continuing development of digital capability is an essential driver in delivering good customer outcomes and maintaining the returns of Vanquis Bank in the context of a moderating revenue yield. Vanquis Bank has continued to make good progress in its digitisation programme during 2019. There are now over 1.1 million active users and 85% of new customers register on the Vanquis Bank app. Customers are actively using the app to engage with the business with over 200,000 push notifications being sent out per month and almost £100m of payments being processed via the app. In addition, over 300,000 customers have taken up the option to receive statements via the app rather than receiving the traditional paper copy. Vanquis Bank also successfully introduced a chatbot in March 2019. Historically, one of the most effective channels to contact customers who may be about to miss, or have just missed, payments was via SMS. The chatbot provides a much more interactive way to automate these SMS conversations and now instigates approximately 70% of SMS conversations which has led to improved customer response rates. Both the app and the chatbot are examples of scalable, customer-led concepts that can be developed for wider application and deliver benefits for both the customer, through a better experience, and Vanquis Bank, through cost efficiency. Vanquis Bank's medium-term aim is to deliver operational leverage by maintaining a stable cost base whilst growing the business.

Vanquis Bank – Management changes

Neil Chandler joined Vanquis Bank as Managing Director in April 2019 having previously been the Chief Executive Officer of Shop Direct Financial Services and prior to that the Chief Executive Officer of Sainsbury's Bank. The Vanquis Bank Executive Team has been significantly refreshed and strengthened under Neil's leadership with the appointments of a new Operations Director, Chief Risk Officer, Customer Director, Product Director and a Digital Transformation Director.

Robert East joined as Chairman of Vanquis Bank and a member of the group Board in June 2019. Robert is also Chairman of Skipton Building Society.

Oliver White, Finance Director of Vanquis Bank will be leaving the business to pursue other career opportunities. The Board would like to thank Oliver for his efforts over the last three years in helping reshape Vanquis Bank, commencing the cost efficiency programme and the completion of the ROP refund programme, and wish him all the best in his new role. A search for his successor is underway.

Moneybarn – Financial performance

	Year ended 31 December 2019 £m	2018 (restated)[1] £m	*Change* %
Customer numbers ('000)	77	62	*24.2*
Year-end receivables	502.1	416.4	*20.6*
Average receivables[2]	481.5	395.1	*21.9*
Revenue	122.0	104.3	*17.0*
Impairment	(41.8)	(34.4)	*(21.5)*
Revenue less impairment	80.2	69.9	*14.7*
Revenue yield[3]	25.3%	26.4%	
Impairment rate[4]	8.6%	8.7%	
Risk-adjusted margin[5]	16.7%	17.7%	
Costs	(20.9)	(19.9)	*(5.0)*
Interest	(28.4)	(21.9)	*(29.7)*
Adjusted profit before tax	30.9	28.1	*10.0*
Exceptional items[6]	2.6	-	*n/a*
Statutory profit before tax	33.5	28.1	*19.2*
Cost income ratio[7]	17.1%	19.1%	
Return on assets[8]	10.0%	10.3%	

[1] *2018 comparatives have been restated for the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs which have resulted in a reduction in revenue, impairment and costs but have had no impact on Moneybarn's profits. See note 2 to the financial information.*

[2] *Average of month-end receivables for the 12 months ended 31 December.*

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

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

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

[6] *Represents an exceptional credit of £2.6m (2018: £nil) in respect of the release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options at Moneybarn.*

[7] *Costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.*

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

In the five years since acquisition by Provident Financial, Moneybarn has become one of the largest suppliers of vehicle finance to underserved customers in the UK. The business has a strong track record, delivering high levels of growth and strong returns, and is in an excellent position to continue to deliver profitable growth in the medium term from existing and adjacent markets.

Moneybarn's adjusted profit before tax increased by 10.0% to £30.9m in 2019 (2018: £28.1m). The business has continued to deliver strong new business volumes and receivables growth although profits growth has been impacted by a modest reduction in margins and increased funding costs as Moneybarn has been allocated a more appropriate share of group funding costs in 2019. Moneybarn's statutory profit before tax increased by 19.2% to £33.5m (2018: £28.1m), a higher rate of increase than adjusted profits. This reflects the benefit of an exceptional provision release of £2.6m (2018: £nil) following finalisation of the FCA investigation into affordability, forbearance and termination options.

The non-standard vehicle finance market remains competitive. However, demand for used cars has remained robust and new business volumes have been very strong. Continued development of core broker-introduced distribution channels, including revising affordability processes and a number of other operational developments, has resulted in a better customer experience and reinforced Moneybarn's position amongst its broker network. As a result, new business volumes in 2019 were 30% higher than last year. Due to the particularly strong growth in new business volumes in the first three quarters of the year and the emergence of a modest deterioration in impairment trends, underwriting was tightened early in the fourth quarter to remove the bottom tier of higher-risk customers. Accordingly, fourth quarter volumes showed a lower year-on-year growth rate of 14%. Customer numbers ended the year at 77,000, up from 62,000 at the end of 2018 and showing growth of 24.2%.

Receivables showed strong growth of 20.6% to £502.1m (2018 (restated): £416.4m). This was a lower rate of growth than the 24.2% increase in customer numbers, reflecting the sale of delinquent debt with a modest carrying value in December. This was the first sale of delinquent debt since the commencement of the FCA investigation in 2017.

The redress required to resolve the issues arising in respect of the FCA investigation into affordability, forbearance and termination options was completed in the third quarter of 2019 and Moneybarn received the final notice from the FCA in February 2020. The total cost of the investigation is lower than the original £20m set aside at the end of 2017, and, accordingly, £2.6m of the provision has been released as an exceptional credit in 2019. The remaining provision held in the balance sheet of £2.8m (2018: £7.5m) reflects the cost of the fine based on the final FCA notice.

Revenue has increased by 17.0% to £122.0m (2018 (restated): £104.3m) compared with the growth in average receivables of 21.9%. The revenue yield has reduced from 26.4% (restated) in 2018 to 25.3% in 2019 reflecting the impact of the tightening of underwriting which has removed higher-yielding, lower-quality business and the cessation of charging default fees during 2018.

Default rates and arrears levels were stable in the first three quarters of 2019, continuing the trend experienced since the end of the first quarter of 2018. However, the final quarter of 2019 showed a modest deterioration in impairment trends reflecting: (i) the flow through of higher-risk customers prior to the tightening of underwriting early in the fourth quarter; and (ii) the impact of stronger than forecast growth in new business volumes earlier in the year as Moneybarn's peak in defaults is approximately 9 to 12 months following inception of a loan. Accordingly, Moneybarn's impairment rate of 8.6% in 2019 was in line with last year (2018 (restated): 8.7%), having tracked at a lower rate of around 8% earlier in the year. The tighter underwriting standards being applied throughout the fourth quarter together with improvements in collections processes are expected to stabilise impairment trends in 2020.

The modest fall in the revenue yield and the stable impairment rate has resulted in Moneybarn's risk-adjusted margin reducing from 17.7% (restated) in 2018 to 16.7% in 2019.

Cost growth of 5.0% in 2019 is stated after the benefit from an estimated VAT recovery of £2.0m. Excluding the VAT recovery, cost growth was 15.0%, lower than the growth in revenue of 17.0% as the business has delivered some operational leverage.

Due to the strong growth in the business over recent years, Moneybarn has recently moved into new premises, very close to the existing site in Petersfield. The new office will accommodate up to 420 employees, compared with headcount of 320 currently, and will support growth well into the medium term.

Interest costs have shown growth of 29.7% in 2019, higher than the 21.9% growth in average receivables. This reflects an increase in Moneybarn's group funding rate as the cost of funding the non-bank segment of the group has increased following Vanquis Bank becoming fully funded through retail deposits during the second half of 2018. Moneybarn's funding rate in 2020 will benefit from the recently signed securitisation of its receivables book.

Moneybarn has delivered a return on assets of 10.0% in 2019, marginally lower than 10.3% (restated) in 2018, but in line with the group's target of 10%.

Moneybarn – Growth initiatives

Moneybarn's medium-term target is to deliver £750m receivables (currently £502m) whilst maintaining an ROA of approximately 10%. The business continues to expect continued growth in its core products as the use of car finance on used car purchases continues to rise from relatively modest penetration levels. In addition, the business is pursuing a number of strategic initiatives to support delivery of its targets. In particular, Moneybarn continues to explore opportunities to extend its product offering and distribution channels through:

- Expansion of relationships with lead generators and quotation search partners such as ClearScore, Confused.com and Totally Money, leveraging Moneybarn's quotation search and digital onboarding capabilities;
- Introduction of a resolicitation programme to retain high-quality customers who currently settle early and move to other lenders;
- Continuing to develop the B2C proposition, including using the Vanquis Bank app to offer bespoke Moneybarn products to Vanquis Bank customers which is now live; and
- Introduction and development of new asset classes that resonate with Moneybarn's target customer base, such as light commercial vehicles, motorbikes and touring caravans, as well as products tailored to the self-employed.

In addition, Moneybarn is developing plans to move further into the near-prime segment, leveraging its scalable platform and the group's funding base. This would significantly increase the size of Moneybarn's addressable customer base.

Moneybarn – Management changes

After 12 years with the business, Shamus Hodgson, Managing Director of Moneybarn, will step down from his role at the end of March 2020 to pursue other career opportunities. Malcolm Le May, the group's Chief Executive Officer, will become Managing Director of Moneybarn on an interim basis. The search for a successor has already commenced. The Board would like to thank Shamus for his leadership of Moneybarn since taking over as Managing Director three years ago and his role in establishing Moneybarn as the UK's leading provider of vehicle finance to the underserved.

