Provident Financial plc
Preliminary results for the year ended 31 December 2020

Provident Financial plc ('the Group' or 'PFG') is the leading provider of credit products to consumers who are underserved by mainstream lenders. The Group today publishes its results for the twelve months to the end of December 2020, unless otherwise stated.

Key financial results

	Twelve months ended 31 December	
	2020	2019[1]
	£m	£m
Adjusted profit/(loss) before tax:		
– Vanquis Bank	38.0	173.5
– Moneybarn	10.9	21.1
– CCD	(74.9)	(20.8)
– Central costs	(21.1)	(21.0)
Adjusted (loss)/profit before tax[2]	(47.1)	152.8
Amortisation of acquisition intangibles	(7.5)	(7.5)
Exceptional costs	(58.9)	(26.3)
(Loss)/profit before tax	(113.5)	119.0
Adjusted basic EPS[2]	(11.0)	44.1
Basic EPS	(32.9)	30.1
Adjusted RORE[3]	(5.2%)	20.0%

Malcolm Le May, Chief Executive Officer, commented:

"2020 will be remembered as a tremendously difficult year for many people, including our customers. However, I and my executive management team are extremely proud of how everyone across PFG adapted quickly to the challenges brought by Covid-19. Importantly, our customers continued to receive the vital support they needed, despite lockdown restrictions. Whilst the Group is reporting an adjusted loss before tax of £47.1m for 2020, I am pleased to say that Vanquis Bank and Moneybarn remained profitable for 2020 as a whole and have started 2021 positively.

We notified the market in March 2021 of our intention to launch a Scheme of Arrangement for CCD. I am pleased to report that the Court has granted the opportunity for the Scheme creditors to meet and assess the Scheme on its own merits. We firmly believe that the Scheme is the fairest compromise we can offer for CCD customers, past and present.

In light of the changing industry and regulatory dynamics in the home credit sector, as well as shifting customer preferences, it is with deepest regret that we have decided to withdraw from the home credit market and we intend to either place the business into managed run-off or consider a disposal. It is anticipated that the cost to the Group of a managed run-off or a sale would be broadly similar. As a result, PFG will no longer offer any 'high-cost' products and we will not be issuing any high-cost or home collected credit products from any CCD entity in future. We intend to build upon our existing unsecured personal loan product expertise during the course of 2021, in the 'mid-cost' segment of the market, an ambition that stretches back to our Capital Markets Day in 2019. The unsecured loan offering is an important step towards our plans of becoming a broader banking group to the financially underserved customer.

Our credit card and vehicle finance businesses saw improving trends during the first quarter of 2021, with credit card spend improving and the demand for vehicle finance increasing month on month. These positive trends, supported by the Group's strong balance sheet, mean that we feel confident about how we are positioned in our markets."

Highlights

Effective Covid-19 business adaptations embedded; strong capital & liquidity positions maintained

- The swift and effective action taken by management in Q1'20 ensured that operationally the Group was well-placed to face the challenges of Covid-19 throughout 2020 and beyond.
- Group statutory loss before tax of £113.5m (FY'19 PBT: £119.0m) reflects a significant decline in receivables as a result of Covid-19.
- Group adjusted loss before tax of £47.1m (FY'19 PBT: £152.8m) excludes exceptional items relating to the Senior bond tender, the ROP release at Vanquis Bank and redundancy costs within the home credit business and Scheme of Arrangement costs.
- At the end of December, the Group's capital and liquidity positions remained robust with regulatory capital of £675m (FY'19: £710m), equating to a CET1 ratio of 34.2% (FY'19: 31.6%) and a surplus of approximately £264m above the minimum regulatory requirement (FY'19: £140m). Total Group liquidity at the end of December was £1.0bn, including c.£0.8bn held by Vanquis Bank.
- The Board is not proposing a dividend for 2020, in keeping with its objective of preserving capital and supporting business stability whilst macroeconomic uncertainty remains. However, as previously stated, it remains the Group's aim to resume dividend payments to shareholders as soon as operational and financial conditions normalise.
- After the period end, the Group launched a Scheme of Arrangement in order to address the issue of rising customer complaint volumes within CCD. The Group has committed £50m to fund legitimate claims under the Scheme and will cover further Scheme related administrative costs of approximately £15m. The Scheme was granted leave by the Court on 22 April 2021 to convene a meeting of its creditors, which is scheduled to take place on 19 July 2021. The proposed Scheme is considered by the PFG Board to be the fairest compromise that can be offered for CCD customers and if the Scheme is not sanctioned, it is likely that CCD will be placed into administration or liquidation. If this were to happen, CCD customers would not be expected to receive any redress payment.
- As a result of the operational review concluding, and in response to evolving market and customer dynamics, the Group has decided to withdraw from the home credit market entirely. The Group intends to either place the business into a managed run-off or consider a disposal. It is anticipated that the cost to the Group of placing it into managed run-off or disposing of CCD will be up to c.£100m. CCD has also begun a collective consultation process for c.2,100 colleagues regarding its plans to withdraw from the home credit market.
- The Group will adopt a product-centric view of its portfolio going forward, i.e. credit cards, vehicle finance and unsecured personal loans and will focus on the sub- and near-prime segments of these markets.

Vanquis Bank operational adaptations to Covid-19 effective; strong liquidity maintained throughout 2020

- Vanquis Bank, the Group's credit card and unsecured personal loan division, reported adjusted PBT for the year of £38.0m (FY'19: £173.5m), marginally ahead of internal plans, but lower than last year driven by the reduction in customer spend and additional impairment related to Covid-19.
- New customer bookings for the period were 248k (FY'19: 369k) reflecting the implementation of tighter underwriting criteria in response to Covid-19. The total number of customers at the end of December stood at 1.67m (FY'19: 1.72m).
- Customer expenditure trends at Vanquis Bank continue to track in-line with industry data and, at the end of December, were c.15% lower year-on-year. As a result, and when combined with lower customer bookings, receivables at the end of December stood at £1,094m (FY'19: £1,462m).
- Payment holiday take-up by Vanquis Bank credit card customers was c.0.5% at the end of December representing c.1.4% of outstanding balances.
- Vanquis Bank maintained its cautious approach to risk management during 2020 and, at the end of December 30% of its receivables book was provided for (FY'19: 23%).
- Total Group liquidity at the end of December was £1.0bn, including c.£0.8bn held by Vanquis Bank in retail deposits.
- The annualised impairment rate at the end of December of 19.4% (FY'19: 13.6%) was higher year-on-year reflecting additional impairment of approximately £70m taken during H1'20 as a result of Covid-19.
- For the first quarter of 2021, core delinquency trends remained favourable and the take-up of payment holidays continued to be low.

- As a result of tighter underwriting standards introduced during 2020, new customer bookings were lower than the previous year, where bookings were largely unaffected by Covid-19, by approximately 18%. During the first quarter of 2021, customer spend patterns started to improve, as the country moved out of lockdown restrictions, and receivables balances at the end of the quarter stood at c.£1bn.

Moneybarn saw strong demand during the year; market share gains from continued lending during the first lockdown

- Moneybarn, the Group's vehicle finance division, delivered adjusted PBT for the period of £10.9m (FY'19 restated: £21.1m) slightly behind internal plans and down year-on-year. The reduction was driven by an elevated impairment rate driven by Covid-19 offsetting strong demand and receivables growth.
- At the end of December, Moneybarn had approximately 91k customers (FY'19: 77k), an increase of 18.7% year-on-year, and receivables of £567m (FY'19 restated: £489m), which equates to growth of 15.8% versus the previous year.
- Moneybarn remained open to new business throughout 2020 unlike many of its competitors and gained market share as a result. Underwriting standards were tightened in April and the average risk metric per customer improved materially.
- Payment holiday take-up by Moneybarn customers peaked at c.28% of customers and reduced to c.1.3% at the end of December and 1.4% of receivables.
- Moneybarn's coverage ratio was 23% at the end of December (FY'19: 16%) reflecting the more cautious approach to risk management during Covid-19.
- The annualised impairment rate increased to 13.6% (FY'19: 10.4%) driven by higher arrears and provisions for the deteriorating macro-economic outlook.
- After the year end, Moneybarn launched a near-prime product aimed at capturing more of that segment of the market.
- During the first quarter of 2021, arrears trends continued to improve and the take-up on payment holidays remained relatively modest. Moneybarn continued to see good levels of demand from customers despite the lockdown restrictions and new business for the period was above that seen in Q1'20. As a result, receivables at the end of March 2021 were higher by c.4%, ahead of growth trends seen across the wider market, at c.£585m.

Scheme of Arrangement launched for CCD following rising customer complaints and operational review concluded

- CCD reported an adjusted loss before tax (LBT) of £74.9m (FY'19 LBT: £20.8m), slightly below internal plans and a larger loss than the prior year, primarily reflecting the reduction in receivables and associated risk adjusted net interest margin but with an increase in home credit impairment levels due to Covid-19.
- At the end of December, customer numbers were 311k (FY'19: 522k) driven by a reduction in new business, higher levels of write-off due to Covid-19, and the decision to pause lending in Satsuma in Q2'20.
- Receivables at the end of December stood at £139m (FY'19: £249m) reflecting the lower amounts of lending to both new and existing customers, the increased impairment and the pause in Satsuma lending from Q2'20.
- At the end of December, CCD's coverage ratio was 69% (FY'19: 58%).
- As stated above, PFG announced on 15 March 2021 that it was launching a Scheme of Arrangement for CCD in relation to historic lending.
- The operational review of CCD by Hamish Paton has now completed. It concluded that CCD must address the issue of rising volumes of customer complaints and evolve its operating model in order to provide sustainable returns to shareholders.
- The Group has decided to withdraw from the home credit market entirely and will place the business into a managed run-off which is expected to conclude by the end of 2021.
- For the first quarter of 2021, the operational changes put in place last year, including Provident Direct, continued to be effective and, as a result, collections levels were ahead of internal plans. However, owing to the significantly reduced levels of new business and relending, customer receivables continued to fall and were lower by c.28% at the end of Q1'21 vs. FY'20 at c.£100m.

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[1] *2019 comparatives have been restated to retrospectively reflect the Moneybarn accelerated IFRS 9 point of default from the termination of a customer contract to when the customer has missed 3 contractual repayments.*

[2] *Adjusted (Loss)/profit before tax is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (FY'19: £7.5m); and (ii) exceptional costs of £58.9m (2019 £26.3m) which includes (i) the Scheme of Arrangement costs for CCD of £65m; (ii) a further release of provisions following the completion of the ROP refund programme in Vanquis Bank (£8.3m); combined with a funding credit following the £75m tender of the senior bonds in August (£1.9m); offset by restructuring costs (£2.0m); the costs in respect of the intermediate holding company (£1.4m); and pension GMP equalisation costs (£0.7m). This compares to exceptional costs in 2019 as a result of: (i) bid defence costs following NSF's unsolicited offer for the group (£23.8m); (ii) restructuring costs (£19.3m); (iii) a release of provisions following the completion of the ROP refund programme in Vanquis Bank (£14.2m); and (iv) a release of the Moneybarn FCA provision (£2.6m).*

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

Note:
This report may contain certain "forward looking statements" regarding the financial position, business strategy or plans for future operations of Provident. All statements other than statements of historical fact included in this document may be forward looking statements. Forward looking statements also often use words such as "believe", "expect", "estimate", "intend", "anticipate" and words of a similar meaning. By their nature, forward looking statements involve risk and uncertainty that could cause actual results to differ from those suggested by them. Much of the risk and uncertainty relates to factors that are beyond Provident's ability to control or estimate precisely, such as future market conditions and the behaviours of other market participants, and therefore undue reliance should not be placed on such statements which speak only as at the date of this report. Provident does not assume any obligation to, and does not intend to, revise or update these forward-looking statements, except as required pursuant to applicable law or regulation.

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

Chief Executive Officer's review

Introduction

Immediately after the Government's initial response to Covid-19 in March 2020, the Group focused on adapting the operations of its three divisions – Vanquis Bank, Moneybarn and the Consumer Credit Division (CCD) – to enable them to keep supporting customers, whilst keeping colleagues safe. Within a matter of weeks, the vast majority of colleagues from Vanquis Bank and Moneybarn were working remotely and Provident Direct was introduced nationwide for CCD colleagues, enabling remote lending and collections. Unlike many of its competitors, Moneybarn was able to stay open throughout the year, including during the first Government lockdown, enabling it to capture market share and attract new customers. In addition, all of our divisions took the decision to tighten underwriting standards during the first half of the year.

I am pleased to report that the Group maintained its focus on key strategic targets set out at our November 2019 Capital Markets Day. PFG successfully tendered for £75m of its June 2023 senior bonds, Moneybarn launched a new securitisation vehicle and Provident Direct was utilised to increasing effect in home credit. With our third quarter update in November, we informed the market that we had initiated an operational review of CCD to make sure that this business was positioned to provide shareholders with sustainable returns over the long-term. Please see the CCD section for more details.

Towards the end of the year, PFG established a new intermediate holding company, Provident Financial Holdings Limited, to streamline the structure of its operating subsidiaries and ensure that the Group is well-positioned going forward. As part of this process, Provident Personal Credit, Provident Financial Management Services Limited, Greenwood Personal Credit and Provident Investments Ltd were retired as guaranteeing subsidiaries from the Group's fixed income securities and Provident Financial Holdings Limited was added as a guaranteeing subsidiary.