CCD – Financial performance

	Year ended 31 December 2019 £m	2018 £m	Change %
Customer numbers ('000)	522	560	*(6.8)*
Year-end receivables	249.0	292.5	*(14.9)*
Average receivables[1]	247.3	296.2	*(16.5)*
Revenue	295.4	342.2	*(13.7)*
Impairment	(96.2)	(120.8)	*20.4*
Revenue less impairment	199.2	221.4	*(10.0)*
Revenue yield[2]	119.5%	115.5%	
Impairment rate[3]	39.0%	40.8%	
Risk-adjusted margin[4]	80.5%	74.7%	
Costs	(210.3)	(244.7)	*14.1*
Interest	(9.7)	(15.4)	*37.0*
Adjusted loss before tax	(20.8)	(38.7)	*46.3*
Exceptional items[5]	(14.4)	(29.9)	*51.8*
Statutory loss before tax	(35.2)	(68.6)	*48.7*
Cost income ratio[6]	71.2%	71.5%	
Return on assets[7]	(3.6%)	(6.4%)	

1 *Average of month-end receivables for the 12 months ended 31 December.*
2 *Revenue as a percentage of average receivables for the 12 months ended 31 December.*
3 *Impairment as a percentage of average receivables for the 12 months ended 31 December.*
4 *Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.*
5 *Represents exceptional costs of £14.4m in relation to the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017 (2018: £29.9m).*
6 *Costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.*
7 *Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 31 December.*

CCD is the market leader in the UK and Republic of Ireland home credit markets and is now also a leading player in digital loans within the high-cost, short-term credit market through Satsuma. The ongoing turnaround of the home credit business has continued to progress well in 2019 and the business is now on a stable footing following the events of 2017. With an operating model which has fully embraced the direction of regulatory travel, the development of new product propositions and continuing market dislocation due to tougher regulation, CCD is now well placed to return the business to profitability and customer and receivables growth in the medium-term.

CCD has reported a 46.3% reduction in adjusted loss before tax to £20.8m in 2019 (2018: loss before tax of £38.7m), in line with management's internal plan, as the business has continued to successfully adapt to the ongoing evolution in the regulatory environment. As a result of the actions taken by management, the business delivered a reduced adjusted loss of £5.7m (2018: £15.5m) in the second half of the year and the business is well placed entering 2020. As previously communicated, the business is expecting to deliver a loss in the first half of 2020, consistent with the normal seasonality of the business, a profit in the second half of 2020 and a breakeven result for 2020 as a whole. CCD's statutory loss before tax reduced by 48.7% to £35.2m (2018: loss before tax of £68.6m), with exceptional restructuring costs reducing from £29.9m in 2018 to £14.4m in 2019.

CCD customer numbers ended the year at 522,000, 6.8% lower than 560,000 last year, which represents a significantly reduced rate of decline compared with 28.2% in 2018. The focus for 2019 has been on: (i) stabilising the rate of decline in the home credit customer base against the backdrop of increased regulation, ongoing enhancement of business processes and increased efficiency to reduce the cost base; and (ii) continuing to grow Satsuma customer numbers in a responsible and sustainable manner.

The improved momentum in new customer recruitment experienced in the fourth quarter of 2018 was maintained in home credit during 2019, despite the significant reduction in field resources. New and returning customer volumes were broadly in line with last year despite a 20% reduction in average CEM resources through the year. Home credit customer numbers ended the year at 386,000 (2018: 443,000), in line with the end of the third quarter. The customer base is now beginning to stabilise having previously shown reductions in the first three quarters of the year as the number of new customers recruited had not been at a level sufficient to stabilise the customer base. New and returning customers volumes were marginally ahead of plan in the fourth quarter and are expected to continue to improve during 2020, benefiting from the ongoing embedding of performance management and new ways of working, including the use of a balanced scorecard with an element of variable pay, and the roll-out of an enhancement to the home credit product, Provident Direct.

Satsuma continued to experience a good flow of lending volumes during 2019 and new business and further lending volumes increased by approximately 10% and customer numbers ended the year at 136,000, up 16.2% on last year (2018: 117,000). However, following a number of high-cost lenders exiting the market and discussions with the FCA, Satsuma took the decision to temporarily reduce lending volumes in early December. Accordingly, new business and further lending volumes in December and January were significantly lower than last year. Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020 and a lower proportion of Satsuma loan applications are processed wholly digitally. This reflects the decision to increase the level of interaction with customers during the application process, including, in some circumstances, the involvement of a field-based CEM. This puts CCD in a unique position to build a sustainable business based on a 'hybrid' operating model utilising the best of both digital and home credit capabilities.

Total CCD receivables were £249.0m at the end of 2019 (2018: £292.5m), 14.9% lower than the end of 2018, and comprised £205.8m in respect of the home credit business (2018: £253.0m) and £43.2m in respect of Satsuma (2018: £39.5m).

Home credit receivables have fallen by 18.7% in 2019 compared with the 12.9% reduction in customer numbers. This primarily reflects average issue values being approximately 9% lower in 2019 following the introduction of the new high-cost credit guidance issued by the FCA as part of its review of the high-cost credit sector which came into force between December 2018 and March 2019. The new guidance includes the requirement for CEMs to present customers with the cost of either taking out a concurrent loan or refinancing their existing loan when they require further credit. Experience to date shows that there has been a modest increase in the proportion of customers opting for concurrent loans, which are typically lower value and shorter in duration than refinanced loans.

Satsuma's receivables have shown 9.4% growth in 2019 compared with the 16.2% increase in customer numbers due to the significant reduction in lending volumes in December.

Revenue in CCD has fallen by 13.7% in 2019, a modestly lower rate than the 16.5% reduction in average receivables. The revenue yield of 119.5% in 2019 has increased from 115.5% in 2018, reflecting a modest shift in mix to shorter-term, higher-yielding products.

Impairment in CCD has reduced by 20.4%, better than the rate of reduction in average receivables. This reflects the improvement in collections performance due to the benefit from the ongoing improvement in business processes and the introduction of the enhanced performance management framework. As a result, the impairment rate of 39.0% in 2019 has reduced from 40.8% in 2018. The business has recently completed the roll-out of electronic card readers for CEMs to allow customers to make their repayments with debit cards as well as cash. This has been well received by both field employees and customers and is expected to support further improvement in collections performance during 2020.

CCD's target risk-adjusted margin is between 80% to 85%. The combined improvement in revenue yield and impairment rate during the year has resulted in the risk-adjusted margin increasing from 74.7% in 2018 to 80.5% in 2019, within the target range.

Costs have reduced by 14.1% to £210.3m in 2019 (2018: £244.7m). Despite cost headwinds from increased regulatory requirements, upgrading certain elements of the old IT infrastructure and higher complaints costs, CCD has continued to take the necessary actions to reduce headcount and tightly manage costs in response to the reduction in customer numbers. As previously reported, in January 2019, CCD announced a voluntary redundancy programme in central support functions which reduced central headcount by approximately 200. There was also a further reduction of 50 head office roles during the year, mainly through non-replacement of leavers. In addition, approximately 600 CEMs and field managers left the business during 2019 either through natural attrition and non-replacement of roles or through redundancy. Overall, there has now been a reduction in roles within CCD of 1,500 since September 2017. Together with actions already taken and the ongoing tight control of costs, this has resulted in CCD's annual run rate cost base entering 2020 at around £200m as communicated at the CMD.

Despite some upgrades in the year, CCD's legacy IT systems are old, inflexible and expensive to maintain. Accordingly, the business is planning a programme of investment over the next two years to modernise and refresh the IT infrastructure and support both better customer service and the growth of the business going forward.

Interest costs in CCD have fallen by 37.0% to £9.7m in 2019 (2018: £15.4m). This is a larger reduction than the reduction in average receivables as CCD's funding rate has been reduced to reflect a more balanced allocation of funding costs between CCD and Moneybarn now that Vanquis Bank is fully funded with retail deposits.

CCD – Growth initiatives

CCD's medium-term target is to grow the business to £300m receivables (currently £249m) whilst delivering an ROA of approximately 10%. CCD's focus is now on developing the customer proposition and growing the business. Accordingly, management has developed a number of strategic initiatives to support growth:

<u>Provident Direct</u>

Following discussions with the FCA in the second quarter of 2019, CCD commenced testing of Provident Direct, in the Birmingham South area in the third quarter of the year. Provident Direct is relationship managed in the home by a CEM with payments collected remotely via CPA. The test has indicated that there is strong demand for the product from both customers and the field organisation and that collections performance is comparable to home collection. In addition, the test has allowed the business to refine the customer journey and supporting processes whilst avoiding disrupting the field organisation during the seasonal peak in trading in the run-up to Christmas. Following the successful test, Provident Direct is now being rolled out progressively, firstly in Wales/West (c.15% of the business) in the first quarter of 2020, with a view to having national coverage across the UK by the end of the year. The product retains the essence of home credit but should enable CCD to attract new and former customers of suitable credit quality who value the relationship-based home credit proposition but do not wish to have a weekly collections visit by a CEM or for whom the home visit is inconvenient, such as shift workers. The CEM will maintain regular contact with the customer and will make home visits if the customer's circumstances change or if they are experiencing payment difficulties. Longer term, the business envisages 30% or more of business being transacted through Provident Direct.

<u>Enhanced performance management</u>

The FCA confirmed in early March 2019 that the business could implement enhanced performance management of CEMs based on a balanced scorecard supported by an element of variable performance-related pay. The implementation of this full suite of performance measures is essential in continuing to improve the efficiency and effectiveness of the field organisation whilst delivering consistently good customer outcomes. The balanced scorecard was tested for impact on customer outcomes in the Warrington area during May and was expanded to the North West region in June, including testing an element of variable pay. Following successful testing, the business completed full roll-out of the framework in the UK during the third quarter of the year as well as implementing new ways of working for field management to support and oversee CEMs. These measures have contributed to the ongoing improvement in CCD's performance in 2019. Management will continue to calibrate the balanced scorecard and the variable pay element to both enhance customer outcomes and improve performance.

Satsuma personal loans

Satsuma forms an important part of future strategy, particularly as Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020. Satsuma intends to test a product extension of a loan product priced between 79.9% and 99.9% APR under the Satsuma brand towards the end of 2020. This will further expand CCD's product range, addressable market and provide customers with a pathway to cheaper credit.