Group financials

Turning to the financial results for 2020, the Group reported an adjusted loss before tax of £47.1m (FY'19 profit of £152.8m), which reflects lower revenue year-on-year driven by lower receivables and higher impairment as a result of Covid-19. This is consistent with the 2020 statutory loss of £113.5m, reducing from a profit of £119.0m in 2019. Throughout 2020, as a management team, we focused on maintaining strong capital and liquidity positions whilst ensuring that colleagues across the Group have all the resources they need to work remotely.

Covid-19 had an immediate impact on our customers and their demand for credit. It also impacted their credit scores as unemployment started to rise. Across the Group, underwriting standards were tightened in April in response to the changing consumer landscape. As a result, new bookings for 2020 fell and so did receivables. At the end of December 2020, the Group had 2,070k customers (FY'19: 2,319k) and a total receivables balance of £1.8bn (FY'19: £2.2bn).

The Group's capital and liquidity positions have remained robust throughout the period. At the end of December, the Group held total regulatory capital of £675m, equating to a total CET1 ratio of 34.2% and a surplus above the minimum regulatory requirement of approximately £264m. Just after the period end, Vanquis Bank launched its first securitisation programme, which is backed by a revolving portfolio of credit card receivables. The notes will be held internally as an additional liquidity contingency option initially, enhancing Vanquis Bank's ability to diversify its sources of funding.

CCD operational review

In November 2020, PFG communicated its intention to initiate an operational review of CCD, to be carried about by Hamish Paton, Managing Director, and his team. In the context of Covid-19, rising customer complaint volumes driven by Claims Management Companies (CMCs) and evolving customer choice dynamics, it was clear that CCD needed to evolve its business model in order to keep providing sustainable returns to shareholders.

On 15 March 2021, PFG informed the market of its decision to launch a Scheme of Arrangement (the 'Scheme') to address the liability of ongoing customer complaints based on historic lending at CCD. The £65m cost of the Scheme has been recorded as a provision in 2020. On 22 April 2021, the Court made an order enabling CCD to convene a meeting of Scheme creditors to consider the merits of the Scheme. CCD customers, past and present, as well as the Financial Ombudsman Service (FOS), now have the opportunity to vote on the Scheme. The creditors meeting will be held on 19 July 2021 and, if creditors vote in favour of the Scheme, the final Court sanction hearing will be held on 30 July 2021.

In response to evolving customer demand, changing home credit market dynamics and the desire to focus on larger market segments, it is with regret that PFG has decided to withdraw from the home credit market entirely and is considering a sale of this business. The home credit business will be placed into a managed run-off, which would be expected to conclude by December 2021. We expect to manage the IT infrastructure and support service expenditure lower as the receivables book falls. At the end of March 2021, CCD had approximately 2,100 employees and an internal consultation for these employees has started today. It is anticipated that the cost to the Group of placing the business into managed run-off or disposing of CCD will be up to c.£100m.

PFG will leverage its existing expertise to expand its unsecured personal loan product. The new loan offering will be a 'mid-term, mid-cost' product and will take into account the most recent sector regulation whilst catering much more closely to modern customer requirements. Further details will be provided in due course.

Payment holidays

Following FCA guidance in March 2020, payment holidays were offered to customers in Vanquis Bank, Moneybarn and CCD of between 1 and 3 months. Payment holiday take-up by PFG customers peaked during H1'20, before gradually declining throughout the second half of the year.

Vanquis Bank saw payment holiday activations grow to a peak of 47k customers or 3.5% of total customers in June. At the end of December, the number of Vanquis customers with an active payment holiday was c.8.5k which equated to 0.5% of customers or 1.4% of receivables.

For Moneybarn, payment holidays increased significantly in April to c.19k customers or 23%. At the end of December, c.1.2k customers had an active payment holiday, equating to 1.3% of the total customers or 1.6% of receivables.

Within CCD, the concept of forbearance is implicit within the business model. Payment holidays peaked during H1'20 at c.4% of customers but, by the end of December, this had improved to c.5.0k customers equating to 1.6% or 1.1% of receivables.

Regulation

Vanquis Bank responded to FCA guidance throughout 2020 in order to manage evolving customer requirements during Covid-19, which included the introduction of payment deferrals and extensions, as well as tailored support for customers who required additional help. The persistent debt measures for credit card lending came into effect in October having been delayed because of Covid-19. Vanquis Bank has made good progress in managing the level of customers in persistent debt, through changes to the credit line increase programme, increasing minimum payments due and enhanced communication encouraging customers to make higher recommended payments.

During 2020, the main regulatory changes focused on the high-cost credit market and impacted CCD. In August, the FCA published the findings of a review into relending by firms that offer high-cost credit, which required businesses to ensure that relending did not lead to worse customer outcomes. At the same time, the Kerrigan vs. Elevate Credit (trading as Sunny) decision was published by the High Court which, in part, focused on affordability and creditworthiness procedures in place at Sunny, including repeat borrowing assessments.

After the period end, in February 2021, the initial findings of the Woolard Review were published. The recommendations included encouraging alternatives to high-cost credit, promoting better access to debt advice and that the FCA work with the Bank of England and the UK Government to allow credit unions to expand their product offering. PFG is reviewing the recommendations set out in the Woolard Review and will look to incorporate anything taken forward by the FCA. Notably, the Group's new unsecured personal loan product will be a 'mid-cost' offering, in keeping with the Review's suggestions.

Also, after the period end, at the start of February, Moneybarn was able to start collecting vehicles from customers where a Default Termination (DT) had occurred. Before then, as per FCA guidance, Moneybarn was only able to collect vehicles from Voluntary Terminations (VT).

In February 2021, CCD was informed by the FCA that it had opened an enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process, in the period between February 2020 and February 2021. The start of the investigation period relates to the FOS decision which was taken in February of last year.

The appointment of investigators does not mean that the FCA has determined that rule breaches or any other contraventions have occurred. CCD intends to work closely with the FCA in relation to the investigation, which is unlikely to conclude until the end of 2022 at the earliest. There is no further update at this stage.

Environmental, Social and Corporate Governance (ESG)

Issues of Environmental, Social and Corporate Governance (ESG) are increasingly important for us and many of our largest shareholders. PFG has a sustainable, responsible business strategy which aims to put the customer at the heart of everything we do. Our strategy of lending to our customers in a responsible and sustainable way is a key aspect of the Group's purpose. We are constituents of the FTSE4Good and Dow Jones Sustainability Indices and submit an annual survey to them. We have set several long-term objectives which are aligned with the UN's Sustainable Development Goals and Taskforce on Climate-related Financial Disclosures (TCFD). We also work very closely with several charities and partners to address issues such as access to debt advice, financial education and consumer vulnerability issues. Please see our Corporate Responsibility report, published today, for more details.