Central costs

Central costs in 2019 were £21.0m, up from £20.2m in 2018. The increase primarily reflects unallocated interest costs of £2.5m (2018: credit of £0.1m) taken centrally, primarily in respect of the cost of maintaining a high level of headroom on the revolving credit facility in the first half of the year and the costs of defending the unsolicited NSF offer.

Exceptional items

Exceptional items are amounts which the Board consider material and one-off in nature. In 2019, the income statement reflects a net exceptional charge of £26.3m (2018: charge of £55.3m) comprising:

Charge/(credit)	2019 £m	2018 £m
Bid defence costs associated with NSF's unsolicited offer for the group	23.8	-
Restructuring costs, primarily in respect of the ongoing turnaround of CCD	19.3	29.9
Release of provisions in respect of ROP refund programme	(14.2)	-
Release of provisions in respect of Moneybarn FCA investigation	(2.6)	-
Premium and fees paid on the redemption of senior bonds	-	18.5
Pension charges in respect of the equalisation of Guaranteed Minimum Pensions	-	6.9
Exceptional items	26.3	55.3

Further detail is provided in note 3 to the financial information.

Prior year restatements

As part of a refresh of contractual terms with affiliates in 2019, and to align with market practice, directly attributable acquisition costs within Vanquis Bank are now capitalised as part of credit card receivables and amortised over the expected life of customer accounts rather than being charged to the income statement as incurred. Directly attributable acquisition costs represented approximately 70% of total acquisition costs in 2019 compared with approximately 30% in 2017. This reflects the progressive shift in mix of new customer booking volumes towards internet affiliates as opposed to other channels such as direct marketing or direct mail where costs are not directly attributable to individual customer bookings. The new treatment results in a reduction in the interest income recognised on credit card receivables and a reduction in administrative and operating costs. Prior year comparatives have been restated resulting in an increase in receivables of £21.3m at 31 December 2018 and an increase in profit before tax in 2018 of £6.6m, comprising a reduction in costs of £12.0m and a reduction in revenue of £5.4m. The change in treatment benefited 2019 profit before tax by £10.5m and is expected to result in a reduction in 2020 profit before tax of approximately £6m compared with previous plans (see note 2 to the financial information).

Moneybarn has made two changes in accounting treatment in 2019:

(i) Recognition of revenue on credit impaired receivables – Historically, the group has recognised revenue on Moneybarn's credit impaired receivables 'gross' of the impairment provision and subsequently impaired this additional revenue through the impairment charge resulting in a gross-up in the income statement. In 2019, the group has determined that revenue on Moneybarn's credit impaired receivables should be recognised 'net' of the impairment provision to align the previous accounting treatment under IFRS 16 with the requirements of IFRS 9 and also with the treatment adopted for similar assets in both Vanquis Bank and CCD.

(ii) Treatment of directly attributable acquisition costs – Historically, directly attributable deferred acquisition costs in respect of Moneybarn's broker commissions were deferred within trade and other receivables and amortised through administrative and operating costs over the expected life of the associated customer contract. Following the change in treatment of directly attributable acquisition costs in Vanquis Bank, and to align the treatment across the group, the group has concluded that directly attributable acquisition costs in Moneybarn should be deferred as part of amounts receivable from customers with amortisation therefore being treated as a deduction from revenue.

Prior year comparatives have been restated in respect of the two restatements described above. The restatements result in a reduction in Moneybarn's 2018 revenue of £27.6m, a reduction in impairment of £13.6m and a reduction in administrative and operating costs of £14.0m. There has been no impact on earnings. The carrying value of receivables at 31 December 2018 has increased by £19.8m with a corresponding reduction in trade and other receivables.

Tax

The tax charge for 2019 represents an effective tax rate of 26.3% (2018 (restated): 27.2%) on profit before tax, amortisation of acquisition intangibles and exceptional items which reflects: (i) the mainstream corporation tax rate of 19.0% on group profits (2018: 19.0%); and (ii) the 8.0% bank corporation tax surcharge on Vanquis Bank's profits in excess of £25m (2018: 8.0%). The group is expected to benefit 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 charge (2018: tax credit) in respect of net exceptional charges in 2019 (2018: exceptional charges) amounts to £2.9m (2018: £10.2m).

Despite changing the operating model of the UK home credit business from a self-employed agent model to an employed workforce in July 2017, the group continues to be subject to status claims brought against it by either former agents in the UK or agents in the Republic of Ireland, or tax authorities challenging the historic employment status of the group's agents. It is understood from discussions with HMRC that they have commenced an industry wide review of the self-employed status of agents. To date the group has successfully defended these claims and challenges although there can be no guarantee that future claims or challenges will be successfully defended. See note 13 to the financial information.

Dividends

The group's dividend policy is to maintain a dividend cover ratio of at least 1.4 times as the home credit business recovers and moves into profitability. This will reflect the group's current risk appetite of maintaining regulatory capital headroom in excess of £50m and progressively absorbing the remaining transitional impact of IFRS 9 on regulatory capital by 1 January 2023.

The Board is recommending an increase in the final dividend of 60.0% to 16.0p per share (2018: 10.0p) which, together with the 9.0p interim dividend (2018: nil), represents a 150.0% increase in the total dividend per share to 25.0p (2018: 10.0p). Dividend cover for 2019, prior to the amortisation of acquisition intangibles and exceptional items, is 1.9 times (2018 (restated): 4.9 times).

As communicated in March 2019, as well as bringing forward the payment of interim dividends from late November to late September, the Board has brought forward the payment of final dividends from late June to late May. The 2019 final dividend will therefore be paid on 22 May 2020.

Funding

The group's funding structure has historically comprised retail deposits, the syndicated revolving bank facility, senior bonds, private placements and retail bonds. The group's current funding policy is to maintain committed facilities to meet contractual maturities and fund growth for at least the following 12 months.

The group successfully refinanced its revolving syndicated bank facility on 24 July 2019 with four leading UK banks. The facility reduced from £450m to £235m, reflecting: (i) a reduction in the requirement of the group for a revolving facility as Vanquis Bank is now fully funded with retail deposits and the home credit business is significantly smaller than when the previous facility was established; and (ii) the exit of two non-UK banks from the syndicate. The new facility has a maturity of July 2022 and an interest rate of 300 bps plus 3 months LIBOR, up from 225 bps plus 3 months LIBOR in the previous facility. The covenant package and limits remain unchanged but are being assessed under IFRS 9 rather than under IAS 39 in the old facility. Headroom on the revolving syndicated bank facility at 31 December 2019 was £69m.

The flow of retail deposits within Vanquis Bank has continued in line with its internal funding plan and, at 31 December 2019, Vanquis Bank had retail deposit funding of £1,345.1m, down from £1,431.7m at 31 December 2018. This reflects the modest reduction in Vanquis Bank receivables during the year and a reduction in the liquid assets buffer due to reduced internal liquidity requirements.

The group's funding rate during 2019 was 4.3%, a modest reduction from 4.4% in 2018 as Vanquis Bank is now fully funded with retail deposits. This was partly offset by the impact of the significant amount of headroom of over £300m being carried on the group's revolving credit facility during the first half of the year.

On 5 April 2019, Fitch Ratings reaffirmed the group's credit rating at BBB- with a negative outlook.

The group's historic funding structure has served the group very well. However, as part of the focus on cost efficiency, the group has undertaken a full review of funding and outlined at the CMD a number of opportunities to further diversify the group's sources of funding, reduce the funding cost and improve the long-term stability of the group.

The first opportunity was in respect of a securitisation of the Moneybarn receivables book. The group successfully signed a bilateral securitisation facility with NatWest Markets to fund Moneybarn business flows on 14 January 2020. The new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months. The facility provides a comparable funding rate to the revolving credit facility which reduced from £450m to £235m as indicated above. The successful completion of this facility builds the group's capability in securitisation, allowing similar funding to be deployed elsewhere in the group. Vanquis Bank would be the business with the greatest potential for further securitisation. As a part of obtaining consent for the securitisation from the group's existing lenders, the group's revolving syndicated credit facility has reduced from £235m to £211m and the group early repaid the remaining M&G loan facility of £25m on 14 February 2020. After taking account of the securitisation of Moneybarn's receivables and the ongoing retail deposits programme in Vanquis Bank, the group has sufficient facilities to fund contractual debt maturities and projected growth in the group until mid-2022.

The second identified opportunity is in respect of retail deposits funding some element of Moneybarn. The group is currently exploring a number of potential structures to enable Moneybarn to access Vanquis Bank's retail deposits capability and the group is aiming to provide a formal proposal to the PRA in the first half of 2020. As demonstrated by Vanquis Bank, there is a deep and liquid market of deposits available to support growth as and when it happens. This would increase funding efficiency and flexibility compared with the existing non-bank group funding sources which typically have to be sourced in large tranches up front. Vanquis Bank's weighted all-in average deposits rate is approximately 3.0%. This compares with a funding cost for the non-bank group of approximately 6.0% to 6.5%, which means the ability to fund part of Moneybarn through deposits would significantly reduce Moneybarn's overall cost of funding.

The group also continues to actively consider issuing further senior bonds, private placements and potentially a tier 2 instrument. In addition, the group is also assessing ways in which to manage the Vanquis Bank balance sheet more efficiently. In respect of funding, this would be through diversifying the funding mix into instant access deposits or into wholesale markets through further securitisation. In respect of liquidity, this would be in respect of revisiting the mix of the assets held in the liquid assets buffer rather than solely relying on the Bank of England Reserve Account. The group aims to make further progress on these areas through 2020.

Capital

The group's minimum regulatory capital requirement set by the PRA, together with the capital conservation buffer (2.5%) and counter cyclical buffer (1.0%), represents a TCR of 25.5%. The Board currently expects to maintain headroom in excess of £50m against this requirement and a capital structure to support ongoing access to funding from the bank and debt capital markets.

The group’s CET 1 ratio on an accrued profits basis at 31 December 2019 was 30.7% compared with the group’s TCR of 25.5%. On this basis, the regulatory capital headroom was 5.2%, equivalent to approximately £117m based on the group’s risk weighted assets of £2.2bn. The increase in headroom from approximately £100m at 31 December 2018 reflects: (i) retained profits less accrued dividends; (ii) an increase in regulatory capital of approximately £15m from the prior year restatement in respect of the change in treatment of directly attributable acquisition costs in Vanquis Bank; and (iii) the release of the FCA provisions in respect of ROP and Moneybarn which, after tax, benefited regulatory capital by approximately £10m. These favourable impacts were offset by the anticipated second year transitional impact of IFRS 9 of £18m and the impact of the implementation of IFRS 16 ‘Leases’ from 1 January 2019 of £26m.

The group’s regulatory capital headroom reduced to approximately £90m on 1 January 2020, when the third year transitional impact of IFRS 9 of £28m came into effect meaning that the group has absorbed 30% of the IFRS 9 impact at this date. This level of headroom is consistent with the Board’s current risk appetite of maintaining regulatory capital headroom in excess of £50m whilst progressing towards the group’s dividend cover target of at least 1.4 times in the medium term and progressively absorbing the remaining 70% (£129m) transitional impact of IFRS 9 by 1 January 2023. For illustrative purposes, after adjusting for the impact on risk weighted assets, the CET 1 ratio at 31 December 2019 would reduce from 30.7% to 24.1% if the IFRS 9 transitional arrangements did not apply.

The group’s internal plans and medium-term guidance, including receivables growth expectations and dividend guidance, are consistent with maintaining regulatory capital headroom of at least £50m above the current TCR of 25.5%. However, the group continues to actively explore a number of options to improve capital efficiency and management has identified a number of areas which may result in potential future reductions in the TCR, including, but not limited to, potential reductions in capital requirements for pensions and Pillar 2A add-ons. The group’s next capital review (C-SREP) with the PRA is confirmed for March 2020, with the result expected in the second quarter.

The Board also continues to monitor its risk appetite in respect of the appropriate level of regulatory capital headroom in light of the group’s ongoing recovery.

Regulation

Enhanced supervision by the FCA

As a consequence of: (i) the disruption to the home credit business following the migration to the employed operating model in July 2017 and the subsequent implementation of the recovery plan in response to the disruption; (ii) the FCA's investigation into Vanquis Bank's ROP product; and (iii) the FCA’s investigation into Moneybarn, the group continues to be subject to enhanced supervision as notified by the FCA in their Watchlist Letter. Firms placed under enhanced supervision may be required to provide formal commitments, where appropriate, to tackle the underlying concerns raised by the FCA and the FCA may also exercise other wide-ranging powers. The group has a detailed plan of activities agreed with the FCA with plans to formally attest that it has addressed the outstanding regulatory concerns by the end of 2020.

FCA review of high-cost credit

On 18 December 2018, the FCA published CP18/43 in respect of its review of high-cost credit, including final rules and guidance in respect of home-collected credit. The rules introduced a package of reforms to raise standards in disclosure and sales practices to prevent home credit firms from offering new loans or refinancing existing loans during home collection visits without the customer specifically requesting it. CCD made the necessary changes to its processes to ensure compliance with the new rules in advance of them coming into force on 19 March 2019. This included the requirement for CEMs to explain all available options to a customer who wishes to borrow, including refinancing their existing loan or taking out a concurrent loan. The changes made to the home credit operating model over the last two years, including the voice recording of all sales interactions with customers, means that the business can effectively evidence compliance with the revised requirements.

FCA CCMS

In February 2018, the FCA published PS18/4 setting out its final policy rules in respect of persistent debt and earlier intervention remedies from the CCMS. The overall objective of the package of remedies is to reduce the number of customers in problem credit card debt and put borrowers in greater control of their borrowing. In particular, the rules require credit card firms to undertake specific measures in respect of customers defined as being in persistent debt. The FCA define persistent debt as a customer who pays more in interest, fees and charges than principal over an 18 month period. Under this definition, where customers are in persistent debt, firms need to undertake the following actions:

- At 18 months, prompt customers in persistent debt to change their repayment behaviour if they can afford to.
- At 27 months, send another reminder if payments indicate a customer is still likely to be in persistent debt at the 36-month point. Customers need to be made aware that, if they do not change their repayment behaviour, their card may be suspended, which may be reported to credit reference agencies. The customer should also receive contact details for debt advice services.
- At 36 months, intervene again if a customer remains in persistent debt with strategies to help the customer repay their outstanding debt more quickly over a reasonable period, usually between 3 and 4 years.

The proposals in PS18/4 came into force on 1 March 2018 and firms had 6 months to be fully compliant. Approximately, 11% of Vanquis Bank's active customers met the FCA's definition of persistent debt at September 2018 and the first 36-month checkpoint for persistent debt customers is in March 2020. Vanquis Bank increased its minimum payment rates in the second half of 2018 and has introduced a number of proactive measures in 2019, including recommended payments and the testing of a number of communication strategies, to encourage increased monthly repayments and reduce the number of customers meeting the FCA's definition of being in persistent debt.

FCA review of the motor finance market

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

Moneybarn has flat fee commission structures and has never given discretion to brokers in setting the interest or commission levels. Customers are made aware of the existence of a payment of commission in Moneybarn's pre-contractual paperwork that all brokers must provide to the customer and evidence that the customer has received it. Moneybarn has an active physical audit programme for all of its brokers and was the first vehicle finance lender in the market to have such an audit process in place. Like all of the group's other businesses, Moneybarn made all necessary changes to its processes required by PS18/19 in advance of the 1 November 2018 deadline and there has been no further updates since then from the FCA.

Irresponsible lending complaints and the Financial Ombudsman Service (FOS)

There continues to be heightened claims management company activity around non-standard lending sectors, particularly in respect of irresponsible lending in high-cost credit and more recently in home credit. As a result, CCD has seen an increase in the number of such complaints and referrals to the FOS, particularly in the first half of 2019, although complaint levels have now stabilised. CCD continues to robustly defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard. See note 13 to the financial information.

Gambling commission ban on credit cards for gambling

On 14 January 2020, the Gambling Commission announced that with effect from 14 April 2020, gambling through credit cards will be banned. The ban follows a detailed review by the Commission and the government. While it is incumbent on merchants to enforce the ban, it is estimated that this will have a modest impact on Vanquis Bank earnings.

Consolidated income statement for the year ended 31 December

	Note	2019	2018 (restated)
		£m	£m
Revenue	3	998.3	1,091.4
Finance costs		(72.0)	(91.7)
Impairment charges	8	(336.9)	(396.8)
Administrative and operating costs		(460.6)	(505.6)
Total costs		(869.5)	(994.1)
Profit before tax	3	128.8	97.3
Profit before tax, amortisation of acquisition intangibles and exceptional items	3	162.6	160.1
Amortisation of acquisition intangibles	3	(7.5)	(7.5)
Exceptional items	3	(26.3)	(55.3)
Tax charge	4	(44.4)	(32.0)
Profit for the year attributable to equity shareholders		84.4	65.3

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	2019	2018 (restated)
		£m	£m
Profit for the year attributable to equity shareholders		84.4	65.3
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	9	(9.7)	(21.7)
– fair value movements in investments	10	4.5	2.2
– tax on items taken directly to other comprehensive income	4	0.6	3.6
– impact of change in UK tax rate on items that will not be subsequently reclassified to the income statement	4	(0.1)	(0.7)
Other comprehensive expense for the year		(4.7)	(16.6)
Total comprehensive income for the year		79.7	48.7

Earnings per share

	Note	2019	2018 (restated)
		pence	pence
Basic	5	33.3	27.3
Diluted	5	33.1	27.2

Dividends per share

	Note	2019	2018
		pence	pence
Proposed final dividend	6	16.0	10.0
Total dividend for the year	6	25.0	10.0
Paid in the period*	6	19.0	-

* The total cost of dividends paid in the year was £47.6m (2018: £nil).

Consolidated balance sheets

	Note	31 December 2019 £m	31 December 2018 (restated) £m	1 January 2018 (restated) £m
ASSETS				
Non-current assets				
Goodwill		71.2	71.2	71.2
Other intangible assets	7	44.1	55.0	79.4
Property, plant and equipment		19.3	24.6	30.9
Right of use assets		67.1	-	-
Financial assets:				
– amounts receivable from customers	8	418.3	364.8	320.3
Retirement benefit asset	9	78.0	83.9	102.3
Deferred tax assets		25.0	33.0	30.1
		723.0	632.5	634.2
Current assets				
Financial assets:				
– investment held as fair value through other comprehensive income	10	16.6	47.8	45.8
– amounts receivable from customers	8	1,794.3	1,839.2	1,781.2
– cash and cash equivalents		353.6	387.9	282.9
– trade and other receivables		33.3	29.8	28.5
		2,197.8	2,304.7	2,138.4
Total assets	3	2,920.8	2,937.2	2,772.6
LIABILITIES				
Current liabilities				
Financial liabilities:				
– retail deposits		(410.0)	(339.3)	(350.8)
– bank and other borrowings		(53.5)	(49.8)	(38.1)
Total borrowings		(463.5)	(389.1)	(388.9)
– derivatives		-	-	(0.1)
– trade and other payables		(89.3)	(91.8)	(96.9)
– lease liabilities		(10.2)	-	-
Current tax liabilities		(34.7)	(24.6)	(15.9)
Provisions	11	(14.5)	(53.2)	(104.6)
		(612.2)	(558.7)	(606.4)
Non-current liabilities				
Financial liabilities:				
– retail deposits		(935.2)	(1,092.4)	(950.2)
– bank and other borrowings		(564.8)	(574.0)	(853.9)
Total borrowings		(1,500.0)	(1,666.4)	(1,804.1)
– lease liabilities		(68.1)	-	-
		(1,568.1)	(1,666.4)	(1,804.1)
Total liabilities		(2,180.3)	(2,225.1)	(2,410.5)
NET ASSETS	3	740.5	712.1	362.1
SHAREHOLDERS' EQUITY				
Share capital		52.5	52.5	30.7
Share premium		273.2	273.2	273.0
Other reserves		295.9	292.1	13.4
Retained earnings		118.9	94.3	45.0
TOTAL EQUITY		740.5	712.1	362.1