As part of PFG's response to Covid-19, the Board and senior management team elected to take a 20% pay cut for three months from April 2020 and there were no bonuses paid in respect of 2020. In June 2020, the Group repaid HMRC all money received in respect of the Government's job retention scheme, as well as all deferred tax payments and will not benefit from future Government support.

In 2020, PFG committed c.£1.2m to its Social Impact Programme which supports partners in tackling customer and colleague vulnerability issues, supporting its education and skills agenda and investing in projects which address a range of social inclusion issues and promote community cohesion. Through the support the Group provides to School-Home Support, a charity working with families and children to maximise educational opportunities, 1,710 interventions were made with families in urgent need of support during the pandemic.

For 2020, the Group was able to offset 4,507 tonnes of CO_2e, which accounted for the Group's annual operational footprint, through the purchase of carbon offset certificates in the Weyerhaeuser Carbon Sequestration Project. The Group is targeting to be fully carbon neutral by 2040, ahead of the UK Government's target of 2045.

Board and senior management changes

In April, Neeraj Kapur took up his role on the Group Board as Group Chief Financial Officer (CFO). Neeraj brings significant relevant experience as a main board director of a FTSE business and as a bank CFO. In July, Margot James joined the Group Board as an Independent Non-Executive Director following a successful career in both the public and private sector, during which she served as an MP from 2010 to 2019 and founded Shire Health Group.

At a divisional level, Hamish Paton was appointed as Managing Director of CCD in September and David Shrimpton was appointed to the same position at Moneybarn. Gary Thompson, who was Director of Group Finance and Investor Relations for over ten years, was appointed as Finance Director of Vanquis Bank and Neill Moore, who has held various senior finance positions at KPMG, Boots and FGH, was appointed to the same position at CCD. After the period end, in February 2021, Chris Anderson joined Moneybarn as Finance Director, having also held senior finance positions at CitiFinancial Europe, Everyday Loans and Secure Trust Bank.

Outlook

The Group's credit card and vehicle finance businesses reported improving trends during Q1'21, with credit card spend improving and the demand for vehicle finance increasing as lockdown restrictions eased. These positive trends, supported by the Group's strong balance sheet, mean that we feel confident about how we are positioned in our markets. Over the course of 2021, PFG intends to launch an unsecured personal loan product in the 'mid-cost' segment of this £1.6bn market, an ambition first set out at our Capital Markets Day in 2019. The unsecured loan offering is an important step towards the Group's ambition of becoming a broader banking group to the financially underserved customer. We expect to update the market with a Capital Markets Day in the fourth quarter of 2021.

There are indications that Covid-19 will increase the size of our addressable markets in the future, as household finances are impacted. As a result of the Covid-19 pandemic, the 10 to 12 million adults in the UK who sit outside of high street bank risk appetites will likely increase. Indeed, the FCA published recently that, over the course of 2020, the number of adults in the UK with low financial resilience had increased from 10.7m to 14.2m.

The Group remains mindful of Government support schemes coming to an end and the impact that this will have on the wider economy in the UK. However, as a result of our balance sheet strength and proactive but prudent approach to risk management, the Group remains well positioned.

We will continue to work towards many of the objectives we set out in our 2019 Capital Markets Day including expanding our digital footprint, investing in new products, focusing on funding efficiencies to become a broader banking group for the financially underserved customer.

Malcolm Le May
Chief Executive Officer
10 May 2021

Financial review

Group performance

The Group's 2020 final results can be summarised as follows:

	Twelve months ended 31 December	
	2020	2019[1]
	£m	£m
Adjusted profit/(loss) before tax:		
– Vanquis Bank	38.0	173.5
– Moneybarn	10.9	21.1
– CCD	(74.9)	(20.8)
– Central costs	(21.1)	(21.0)
Adjusted (loss)/profit before tax[2]	(47.1)	152.8
Amortisation of acquisition intangibles	(7.5)	(7.5)
Exceptional costs	(58.9)	(26.3)
(Loss)/profit before tax	(113.5)	119.0
Adjusted basic EPS[2]	(11.0)	44.1
Basic EPS	(32.9)	30.1
Adjusted RORE[3]	(5.2%)	20.0%

[1] *2019 comparatives have been restated to retrospectively reflect the Moneybarn accelerated IFRS 9 point of default from the termination a customer contract to when the customer has missed 3 contractual repayments.*

[2] *Adjusted (Loss)/profit before tax is stated before: (i) £7.5m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2019: £7.5m); and (ii) exceptional costs of £58.9m (FY'19 £26.3m) which includes (i) the Scheme of Arrangement costs for CCD of £65m; (ii) a further release of provisions following the completion of the ROP refund programme in Vanquis Bank (£8.3m); combined with a funding credit following the £75m tender of the senior bonds in August (£1.9m); offset by restructuring costs (£2.0m); the costs in respect of the intermediate holding company (£1.4m); and pension GMP equalisation costs (£0.7m). This compares to exceptional costs in 2019 as a result of: (i) bid defence costs following NSF's unsolicited offer for the group (£23.8m); (ii) restructuring costs (£19.3m); (iii) a release of provisions following the completion of the ROP refund programme in Vanquis Bank (£14.2m); and (iv) a release of the Moneybarn FCA provision (£2.6m).*

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

The Group adjusted loss before tax for 2020 was £47.1m (FY'19 PBT restated: £152.8m) is lower year-on-year driven by lower revenues, driven by lower receivables, and higher impairment charges driven by Covid-19. The Group statutory loss before tax of £113.5m (FY'19 PBT restated: £119.0m) includes: a provision for the CCD Scheme of Arrangement costs, an exceptional provision release of £8.3m following the completion of the ROP refund programme in 2019 and a funding credit following the £75m tender of our 2023 senior bonds in August of £1.9m being offset by restructuring and other one-off costs.

Vanquis Bank reported profit before tax for the period of £38.0m (FY'19: £173.5m) and receivables ended the period at £1,094m (FY'19: £1,462m).

Moneybarn generated a profit before tax of £10.9m (FY'19 restated: £21.1m), with the reduction driven by a significant increase in impairment acting to offset good revenue and receivables growth.

CCD reported a loss before tax of £74.9m, compared to a loss for FY'19 of £20.8m. The loss for the period reflects lower revenue being partially offset by lower impairment as a result of the smaller receivables.

The Group reported a basic loss per share of 32.9p per share for 2020 compared to a basic EPS of 30.1p in FY'19. This reflects the loss-making position of the Group, driven by lower receivables. On an adjusted basis, the Group reported a loss per share of 11.0p down from an adjusted EPS of 44.1p in FY'19.

Impairment provisioning

As a leading provider of credit to the underserved in the UK, our customers have similar traits across each business. They manage their lives on low to average incomes; may have irregular or variable earnings and are often new to credit in the UK or have little or no credit history. It is for these reasons that the impairment provisions held are higher than those which would be reported by prime banks on similar products.

The Group's coverage ratio increased from 28.6% at December 2019 to 34.0% at June 2020 reflecting the significant increase across all divisions at the onset of Covid-19 as a result of payment holidays offered, the missed repayments in CCD, combined with a deterioration in unemployment forecasts.

The Group's coverage ratio continued to increase in H2-20 from 34.0% in June 2020 to 34.7% as at December 2020 reflecting the foreseen deterioration in unemployment combined with ongoing payment holidays the impact of PD36 in Vanquis Bank, and the inability to terminate customer contracts in Moneybarn due to the FCA moratorium. This has resulted in increased impairment provisions being held. This has been offset by CCD where customer provisions are based on the last 12 weeks of repayment performance therefore the coverage improved in H2-20 following the initial impact of Covid-19.

	December-20	**December-19**	**Increase**
Vanquis Bank	30.2%	23.2%	7.0%
Moneybarn	22.8%	16.3%	6.5%
CCD	69.4%	58.1%	11.3%
Group	**34.7%**	**28.6%**	**6.1%**

The increase in the Group's coverage ratio as a result of underlying delinquency deterioration has been fully offset by the reduction in customer receivables. The coverage increased by 5% as a result of the macro-economic outlook and 1% as a result of an assumed deterioration in debt sale prices.

The coverage ratio in Vanquis Bank has increased by 7.0% to 30.2%, reflecting underlying delinquency and the impact of the macro-economic outlook being offset by lower volumes as a result of the 25% reduction in year end receivables.

The Moneybarn coverage ratio increased by 6.5% to 22.8% reflecting the inability to terminate customer contracts due to the FCA moratorium therefore larger provisions are held combined with the increased level of receivables.

The coverage ratio in CCD increased by 11.3% to 69.4% reflecting the deterioration in arrears being more than offset by lower year end receivables.

Our customers are 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 typically proven to be more resilient during a downturn in economic conditions. However, we have tightened underwriting over the last year to manage credit risk during this period of uncertainty.

The impact of Covid-19 has significantly influenced impairment provisions in the year. Each division has reviewed individual cohorts of customer behaviour in light of Covid-19. This reflects assumptions in respect of:

- higher Probability of Default (PD) for customers who have already activated a payment holiday including the expectation of how a customer will continue to repay following the end of the payment holiday;
- higher PD from increased arrears where a customer may not have been able to meet their repayments but not activated a payment holiday. Future repayment expectations have been derived from detailed analysis of previous customer behaviour, including payment history or evidence of a Significant Increase in Credit Risk (SICR) from bureau analysis;
- the potential for further payment holidays where FCA guidance was in place at the period end, extending the period over which customers could activate a payment holiday;
- higher loss given default (LGD) where recoveries from the customer may be impacted, as well as lower recoveries from third-party debt collection agencies and external debt sales.

For Moneybarn, trends in the used vehicle resale values have been analysed to estimate recoveries from the sale of the vehicle at auction. This also reflects assumptions over the timing of resale given the difficulties in recovering the vehicles; and

- the potential impact to PD or LGD as a result of the foreseen deterioration in the macroeconomic environment.

Macroeconomic provision

Separate macroeconomic provisions are recognised to reflect an increased PD and LGD, in addition to the core impairment provisions, already recognised based on future macroeconomic scenarios.

For Vanquis Bank, the provision reflects the potential for future changes in unemployment under a range of unemployment forecasts. For Moneybarn, trends in the used vehicle resale values have been also analysed to estimate recoveries from the sale of the vehicle at auction. This also reflects assumptions over the timing of resale given difficulties in recovering the vehicles. Unemployment is utilised by both Vanquis Bank and Moneybarn as a key macroeconomic indicator as analysis has clearly evidenced correlation between changes in unemployment and credit losses incurred by the business. This will continue to be analysed to assess if there are any additional macroeconomic indicators which also correlate to credit losses.

CCD customers are not considered to be reflective of the wider economy as they are less indebted and are therefore not impacted by the same macroeconomic factors or to the same degree. Consequently, there is no evidence of any significant correlation between the impairment charge and macro employment statistics. Consistent with the 2019 year end, a separate macroeconomic provision is not held for CCD.

For Vanquis Bank and Moneybarn, the unemployment data has been compiled from a consensus of sources including the Bank of England, HM Treasury, the Office for Budget Responsibility (OBR), Bloomberg and a number of prime banks.

The table below shows the annual peak and average unemployment assumptions adopted by Vanquis Bank and Moneybarn and the weightings applied to each. The combined severe and downside scenario weightings have doubled from 20% at Dec-19 to 40% at Dec-20 to reflect the uncertain outlook:

Unemployment rate (%)	**Base**	**Upside**	**Downside**	**Severe**
Weighting	50%	10%	35%	5%
2021				
Peak	7.9	6.2	10.1	12.7
Average	7.1	5.7	9.0	11.2
2022				
Peak	6.7	5.0	8.5	10.4
Average	6.1	4.8	7.7	9.0

Vanquis Bank

	2020 £m	2019 £m	Change
	Twelve months ended 31 December		
Customer numbers ('000)	1,667	1,720	*(3.1%)*
Period-end receivables	1,094.3	1,461.5	*(25.1%)*
Average receivables[1]	1,233.9	1,459.9	*(15.5%)*
Revenue	**481.4**	**580.9**	***(17.1%)***
Interest	(34.4)	(31.4)	*(9.6%)*
Net interest margin	**447.0**	**549.5**	***(18.7%)***
Impairment	(239.9)	(198.9)	*(20.6%)*
Risk-adjusted net interest margin	**207.1**	**350.6**	***(40.9%)***
Costs	(169.1)	(177.1)	*4.5%*
Adjusted profit before tax[2]	**38.0**	**173.5**	***(78.1%)***
Annualised revenue yield[3]	39.0%	39.8%	*(0.8%)*
Annualised impairment rate[4]	19.4%	13.6%	*(5.8%)*
Annualised return on equity[5]	8.9%	32.9%	*(24.0%)*

1 *Calculated as the average of month end receivables for the 12 months ended 31 December.*
2 *Vanquis Bank profits reflect an adjustment for the release of a ROP provision (£8.3m) in 2020. The 2019 adjusted profit before tax reflects a net exceptional credit of £12.4m comprising an exceptional credit of £14.2m in respect of the release of provisions established in 2017 for the ROP refund programme and restructuring costs of £1.8m.*
3 *Revenue as a percentage of average receivables for the 12 months ended 31 December.*
4 *Impairment as a percentage of average receivables for the 12 months ended 31 December.*
5 *Adjusted profit after tax as a percentage of average equity for the 12 months ended 31 December.*

Vanquis Bank is a leading specialist in the large and established credit card market with strong capital and liquidity positions. As a direct result of Covid-19, the business reported adjusted profit before tax for 2020 of £38.0m, down from £173.5m in 2019, and receivables at the end of the period of £1,094.3m were approximately £368m lower than 2019 (FY'19: £1,461.5m).