Consolidated statement of changes in shareholders' equity

	Share capital	Share premium	Other reserves	Retained earnings (restated)	Total
	£m	£m	£m	£m	£m
At 31 December 2017	30.7	273.0	13.4	34.0	351.1
Prior year adjustment – directly attributable acquisition costs (note 2)	-	-	-	11.0	11.0
At 1 January 2018	30.7	273.0	13.4	45.0	362.1
Profit for the period	-	-	-	65.3	65.3
Other comprehensive income/(expense):					
– actuarial movements on retirement benefit asset (note 9)	-	-	-	(21.7)	(21.7)
– fair value movement in investments (note 10)	-	-	2.2	-	2.2
– tax on items taken directly to other comprehensive income	-	-	(0.5)	4.1	3.6
– impact of change in UK tax rate	-	-	(0.2)	(0.5)	(0.7)
Other comprehensive income/(expense) for the period	-	-	1.5	(18.1)	(16.6)
Total comprehensive income for the period	-	-	1.5	47.2	48.7
Transactions with owners:					
– proceeds from rights issue	21.8	-	278.2	-	300.0
– issue of share capital	-	0.2	-	-	0.2
– share-based payment charge	-	-	1.1	-	1.1
– transfer of share-based payment reserve	-	-	(2.1)	2.1	-
At 31 December 2018	52.5	273.2	292.1	94.3	712.1
Impact of adoption of IFRS 16 'Leases' (note 2)	-	-	-	(5.6)	(5.6)
At 1 January 2019	52.5	273.2	292.1	88.7	706.5
Profit for the period	-	-	-	84.4	84.4
Other comprehensive income/(expense):					
– actuarial movements on retirement benefit asset (note 9)	-	-	-	(9.7)	(9.7)
– fair value movement in investments (note 10)	-	-	4.5	-	4.5
– tax on items taken directly to other comprehensive income	-	-	(1.2)	1.8	0.6
– impact of change in UK tax rate	-	-	0.1	(0.2)	(0.1)
Other comprehensive income/(expense) for the period	-	-	3.4	(8.1)	(4.7)
Total comprehensive income for the period	-	-	3.4	76.3	79.7
Transactions with owners:					
– share-based payment charge	-	-	1.9	-	1.9
– transfer of share-based payment reserve	-	-	(1.5)	1.5	-
– dividends	-	-	-	(47.6)	(47.6)
At 31 December 2019	52.5	273.2	295.9	118.9	740.5

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

Consolidated statement of cash flows for the year ended 31 December

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operations	12	190.7	67.2
Finance costs paid		(66.1)	(66.1)
Premium and fees paid on refinancing of senior bonds	3	-	(18.5)
Tax paid		(24.3)	(22.3)
Net cash generated from/(used in) operating activities		100.3	(39.7)
Cash flows from investing activities			
Purchase of intangible assets		(7.4)	(7.6)
Purchase of property, plant and equipment		(6.6)	(5.3)
Proceeds from disposal of property, plant and equipment		2.7	1.5
Sale of government gilts held as an investment		35.7	0.2
Net cash generated from/(used in) investing activities		24.4	(11.2)
Cash flows from financing activities			
Proceeds from bank and other borrowings		288.3	737.1
Repayment of bank and other borrowings		(379.7)	(885.3)
Payment of lease liabilities		(15.8)	-
Dividends paid to company shareholders	6	(47.6)	-
Net proceeds from rights issue		-	300.0
Proceeds from issue of share capital		-	0.2
Net cash (used in)/generated from financing activities		(154.8)	152.0
Net (decrease)/increase in cash, cash equivalents and overdrafts		(30.1)	101.1
Cash, cash equivalents and overdrafts at beginning of year		380.9	279.8
Cash, cash equivalents and overdrafts at end of year		350.8	380.9
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		353.6	387.9
Overdrafts (held in bank and other borrowings)		(2.8)	(7.0)
Total cash, cash equivalents and overdrafts		350.8	380.9

Cash at bank and in hand includes £321.9m (2018: £384.9m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. As at 31 December 2019, £138.2m (2018: £106.5m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

Notes to the financial information

1. Basis of preparation

The financial information, which comprises the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes, is derived from the consolidated financial statements for the year ended 31 December 2019, 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 2018 have been filed with the Registrar of Companies. The report of the auditor was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

The directors have reviewed the group's budgets, plans and cash flow forecasts for 2020 and 2021 together with outline projections for the three subsequent years. Based on this review, they are satisfied that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial information.

2. Accounting policies

The accounting policies applied in preparing the financial information are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2018 with the exception of: (i) the adoption of IFRS 16 'Leases'; (ii) a change in treatment of directly attributable deferred acquisition costs in Vanquis Bank; and (iii) changes in the recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn.

(i) The impact of new standards adopted by the group from 1 January 2019 – IFRS 16

IFRS 16 'Leases' has been adopted by the group from the mandatory adoption date of 1 January 2019. IFRS 16 replaces IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors.

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

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

The adoption of IFRS 16 into the group's opening balance sheet on 1 January 2019 resulted in an increase in assets of £81.9m and liabilities of £89.0m. Net of deferred tax of £1.5m, this resulted in a reduction in net assets of £5.6m which has been reflected through opening reserves at 1 January 2019. The group has taken the modified retrospective approach as permitted by IFRS 16. Accordingly, comparative information has not been restated.

2. Accounting policies (continued)

(ii) The impact of new standards not yet effective and not adopted by the group from 1 January 2019

There are no new standards not yet effective and not adopted by the group from 1 January 2019 which are expected to have a material impact on the group.

(iii) Changes in accounting treatment in 2019

Change in treatment of directly attributable acquisition costs in Vanquis Bank

As part of a refresh of contractual terms with affiliates during 2019, the group has reviewed the treatment of directly attributable acquisition costs paid by Vanquis Bank to third parties upon acceptance of new credit card customers introduced by those third parties. Historically, such costs were charged to the income statement as incurred on the basis that the credit card customer is not required to use the credit card. Upon review of this policy, it has been determined that the expected use of the issued credit cards can be reliably predicted and it is probable that the issued credit cards would be used resulting in the recognition of credit card receivables with the associated benefits flowing to Vanquis Bank. Accordingly, directly attributable acquisition costs are now capitalised as part of credit card receivables and amortised over the expected life of customer accounts. Directly attributable acquisition costs represented approximately 70% of total acquisition costs in 2019 compared with approximately 30% in 2017. This reflects the progressive shift in mix of new customer bookings towards internet affiliates as opposed to other channels such as direct marketing or direct mail where costs are not directly attributable to individual customer bookings. Under the revised treatment, the acquisition costs are recognised over the same term as when the benefits from credit cards (i.e. interest income) are received by Vanquis Bank. The new treatment results in a reduction in the interest income recognised on credit card receivables and a reduction in administrative and operating costs.

The group has concluded that the new treatment represents a change in accounting policy on the 2018 financial statements and accordingly has restated the 2018 consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in shareholders' equity. The prior year restatement has resulted in an increase in receivables of £21.3m at 31 December 2018 and an increase in profit before tax in 2018 of £6.6m, comprising a reduction in costs of £12.0m and a reduction in revenue of £5.4m. The prior year adjustment to retained earnings at 1 January 2018 amounted to £11.0m.

Changes in treatment of revenue recognition on credit impaired receivables and directly attributable acquisition costs in Moneybarn

In preparing the 2019 financial statements, the group has made two changes in accounting treatment in Moneybarn relating to: (i) revenue recognition on the conditional sale agreements within Moneybarn which are classified as credit impaired (i.e. stage 3 assets under IFRS 9), following adoption of IFRS 16 on 1 January 2019; and (ii) the treatment from a disclosure perspective of directly attributable acquisition costs to align with the rest of the group.

(i) Revenue recognition on credit impaired receivables

In 2018, revenue on Moneybarn's credit impaired receivables was recognised 'gross' of the impairment provision with this additional revenue reflected as an impairment charge resulting in a gross-up in the income statement. On reviewing its accounting policies in preparing the 2019 financial statements, the group has determined that revenue on Moneybarn's credit impaired receivables should be recognised 'net' of the impairment provision to align the accounting treatment under IFRS 16 with IFRS 9 and also with the treatment in both Vanquis Bank and CCD.

The group has concluded that the new treatment reflects a change in accounting policy required to be applied retrospectively and accordingly has restated the 2018 income statement balances in the 2019 financial statements. The restatement results in a reduction in Moneybarn's revenue and impairment in 2018 of £13.6m with no impact on profit before tax, earnings per share, retained earnings or carrying values in the balance sheet.

(ii) Disclosure of directly attributable acquisition costs

Historically, directly attributable deferred acquisition costs in respect of Moneybarn's broker commissions were deferred within trade and other receivables and amortised through administrative and operating costs over the expected life of the associated customer contract.

2. Accounting policies (continued)

Following the change in treatment of directly attributable acquisition costs in Vanquis Bank, and to align the treatment across the group, the group has concluded that directly attributable acquisition costs in Moneybarn should be deferred as part of amounts receivable from customers with amortisation therefore being treated as a deduction from revenue.

The change has been applied retrospectively and, accordingly, the 2018 income statement and balance sheet have been restated in the 2019 financial statements. The restatement results in a reduction in Moneybarn's 2018 revenue of £14.0m with a corresponding reduction in administrative and operating costs of £14.0m. There is no impact on profit before tax, earnings per share or retained earnings. The carrying value of receivables at 31 December 2018 has increased by £19.8m with a corresponding reduction in trade and other receivables.