As a result of underwriting standards being tightened materially in April, new customer bookings for the year were 248k, down from 369k in 2019. Accordingly, Vanquis Bank customer numbers reduced by 3.1% to 1,667k during the year (FY'19: 1,720k). Approximately 100k inactive customers had their account closed during Q1'21 following communications to them in November 2020 that their account would be closed if there was no activity within 60 days.

In response to the onset of Covid-19, new customer bookings were reduced by 75% during Q2'20, all new loans activity was curtailed and the Credit Line Increase (CLI) programme was suspended. New customer booking volumes resumed in the second half of the year, although booking activity is being restricted to approximately 50% of pre-Covid-19 levels as risk appetite remains cautious given the economic backdrop. The CLI programme resumed in the second half and is currently tracking at approximately 50% of pre-Covid-19 levels.

Receivables ended the period at £1,094.3m (FY'19: £1,461.5m), a decrease of £368m compared with 2019. The reduction in receivables can be attributed to lower customer bookings, the CLI programme suspension and lower customer spending. In April, customer spending reduced by c.40% year-on-year. By the end of July, this had recovered to be 15% lower year-on-year. At the end of December, impacted by Tier 3 and Tier 4 local lockdowns and the second national lockdown, customer spending was down by 20% year-on-year, in-line with market trends. As a result of lower customer spending, utilisation rates ended the year at c.53% having been c.60% in January. Customer spending in Q1'21 continued to be heavily impacted by the UK lockdown and was approximately 25% lower than prior year levels. However, customer spending in April 2021 has seen a return to normal levels.

Vanquis Bank generated revenue of £481.4m in 2020, down from £580.9m in 2019 driven by the fall in customer receivables. A slight moderation in the revenue yield to 39.0% (FY'19: 39.8%), reflected the ongoing c.£15m annual reduction in ROP income, the ban on the use of credit cards for gambling transactions, which came into force in April, and changes to the basis of charging default and over limit fees.

Interest costs increased to £34.4m during the year (FY'19: £31.4m) reflecting the additional retail deposits raised during April and May. Vanquis Bank operated with c.£650m of excess liquidity over and above its regulatory requirements during the year which has resulted in additional funding costs of approximately £5m. This increase in interest costs was partly offset by lower receivables and a lower interest rate environment which benefited retail deposit costs.

The impairment charge for 2020 was £239.9m (FY'19: £198.9m), an increase of 20% compared to 2019, which equated to an annualised impairment rate of 19.4% at the end of December, compared to 13.6% in FY'19. The increase in impairment in 2020 reflects the impact of Covid-19, the deterioration in the macroeconomic outlook, a provision for customers entering into PD36, which came into effect from October 2020, and the exit performance of customers who had taken a payment holiday. The lower revenue yield and a higher impairment rate combined to equate to the risk-adjusted NIM reducing to 16.8% (FY'19: 24.0%).

Vanquis Bank began offering its credit card and personal loan customers a payment holiday from April, in advance of FCA guidance. The take-up peaked during May at c.3% of customers and 5% of receivables. Since then, there has been a gradual reduction in payment holiday levels with take-up as a percentage of customers falling to 0.5% and receivables to 1.0% at the end of December.

Costs reduced to £169.1m in 2020 (FY'19: £177.1m), reflecting the ongoing cost efficiency programme, together with the cessation of all discretionary spend in response to Covid-19 and lower customer acquisition costs from lower customer bookings during the year.

Vanquis Bank supported its customers and colleagues throughout 2020 given the significant disruption caused by Covid-19. From mid-April 80% of contact centre and 100% of head office colleagues were working remotely with minimal impact on customer service levels. During the period, lending to existing customers continued with 166k CLIs, equating to c.£140m of additional headroom on customer cards, and 108k interest rate reductions were delivered to customers. Vanquis Bank continues to place significant focus on providing additional support to customers in financial difficulty through either: (i) payment holidays in line with FCA guidance (to over 100k customers); (ii) payment freezes as part of the ROP product; and (iii) a number of other forbearance measures.

Vanquis Bank continues to focus on enhancing its customer proposition, which includes:

- Entering a partnership with Payit in 2020, enabling users to make simple and secure payments to their credit card balance without the use of a debit card. Payments are made through the Vanquis Bank app, which has over 1 million users, and can be made from major UK banks. It provides an instant update to available credit and provides an updated balance by the next working day.

- A partnership with LOQBOX, announced recently, which offers a way for customers to improve their credit score. If a customer applies to Vanquis Bank for a credit card and is declined, Vanquis Bank will refer them to LOQBOX. After signing up, LOQBOX will help customers decide how much they can save in a year (from £20 to £200 per month) and a 0% loan is locked away for the same amount in LOQBOX. After the 12-month period finishes, the money saved is released back to the customer's bank account and the loan is repaid. The improvement in the customer's credit rating will allow Vanquis Bank to offer them a credit card.

Vanquis Bank remained profitable for 2020 as a whole and has strong capital and liquidity positions resulting in £110m of dividends being paid to the parent, Provident Financial plc during 2020, with an additional £40m being paid following the year end. It remains focused on enhancing its customer and digital propositions as well as broadening its range of products. This dual focus forms an important part of its aim of becoming the bank for the underserved customer.

Moneybarn

	Twelve months ended 31 December		
	2020 £m	2019[1] £m	*Change*
Customer numbers ('000)	91.4	77.0	*18.7%*
Period-end receivables	566.6	489.1	*15.8%*
Average receivables[2]	533.1	476.9	*11.8%*
Revenue	134.0	119.8	*11.9%*
Interest	(24.6)	(28.4)	*13.4%*
Net interest margin	109.4	91.4	*19.7%*
Impairment	(72.7)	(49.4)	*(47.2%)*
Risk-adjusted net interest margin	36.7	42.0	*(12.6%)*
Costs	(25.8)	(20.9)	*(23.4%)*
Adjusted profit before tax[3]	10.9	21.1	*(48.3%)*
Annualised revenue yield[4]	25.1%	25.1%	-
Annualised impairment rate[5]	13.6%	10.4%	*(3.2%)*
Annualised return on assets[6]	5.4%	8.4%	*(3.0%)*

1 *2019 comparatives have been restated to retrospectively reflect the Moneybarn accelerated IFRS 9 point of default from the termination a customer contract to when the customer has missed 3 contractual repayments.*

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

3 *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £7.5m (2019: £7.5m) for 2020. In 2019, adjusted profit before tax reflects an exceptional credit of £2.6m in respect of the release of provisions established in 2017 following completion of the FCA investigation into affordability.*

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

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

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

Moneybarn is one of the largest suppliers of vehicle finance to underserved customers in the UK and successfully grew its market share during 2020. The business has a strong track record and is in an excellent position to continue to deliver good levels of growth and strong returns. For the twelve months to the end of 31 December 2020, Moneybarn generated an adjusted profit before tax of £10.9m (FY'19: restated £21.1m). The fall year-on-year was driven by higher impairment as a result of Covid-19, which more than offset good growth in its receivables and customer numbers.