A summary of the impact of the changes in treatment set out above in respect of Vanquis Bank and Moneybarn on the group's primary statements is set out below:

	2019				2018			
	Previous policy £m	Vanquis Bank £m	Moneybarn £m	As presented £m	Previously disclosed £m	Vanquis Bank £m	Moneybarn £m	As restated £m
Revenue	1,045.6	(7.8)	(39.5)	998.3	1,124,4	(5.4)	(27.6)	1,091.4
Finance costs	(72.0)	-	-	(72.0)	(91.7)	-	-	(91.7)
Impairment charges	(358.2)	-	21.3	(336.9)	(410.4)	-	13.6	(396.8)
Administrative and operating costs	(497.1)	18.3	18.2	(460.6)	(531.6)	12.0	14.0	(505.6)
Total costs	(927.3)	18.3	39.5	(869.5)	(1,033.7)	12.0	27.6	(994.1)
Profit before tax	118.3	10.5	-	128.8	90.7	6.6	-	97.3
Tax charge	(41.8)	(2.6)	-	(44.4)	(30.4)	(1.6)	-	(32.0)
Profit for the year attributable to equity shareholders	76.5	7.9	-	84.4	60.3	5.0	-	65.3
Total comprehensive income for the period	71.8	7.9	-	79.7	43.7	5.0	-	48.7
Basic earnings per share (pence)	30.3	3.0	-	33.3	25.2	2.1	-	27.3
Diluted earnings per share (pence)	30.1	3.0	-	33.1	25.1	2.1	-	27.2
Amounts receivables from customers	2,156.2	31.8	24.6	2,212.6	2,162.9	21.3	19.8	2,204.0
Deferred tax	32.9	(7.9)	-	25.0	38.3	(5.3)	-	33.0
Trade and other receivables	57.9	-	(24.6)	33.3	49.6	-	(19.8)	29.8
Share capital	52.5	-	-	52.5	52.5	-	-	52.5
Share premium	273.2	-	-	273.2	273.2	-	-	273.2
Other reserves	295.9	-	-	295.9	292.1	-	-	292.1
Retained earnings	95.0	23.9	-	118.9	78.3	16.0	-	94.3
Total equity	716.6	23.9	-	740.5	696.1	16.0	-	712.1

3. Segment reporting

	Revenue		Profit/(loss) before tax	
	2019	2018 (restated)	2019	2018 (restated)
	£m	£m	£m	£m
Vanquis Bank	580.9	644.9	173.5	190.9
Moneybarn	122.0	104.3	30.9	28.1
CCD	295.4	342.2	(20.8)	(38.7)
Central costs	-	-	(21.0)	(20.2)
Total group before amortisation of acquisition intangibles and exceptional items	998.3	1,091.4	162.6	160.1
Amortisation of acquisition intangibles (note 7)	-	-	(7.5)	(7.5)
Exceptional items	-	-	(26.3)	(55.3)
Total group	998.3	1,091.4	128.8	97.3

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

Exceptional items in 2019 represent a net exceptional charge of £26.3m (2018: charge of £55.3m) and comprise:

	2019	2018
Charge/(credit)	£m	£m
Bid defence costs associated with NSF's unsolicited offer for the group	23.8	-
Restructuring costs, primarily in respect of the ongoing turnaround of CCD	19.3	29.9
Release of provisions in respect of ROP refund programme (see note 11)	(14.2)	-
Release of provisions in respect of Moneybarn FCA investigation (see note 11)	(2.6)	-
Premium and fees paid on the redemption of senior bonds	-	18.5
Pension charges in respect of the equalisation of Guaranteed Minimum Pensions (see note 9)	-	6.9
Net exceptional charges	26.3	55.3

Restructuring costs comprise: (i) CCD costs of £14.4m (2018: £29.9m) in relation to the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017, comprising redundancy and other costs of £13.0m (2018: £16.7m), an exceptional impairment charge of £1.9m in respect of intangible assets (2018: £13.8m, comprising £12.8m in respect of intangible assets and £1.0m in respect of property, plant and equipment) and an exceptional pension credit of £0.5m (2018: £0.6m); and (ii) redundancy and other one-off costs in respect of central activities and Vanquis Bank of £3.1m (2018: £nil) and £1.8m (2018: £nil) respectively.

	Segment assets		Segment net assets/(liabilities)	
	2019	2018 (restated)	2019	2018 (restated)
	£m	£m	£m	£m
Vanquis Bank	1,889.5	1,974.7	397.3	397.3
Moneybarn	541.0	438.9	39.6	17.0
CCD	284.9	342.6	(59.9)	(9.5)
Central	443.3	368.7	363.5	307.3
Total before intra-group elimination	3,158.7	3,124.9	740.5	712.1
Intra-group elimination	(237.9)	(187.7)	-	-
Total group	2,920.8	2,937.2	740.5	712.1

The presentation of segment net assets reflects the statutory assets, liabilities and net assets of each of the group's divisions. This results in an intra group elimination reflecting the difference between the central intercompany funding provided to the divisions and the external funding raised centrally.

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

4. Tax charge

The tax charge in the income statement is as follows:

	2019 £m	2018 (restated) £m
Current tax:		
– UK	(34.4)	(32.3)
– overseas	-	0.3
Total current tax	(34.4)	(32.0)
Deferred tax	(10.3)	0.5
Impact of change in UK tax rate	0.3	(0.5)
Total tax charge	(44.4)	(32.0)

The tax charge in respect of exceptional costs in 2019 amounts to £2.9m (2018: credit of £10.2m) and represents: (i) tax relief of £3.7m in respect of the exceptional restructuring costs in CCD and the wider group (2018: £5.5m); (ii) tax relief of £0.1m in respect of exceptional costs associated with the defence of the unsolicited offer from NSF (2018: £nil); (iii) a tax charge of £6.0m which represents tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £14.2m exceptional release of provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally, as well as tax at 27% on the 10% deemed taxable receipt on customer balance reductions related to charged off accounts which are treated as bank compensation payments as well as tax on the release of the related impairment provision (2018: £nil); and (iv) a tax charge of £0.7m in respect of the £2.6m release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options at Moneybarn. The tax credit in 2018 also comprised: (i) tax relief of £3.5m in respect of the premium and fees paid on redemption of senior bonds; and (ii) tax relief of £1.2m in respect of the GMP equalisation charge in respect of the group's defined benefit scheme.

The tax credit in respect of the amortisation of acquisition intangibles amounts to £1.3m (2018: £1.3m).

The effective tax rate for 2019, prior to the amortisation of acquisition intangibles and exceptional items, is 26.3% (2018 (restated): 27.2%).

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 2019 have been measured at 17% (2018: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2018: 25%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 1 April 2020). In 2019, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.0% (2018: 19.0%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.0% (2018: 27.0%). A tax credit of £0.3m (2018 (restated): charge of £0.5m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.1m (2018: charge of £0.7m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

The tax credit on items taken directly to other comprehensive income is as follows:

	2019 £m	2018 £m
Deferred tax charge on fair value movements in investments	(1.2)	(0.5)
Deferred tax credit on actuarial movements on retirement benefit asset	1.8	4.1
Tax credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	0.6	3.6
Impact of change in UK tax rate	(0.1)	(0.7)
Total tax credit on items taken directly to other comprehensive income	0.5	2.9

4. Tax charge (continued)

The deferred tax charge of £1.2m (2018: charge of £0.5m) on the fair value movements in investments represents the deferred tax at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.0% (2018: 27.0%) on the change in the valuation of the Visa Inc. preferred stock during the year.

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

	2019 £m	2018 (restated) £m
At 1 January as previously reported	33.0	33.8
Charge on prior year adjustment in respect of directly attributable acquisition costs (note 2)	-	(3.7)
Credit on adjustment arising on transition to IFRS 16 (note 2)	1.5	-
At 1 January as restated	34.5	30.1
(Charge)/credit to the income statement	(10.3)	0.5
Credit on other comprehensive income prior to impact of change in UK tax rate	0.6	3.6
Impact of change in UK tax rate:		
– credit/(charge) to the income statement	0.3	(0.5)
– charge to other comprehensive income	(0.1)	(0.7)
At 31 December	25.0	33.0

The deferred tax charge of £3.7m at 1 January 2018 represents deferred tax at the combined mainstream corporation tax and the bank corporation tax surcharge rate on the opening balance sheet adjustment in respect of the change of accounting treatment of directly attributable acquisition costs in Vanquis Bank which is taxable over 10 years.

The deferred tax credit of £1.5m at 1 January 2019 represents deferred tax at the mainstream rate of corporation tax and, in the case of Vanquis Bank, at the combined mainstream corporation tax and the bank corporation tax surcharge rate on the opening balance sheet adjustment in respect of the adoption of IFRS 16 'Leases' which is deductible over the average remaining term of the relevant leases.

The rate of tax charge on the profit (2018: profit) before taxation for the year is higher than (2018: higher than) the average rate of mainstream corporation tax in the UK of 19.00% (2018: 19.00%). This can be reconciled as follows:

	2019 £m	2018 (restated) £m
Profit before taxation	128.8	97.3
Profit before taxation multiplied by the average rate of mainstream corporation tax in the UK of 19.00% (2018: 19.00%)	(24.5)	(18.5)
Effects of:		
– impact of lower tax rates overseas	(1.1)	(0.4)
– adjustment in respect of prior years	0.7	1.2
– non-deductible general expenses net of non-taxable income	0.2	(0.1)
– non-deductible bid defence costs	(4.5)	-
– non-deductible bank compensation payments	(1.4)	-
– additional 10% of bank compensation payments	(0.2)	-
– impact of change in UK tax rate	0.3	(0.5)
– impact of bank corporation tax surcharge	(13.9)	(13.7)
Total tax charge	(44.4)	(32.0)

The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2018: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.0% (2018: 19.0%). In 2019, the home credit business in the Republic of Ireland made a loss (2018: loss) which can only be relieved against profits of the business in the Republic of Ireland at the 12.5% statutory tax rate rather than the 19.0% UK statutory tax rate. No deferred tax has been recognised in respect of this loss giving rise to a total adverse impact on the group tax charge of £1.1m in 2019 (2018: £0.4m).

4. Tax charge (continued)

The £0.7m credit (2018: £1.2m) in respect of prior years represents the benefit of resolving historic tax liabilities net of the release of part of the provision for uncertain tax liabilities and, in the case of 2018, also securing tax deductions for employee share awards which are higher than those originally anticipated.