Moneybarn was able to continue lending to its customers throughout 2020, including the periods of national lockdown, thanks to actions taken at the onset on Covid-19. As a result of remaining open, Moneybarn has consolidated and increased its market position and cemented its relationships with key introducers.

New business volumes during 2020 were comparable to 2019 at 38.0k (FY'19: 38.8k) despite tighter underwriting criteria. Moneybarn benefitted from competitors pulling back from the market during 2020 and, as a result, has seen an improvement in the quality of the new business being written, e.g. the average credit score of new customers has increased. As a result of this improvement, the average loan value increased to its highest level in two years, to just over £8k, which drove total credit issued to over £300m for the first time. For the year as a whole, approximately 38% of Moneybarn's new lending was to people classified as keyworkers.

Moneybarn ended the year with 91k customers, representing an increase vs. FY'19 of 14k or 18.7%. The underlying demand for quality used cars, especially within Moneybarn's core market, is expected to continue post-lockdown as concerns around the use of public transport persists and prime- and near-prime providers pull back from the market.

At the end of December, receivables stood at £566.6m (FY'19 restated: £489.1m), driven by healthy new business volumes and the average loan size increasing.

As a result of the higher receivables base, revenues during FY’20 increased by 11.9% year-on-year to £134.0m (FY’19 restated: £119.8m). This growth was delivered despite a reduction in higher risk lending during the period. The annualised revenue yield at the end of December was 25.1% vs. 25.1% in December 2019. After the period end, Moneybarn launched a near-prime offering, designed to capture more of that market segment, priced at 14.9% APR.

Interest costs fell during the year to £24.6m (FY’19: £28.4m) reflecting lower funding costs being offset by a higher receivables balance. Th net interest margin at the end of December stood at 20.5% vs. 19.2% a year earlier.

Impairment increased significantly during the year to £72.7m (FY’19 restated: £49.4m) as a result of Covid-19’s impact on the arrears rate and increased provisions driven by a deterioration in the macroeconomic environment. As a consequence, the annualised impairment rate increased to 13.6% (FY’19 restated: 10.4%). On a risk-adjusted basis, the net interest margin fell to 6.9% at the end of December vs. 8.8% a year earlier, as a result of the increased impairment rate. The annualised impairment rate remained elevated during 2020 due, in part, to persistently higher arrears levels supported by a challenging termination process, as the company’s ability to collect vehicles was restricted. This restriction, as per FCA guidance, was lifted on 31 January 2021. Whilst Moneybarn is now able to collect vehicles again, it remains sensitive to customer circumstances.

Prior to the FCA issuing guidance to the market regarding payment holidays, Moneybarn started working with its customers proactively to ease any potential financial hardship they might be experiencing. Therefore, Moneybarn experienced an earlier take-up of such arrangements than the wider market. At its peak, the take-up of a payment holiday by Moneybarn customers was 23.0%. Following the initial one to three-month payment holidays expiring, the overall number declined and, at the end of December, the proportion of Moneybarn customers with an active payment holiday was 1.3%.

Costs increased during the course of the year to £25.8m, from £20.9m a year earlier, reflecting an increase in headcount, volume related costs – such as credit bureau searches – and arrangements for working remotely.

For 2021, Moneybarn will continue to target growth in its traditional markets and, as mentioned above, has launched a near-prime product to expand its target market.

Consumer Credit Division

	Year ended 31 December 2020 £m	2019 £m	*Change*
Customer numbers ('000)	311	522	*(40.3%)*
Period-end receivables	138.9	249.0	*(44.2%)*
Average receivables[1]	166.0	247.3	*(32.9%)*
Revenue	192.4	295.4	*(34.9%)*
Interest	(10.3)	(9.7)	*(6.2%)*
Net interest margin	182.1	285.7	*(36.3%)*
Impairment	(47.5)	(96.2)	*50.6%*
Risk-adjusted net interest margin	134.6	189.5	*(29.0%)*
Costs	(209.5)	(210.3)	*0.4%*
Adjusted loss before tax[2]	(74.9)	(20.8)	*(260.1%)*
Annualised revenue yield[3]	115.9%	119.5%	*(3.6%)*
Annualised impairment rate[4]	28.6%	38.9%	*(10.3%)*
Annualised return on assets[5]	(31.5%)	(3.6%)	*(27.9%)*

[1] *Calculated as the average of month end receivables for the 12 months ended 31 December.*
[2] *Adjusted loss before tax is stated before exceptional items of £66.6m (2019: £14.4m)..*
[3] *Revenue as a percentage of average receivables for the 12 months ended 31 December.*
[4] *Impairment as a percentage of average receivables for the 12 months ended 31 December.*
[5] *Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 31 December.*

The Consumer Credit Division ('CCD') comprises Provident home credit and Satsuma. For 2020, CCD reported an adjusted loss before tax of £74.9m, vs. an adjusted loss before tax for FY'19 of £20.8m. The increased loss for the period reflects lower receivables driving overall lower net revenue but including increased impairment, driven by Covid-19, and significant cost efficiencies being substantially offset by a significant increase in complaints costs in 2020.

The home credit business responded quickly to the challenges presented by Covid-19 by introducing several new ways of working for its field-based colleagues in order to continue supporting its customers. They are able to offer lending and collections services on a fully remote basis including: taking repayments online, over the phone or via an Allpay card, managing loan applications remotely to new, existing or returning customers, offering Provident Direct and utilising central collections activity support with a particular focus on arrears and customers missing payments consecutively.

The home credit team implemented processes to help identify customers indicating that they have been impacted by Covid-19 and whose circumstances have changed as a result. At the end of June, there were c.8.5k customers identified which equated to around 4% of customers and 1% of receivables. By the end of December, this had fallen to c.5k, representing 1.6% of customers and 1% of receivables.

Customer numbers ended the period at 311k, which represents a reduction vs. FY'19 of c.40%, driven by significantly reduced new customer bookings and lower total issue volumes in home credit, and the decision in Q2 2020 to pause lending on the HCSTC Satsuma book. This is reflected in new issue volumes being down by c.47% vs. FY'19 in home credit as a result of tighter underwriting standards and operational restrictions due to Covid-19, the latter particularly in the earlier stages of the pandemic.

CCD receivables ended the period at £138.9m, which represents a decline of 44% year-on-year, driven by significantly lower issue volumes and higher impairment due to Covid-19. Satsuma receivables stood at less than £5m at the end of December as lending to new and existing customers was paused in Q2 2020, although collection activity remaining strong throughout the period.