Most of the costs associated with the defence of the unsolicited offer from NSF are, at this point, considered to be non-tax deductible in computing the group's taxable profits. This gives rise to an adverse impact on the tax charge of £4.5m in 2019 (2018: £nil).

The additional balance reductions related to charged off accounts, net of the release of provisions related to balance reductions and settlements on other accounts which have arisen following completion of the refund programme in respect of ROP, are treated as bank compensation payments and are therefore non-deductible in computing Vanquis Bank's profits for tax purposes. This gives rise to an adverse impact on the tax charge of £1.4m (2018: £nil). It also gives rise to an additional 10% deemed taxable receipt under the bank compensation provisions on the additional balance reductions related to charged off accounts. This gives rise to an adverse impact on the tax charge of £0.2m (2018: £nil).

The adverse impact of the bank corporation tax surcharge amounts to £13.9m (2018 (restated): £13.7m) and represents tax at the bank corporation tax surcharge rate of 8% on Vanquis Bank's taxable profits in excess of £25m where taxable profits are calculated after adding back bank compensation payments, the 10% deemed taxable receipt, the FCA fine and other add backs.

5. Earnings per share

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

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

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

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

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share.

5. Earnings per share (continued)

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

	2019 Earnings £m	2019 Weighted average number of shares m	2019 Per share amount pence	2018 (restated) Earnings £m	2018 (restated) Weighted average number of shares m	2018 (restated) Per share amount pence
Basic earnings per share	84.4	253.4	33.3	65.3	239.5	27.3
Dilutive effect of share options and awards	-	1.9	(0.2)	-	0.7	(0.1)
Diluted earnings per share	84.4	255.3	33.1	65.3	240.2	27.2

The directors have elected to show an adjusted earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 and prior to exceptional items (see note 3). This is presented to show the earnings per share generated by the group's underlying operations. A reconciliation of basic and diluted earnings per share to adjusted basic and diluted earnings per share is as follows:

	2019 Earnings £m	2019 Weighted average number of shares m	2019 Per share amount pence	2018 (restated) Earnings £m	2018 (restated) Weighted average number of shares m	2018 (restated) Per share amount pence
Basic earnings per share	84.4	253.4	33.3	65.3	239.5	27.3
Amortisation of acquisition intangibles, net of tax	6.2	-	2.5	6.2	-	2.6
Exceptional items, net of tax	29.1	-	11.5	45.1	-	18.8
Adjusted basic earnings per share	119.7	253.4	47.3	116.6	239.5	48.7
Diluted earnings per share	84.4	255.3	33.1	65.3	240.2	27.2
Amortisation of acquisition intangibles, net of tax	6.2	-	2.4	6.2	-	2.6
Exceptional items, net of tax	29.1	-	11.4	45.1	-	18.8
Adjusted diluted earnings per share	119.7	255.3	46.9	116.6	240.2	48.6

6. Dividends

		2019 £m	2018 £m
2018 final	- 10.0p per share	25.1	-
2019 interim	- 9.0p per share	22.5	-
Total dividends paid		47.6	-

The directors are recommending a final dividend in respect of the financial year ended 31 December 2019 of 16.0p per share (2018: 10.0p) which will amount to an estimated dividend payment of £40.5m (2018: £25.1m). If approved by the shareholders at the annual general meeting on 7 May 2020, this dividend will be paid on 22 May 2020 to shareholders who are on the register of members at 3 April 2020. This dividend is not reflected in the balance sheet as at 31 December 2019 as it is subject to shareholder approval.

7. Other intangible assets

	2019 Acquisition intangibles £m	2019 Computer software £m	2019 Total £m	2018 Acquisition intangibles £m	2018 Computer software £m	2018 Total £m
Cost						
At 1 January	75.0	76.2	151.2	75.0	92.1	167.1
Additions	-	7.4	7.4	-	7.6	7.6
Disposals	-	(18.2)	(18.2)	-	(23.5)	(23.5)
At 31 December	75.0	65.4	140.4	75.0	76.2	151.2
Accumulated amortisation and impairment						
At 1 January	32.5	63.7	96.2	25.0	62.7	87.7
Charged to the income statement	7.5	8.9	16.4	7.5	11.7	19.2
Exceptional impairment charge (note 3)	-	1.9	1.9	-	12.8	12.8
Disposals	-	(18.2)	(18.2)	-	(23.5)	(23.5)
At 31 December	40.0	56.3	96.3	32.5	63.7	96.2
Net book value						
At 31 December	35.0	9.1	44.1	42.5	12.5	55.0
At 1 January	42.5	12.5	55.0	50.0	29.4	79.4

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

8. Amounts receivable from customers

	2019 £m	2018 (restated) £m
Vanquis Bank	1,461.5	1,495.1
Moneybarn	502.1	416.4
CCD	249.0	292.5
Total group	2,212.6	2,204.0
Analysed as:		
– due in more than one year	418.3	364.8
– due within one year	1,794.3	1,839.2
Total group	2,212.6	2,204.0

Vanquis Bank receivables comprise £1,432.6m (2018 (restated): £1,469.1m) in respect of credit cards and £28.9m (2018: £26.0m) in respect of loans. The balance at 31 December 2019 is stated net of an estimated balance reduction provision of £nil (2018: £3.7m) in respect of the FCA investigation into ROP.

CCD receivables comprise £205.8m in respect of the home credit business (2018: £253.0m) and £43.2m in respect of Satsuma (2018: £39.5m).

Moneybarn receivables are stated net of an estimated balance reduction provision of £nil (2018: £1.8m) in respect of the FCA investigation into affordability, forbearance and termination options.

8. Amounts receivable from customers (continued)

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

	2019			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross receivables				
Vanquis Bank	1,367.9	171.6	363.6	1,903.1
Moneybarn	335.4	188.4	63.0	586.8
CCD	155.9	36.0	402.0	593.9
Total group	1,859.2	396.0	828.6	3,083.8
Allowance account				
Vanquis Bank	(146.6)	(85.2)	(209.8)	(441.6)
Moneybarn	(9.5)	(35.8)	(39.4)	(84.7)
CCD	(10.4)	(10.1)	(324.4)	(344.9)
Total group	(166.5)	(131.1)	(573.6)	(871.2)
Net receivables				
Vanquis Bank	1,221.3	86.4	153.8	1,461.5
Moneybarn	325.9	152.6	23.6	502.1
CCD	145.5	25.9	77.6	249.0
Total group	1,692.7	264.9	255.0	2,212.6

	2018 (restated)			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross receivables				
Vanquis Bank	1,303.3	174.7	519.8	1,997.8
Moneybarn	292.8	130.7	117.3	540.8
CCD	183.6	48.4	493.6	725.6
Total group	1,779.7	353.8	1,130.7	3,264.2
Allowance account				
Vanquis Bank	(187.0)	(58.7)	(257.0)	(502.7)
Moneybarn	(9.2)	(28.4)	(86.8)	(124.4)
CCD	(12.0)	(12.9)	(408.2)	(433.1)
Total group	(208.2)	(100.0)	(752.0)	(1,060.2)
Net receivables				
Vanquis Bank	1,116.3	116.0	262.8	1,495.1
Moneybarn	283.6	102.3	30.5	416.4
CCD	171.6	35.5	85.4	292.5
Total group	1,571.5	253.8	378.7	2,204.0

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

	2019				2018			
	Vanquis Bank	Moneybarn	CCD	Total	Vanquis Bank (restated)	Moneybarn (restated)	CCD	Total (restated)
	£m	£m	£m	£m	£m	£m	£m	£m
Brought forward	21.3	19.8	1.3	42.4	14.7	15.5	1.0	31.2
Capitalised	18.3	23.0	8.8	50.1	12.0	18.3	4.4	34.7
Amortised	(7.8)	(18.2)	(8.2)	(34.2)	(5.4)	(14.0)	(4.1)	(23.5)
Carried forward	31.8	24.6	1.9	58.3	21.3	19.8	1.3	42.4

8. Amounts receivable from customers (continued)

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

	2019	2018 (restated)
	£m	£m
Vanquis Bank	198.9	241.6
Moneybarn	41.8	34.4
CCD	96.2	120.8
Total group	336.9	396.8

9. Retirement benefit asset

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

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

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2018 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

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

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

	2019	2018
	£m	£m
Fair value of scheme assets	842.6	788.3
Present value of defined benefit obligation	(764.6)	(704.4)
Net retirement benefit asset recognised in the balance sheet	78.0	83.9

The amounts recognised in the income statement were as follows:

	2019	2018
	£m	£m
Current service cost	(1.7)	(2.7)
Interest on scheme liabilities	(19.5)	(17.4)
Interest on scheme assets	21.9	19.9
Net credit/(charge) recognised in the income statement before exceptional past service credit/(charge)	0.7	(0.2)
Exceptional past service charge – Plan amendment (note 3)	-	(6.9)
Exceptional past service credit – Curtailment credit (note 3)	0.5	0.6
Exceptional past service credit/(charge)	0.5	(6.3)
Net credit/(charge) recognised in the income statement	1.2	(6.5)

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

9. Retirement benefit asset (continued)

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

	2019 £m	2018 £m
Fair value of scheme assets at 1 January	788.3	835.5
Interest on scheme assets	21.9	19.9
Actuarial movements on scheme assets	67.4	(31.3)
Contributions by the group	2.6	9.8
Net benefits paid out	(37.6)	(45.6)
Fair value of scheme assets at 31 December	842.6	788.3

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

	2019 £m	2018 £m
Present value of defined benefit obligation at 1 January	(704.4)	(733.2)
Current service cost	(1.7)	(2.7)
Interest on scheme liabilities	(19.5)	(17.4)
Exceptional past service charge – Plan amendment (note 3)	-	(6.9)
Exceptional past service credit – Curtailment credit (note 3)	0.5	0.6
Actuarial movement – experience	0.1	(9.1)
Actuarial movement – demographic assumptions	19.9	(31.4)
Actuarial movement – financial assumptions	(97.1)	50.1
Net benefits paid out	37.6	45.6
Present value of defined benefit obligation at 31 December	(764.6)	(704.4)

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

	2019 %	2018 %
Price inflation – RPI	2.95	3.30
Price inflation – CPI	2.05	2.20
Rate of increase to pensions in payment	2.70	3.00
Inflationary increases to pensions in deferment	2.10	2.20
Discount rate	2.00	2.80

A 0.1% change in the discount and inflation rates would change the present value of the defined benefit obligation by approximately £14m (2018: £12m) and £6m (2018: £5m) respectively.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 2 tables (2018: series 1 tables), with multipliers of 96% (2018: 96%) and 101% (2018: 101%) respectively for males and females. The 4% downwards (2018: 4%) adjustment to mortality rates for males and a 1% upwards (2018: 1%) adjustment for females reflects higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes following an updated study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2018 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	
	2019 years	2018 Years	2019 Years	2018 years
Current pensioner aged 65	21.8	22.2	23.3	23.8
Current member aged 45 from age 65	23.1	23.6	24.8	25.3

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £38m (2018: £30m).

9. Retirement benefit asset (continued)

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

	2019 £m	2018 £m
Actuarial movements on scheme assets	67.4	(31.3)
Actuarial movements on scheme liabilities	(77.1)	9.6
Actuarial movements recognised in the statement of comprehensive income in the period	(9.7)	(21.7)

10. Investments

	2019 £m	2018 £m
Government gilts	-	35.7
Visa Inc. shares	16.6	12.1
	16.6	47.8

Government gilts

Government gilts in 2018 comprised UK government gilts which formed part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime. Vanquis Bank's total liquid assets buffer and other liquid resources, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £321.9m (2018: £420.6m). This includes £321.9m (2018: £384.9m) held in cash and cash equivalents.

Visa Inc. shares

The Visa shares represent 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 which was due, and received, on the third anniversary of the completion date in June 2019. The preferred stock is convertible into Class A common stock of Visa Inc. at a future date, subject to certain conditions.

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 31 December 2019 of £16.6m (2018: £12.1m) is held at fair value through the OCI. The increase in the fair value of the investment during the year of £4.5m (2018: £2.2m) in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates has been recognised in the statement of comprehensive income.

The valuation of the preferred stock has been determined using the common stock's value as an approximation as both classes of stock have similar dividend rights. However, adjustments have been made for: (i) illiquidity, as the preferred stock is not tradeable on an open market and can only be transferred to other VISA members; and (ii) future litigation costs which could affect the valuation of the stock prior to conversion.

11. Provisions

	2019 £m	2018 £m
At 1 January	53.2	104.6
Used during the year	(21.9)	(62.2)
Released during the year	(16.8)	-
Reclassification from balance reduction provisions	-	10.8
At 31 December	14.5	53.2

Vanquis Bank

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

The ROP refund programme was completed in 2019 with over 1.3 million current and former ROP customers refunded. As a result, the provision has reduced from £45.7m at 31 December 2018 to £11.7m at 31 December 2019 reflecting: (i) cash settlements and administration costs of £19.8m (2018: £61.8m); and (ii) the release of £14.2m of the provisions originally established in 2017 as an exceptional credit (see note 3) following completion of the refund programme and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally. The balance reduction provision has also reduced from £3.7m at the end of 2018 to £nil at 31 December 2019 (see note 8).

The remaining ROP provision principally reflects the estimated cost of the forward flow of ROP complaints more generally in respect of which compensation may need to be paid. The provision is calculated using a number of key assumptions:

- Customer complaints volumes – an estimate of future claims which may be initiated by customers where the volume is anticipated to cease after 31 December 2021;
- Average claim redress – the expected average payment to customers for upheld claims; and
- Customer and FOS complaints upheld rates – the number of claims redressed as a percentage of total claims received.

These assumptions involve management judgement and are subjective, particularly in respect of the uncertainty associated with future claims levels. It is therefore possible that the eventual outcome may differ from the current estimate. A +/- 10% variation in customer complaints volumes would result in a £1.0m increase/decrease in provisions, a +/- 10% variation in average claim redress would result in a £1.0m increase/decrease in provisions and a+/- 10% variation in upheld rate would result in a £1.8m increase/decrease in provisions.

Moneybarn

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

The redress required to resolve the issues arising in respect of the FCA investigation into affordability, forbearance and termination options was completed in the third quarter of 2019 and Moneybarn has now received the final notice from the FCA. As a result, the provision has reduced from £7.5m at 31 December 2018 to £2.8m at 31 December 2019 in respect of: (i) refund activity and the costs of the investigation of £2.1m; and (ii) the release of £2.6m of the provision as an exceptional credit (see note 3) following receipt of the final notice. The remaining provision of £2.8m at 31 December 2019 relates to the fine included in the final notice. The balance reduction provision has also reduced from £1.8m at the end of 2018 to £nil at 31 December 2019 (see note 8).

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

	2019 £m	2018 (restated) £m
Profit after tax	84.4	65.3
Adjusted for:		
– tax charge (note 4)	44.4	32.0
– finance costs before exceptional premium and fees paid on refinancing of senior bonds	72.0	73.2
– exceptional premium and fees paid on refinancing of senior bonds (note 3)	-	18.5
– share-based payment charge	1.9	1.1
– retirement benefit (credit)/charge before exceptional past service (credit)/charge (note 9)	(0.7)	0.2
– exceptional past service (credit)/charge in respect of retirement benefit pension scheme (note 9)	(0.5)	6.3
– amortisation of intangible assets (note 7)	16.4	19.2
– exceptional impairment of intangible assets (note 7)	1.9	12.8
– depreciation of property, plant and equipment and right of use assets	24.6	9.1
– loss on disposal of property, plant and equipment	2.2	-
– exceptional impairment of property, plant and equipment and (note 3)	-	1.0
– exceptional release of provisions (note 11)	(16.8)	-
Changes in operating assets and liabilities:		
– amounts receivable from customers	(8.6)	(91.7)
– trade and other receivables	(3.5)	(1.9)
– trade and other payables	(2.5)	(5.9)
– contributions into the retirement benefit scheme (note 9)	(2.6)	(9.8)
– provisions (note 11)	(21.9)	(62.2)
Cash generated from operations	190.7	67.2

13. Contingent liabilities

Challenge to self-employed status of UK home credit agents

It is understood from discussions with HMRC that they have commenced an industry wide review of the self-employed status of agents.

In July 2017, the group changed its home credit operating model in the UK from a self-employed agent model to an employed workforce to take direct control of all aspects of the customer relationship. Policies and procedures were in place up to the transition to the new operating model to ensure that the relationship between the business and the agents it engaged were such that self-employed status was maintained. Compliance with policies was routinely evidenced and tested. To date, the group has successfully defended claims and challenges against the historic employment status of the group's UK home credit agents although there can be no guarantee that this will also be the case with future claims and challenges.

The group's discussions with HMRC, which are focusing on the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014 to the change of operating model in July 2017, remain in the initial fact-finding stages. The group is working positively and collaboratively with HMRC who have indicated that the review could continue for another year.

Were the group to be unsuccessful in defending the historic self-employed position of agents, it may be required to pay additional taxes, in particular employer's national insurance contributions, on the approximate £80 million per annum commission it paid to agents in the UK for the years concerned. As discussions with HMRC remain in the preliminary stages and the group does not know the amounts of tax and national insurance contributions paid by agents though self-assessment which are available for offset, it is difficult to calculate an accurate liability should the group be unsuccessful in defending the position.

The group has worked with HMRC over many years to manage employment status risk and it remains confident that agents were self-employed as a matter of law throughout their engagement by the home credit business.

13. Contingent liabilities (continued)

Irresponsible lending complaints and the Financial Ombudsman Service (FOS)

There continues to be heightened claims management company activity around non-standard lending sectors, particularly in respect of irresponsible lending in high-cost credit and more recently in home credit. As a result, CCD has seen an increase in the number and cost of such complaints and an increase in referrals to the FOS, particularly in the first half of 2019. CCD continues to robustly defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard. Complaints of irresponsible lending and referrals to the FOS stabilised during the second half of 2019.

CCD incurs the cost of settling complaints as part of its normal business as usual activity. However, were the group to be unsuccessful in defending certain irresponsible lending complaints referred to above, it may lead to a material increase in the cost of settling such complaints. It is not possible to calculate the aggregated increased cost of such a scenario.

Other legal actions and regulatory matters

In addition, during the ordinary course of business the group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, agents, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However, the group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

14. Post balance sheet events

The group successfully signed a bilateral securitisation facility with NatWest Markets to fund Moneybarn business flows on 14 January 2020. The new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months. As a part of obtaining consent for the securitisation from the group's existing lenders, the group's revolving syndicated credit facility has reduced from £235m to £211m and the group repaid early the remaining M&G loan facility of £25m on 14 February 2020.

Directors' responsibility statement

Each of Patrick Snowball, Chairman; Malcolm Le May, Chief Executive Officer; Simon Thomas, Chief Financial Officer; Andrea Blance, Senior independent non-executive director; Angela Knight, non-executive director; Paul Hewitt, non-executive director; Elizabeth Chambers, non-executive director; Robert East, non-executive director; and Graham Lindsay, non-executive director, confirms that, to the best of his or her knowledge that:

(i) the group financial statements which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group, the company and the undertakings included in the consolidation taken as a whole; and
(ii) the Strategic Report contained in the 2019 Annual Report and Financial Statements includes a fair review of the development and performance of the business and the position of the company and group, and the undertakings included in the consolidation taken as a whole, and a description of the principal risks and uncertainties they face.

Information for shareholders

1. The shares will be marked ex-dividend on 2 April 2020.

2. The final dividend will be paid on 22 May 2020 to shareholders on the register at the close of business on 3 April 2020. Dividend warrants/vouchers will be posted on 20 May 2020.

3. The last date for elections to participate in the PFG Dividend Re-investment Plan for the final dividend is 30 April 2020.

4. The 2019 Annual Report and Financial Statements together with the notice of the annual general meeting will be posted to shareholders on or around 24 March 2020.

5. The annual general meeting will be held on 7 May 2020 at the head office of Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.