Revenue for the period was £192.4m, which equates to a reduction of 34.9% vs. FY'19, which was driven by the fall in customer receivables during the period.

The reported revenue yield for FY'20 was 115.9%, lower than the comparable figure for FY'19 of 119.5% due to the significant reduction in the higher-yielding HCSTC Satsuma loan book in 2020. The net interest margin for the year was £182.1m (FY'19: £285.7m) driven by the significantly lower revenue recognised in the period from the lower receivables and slightly lower yield.

Impairment for the year amounted to £47.5m, a decrease of 50.6% vs. FY'19 of £96.2m. The lower impairment charge year-on-year is driven by the dynamics in both the home credit and Satsuma receivables books. Despite the significantly smaller book year-on-year, the home credit impairment charge increased, impacted by higher relative levels of write-off after the initial onset of Covid-19. The collect out of the Satsuma book during the year was stronger than initially anticipated and contributed to a lower than expected impairment charge. As a result, the impairment rate at the end of December was 28.6% vs. 38.9% in FY'19 with the impact of the lower Satsuma impairment outweighing the lower total average receivable for the year.

On a risk-adjusted basis, the net interest margin fell by 29% year-on-year to £134.6m, with lower recognised revenue being partly offset by lower impairment. The risk-adjusted net interest margin as a proportion of average receivables rose to 81.1% vs. 76.6% in FY'19 driven by the lower impairment rate dynamics.

Costs fell by 0.4% during 2020 to £209.5m vs. FY'19 (£210.3m). Total expenses were reduced significantly year-on-year driven by lower salary costs, following management action taken in 2019 and 2020 to reduce headcount, and savings realised across several other operating areas including travel, property, marketing and lower commission costs in the ROI business. The cost efficiencies were substantially offset by a significant increase in complaint costs, primarily from the UK home credit business, of c.£40m vs. FY'19.

Central costs

Central costs were broadly flat year-on-year in 2020 at £21.1m (FY'19: £21.0m). Lower share incentive costs during the period were offset by higher consultancy fees.

Exceptional items

An exceptional cost of £58.9m was recognised in 2020 as a result of: (i) the provision for the CCD Scheme of Arrangement of £50m and the costs of delivering the Scheme of £15m; (ii) restructuring costs (£2.0m); (iii) the costs of the creation of the intermediate holding company (1.4m); and, (iv) pension GMP equalisation costs (£0.7m) ; offset by (ii) a further release of provisions following completion of the ROP refund programme in Vanquis Bank (£8.3m); combined with a funding credit following the £75m tender of the senior bonds in August (£1.9m). This compares to an exceptional cost in 2019 of £26.3m as a result of: (i) bid defence costs following NSF's unsolicited offer for the group £23.8m; (ii) restructuring costs (£19.3m); (iii) a release of provisions following the completion of the ROP refund programme in Vanquis Bank (£14.2m); and (iv) a release of the Moneybarn FCA provision (£2.6m).

Tax

The tax credit for 2020 represents an effective tax rate of 26.5% (2019 (restated): 35.7%) on statutory losses before tax which results in a tax credit of £30.1m being recognised in the year (2019 (restated): charge of £42.6m) which principally reflects: (i) the mainstream corporation tax rate of 19.0% on Group profit before tax and the 8.0% bank corporation tax surcharge on Vanquis Bank's profits in excess of £25m (credit of £19.1m); (ii) the impact of the change in UK tax rate following the reduction in the mainstream corporation tax rate to 17%, previously enacted, being cancelled in 2020. The corporation tax rate has therefore remained at 19% for 2020 (credit of £3.5m); and (iii) a credit in respect of prior years which primarily reflects the benefit of claiming deductions for the costs incurred in 2019 in respect of the NSF bid defence, for which no tax deduction was assumed in the prior year, along with a release of part of the provision for uncertain tax liabilities net of other prior year adjustments (credit of £7.5m).

Dividends

The Board does not propose a final dividend with respect to this financial year, in line with its decision to preserve capital and support business stability. However, it remains the Board's aim to resume dividend payments to shareholders as soon as operational and financial conditions normalise.

Funding and capital

The Group has strong capital and liquidity positions comprising:

- Total regulatory capital of £675m, equating to a total CET1 ratio of 34.2% and a surplus above the minimum regulatory requirement of approximately £264m.

- Headroom on committed facilities and surplus cash and liquid resources amounting to approximately £144m. This is in addition to approximately £800m of liquid resources held by Vanquis Bank above Group Liquidity Coverage Ratio requirements and ongoing access to the retail deposits market.

The Board's current view on risk appetite is to maintain a capital buffer in excess of £100m, which includes a Pillar 2B buffer required by the PRA, because of the continuing market uncertainties whilst maintaining a capital structure to support ongoing access to funding from the bank and debt capital markets.

The Group's CET1 ratio at 31 December 2020 was 34.2% vs. minimum regulatory requirement of 20.8%. The regulatory capital headroom above the minimum regulatory requirement was approximately £264m at the period end. The increase in headroom from £140m[3] at 31 December 2019 (vs. the minimum regulatory requirement) predominantly reflects: (i) the preservation of capital through the cancellation of the 2019 dividend; (ii) smaller risk weighted exposures in respect of customer receivables; and (iii) additional capital mitigation in response to Covid-19 (net of the anticipated third year transitional impact of IFRS 9). These benefits were partly offset by the consolidated group loss to 31 December 2020 and the costs of implementing the Scheme of Arrangement for CCD.

As previously reported, the Group has elected to phase in the impact of adopting IFRS 9 over the five-year period ending 31 December 2022, by applying add back factors of 95%, 85%, 70%, 50% and 25% for years one to five, respectively, to the initial IFRS 9 transition adjustment. This is in addition to any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period. The Prudential Regulation Authority ratified additional capital mitigation proposed by the Basel Committee, in response to Covid-19, with these measures coming into force from 27 June 2020. The new measures allow for the impact on regulatory capital of any increase in ECL in the non-credit impaired book arising from 1 January 2020 to be phased in over the five year period to 31 December 2024 (2020: 100%, 2021: 100%, 2022: 75%, 2023: 50%, 2024: 25%). The impact of the IFRS 9 transitional arrangements (including relief from the new measures in response to Covid-19) on CET1 as at 31 December 2020 was £203m.

The Group continues to explore a number of options to improve capital efficiency. These include, but are not limited to, supplementing the existing capital base that is made up entirely of Common Equity Tier one with debt capital to support growth and improve the return on equity. 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 recovery post-Covid.

The flow of retail deposits into Vanquis Bank has continued to be strong and, at 31 December 2020, Vanquis Bank had retail deposit funding of £1.7bn, up from £1.3bn a year earlier, which reflects the steps taken by Vanquis Bank to increase liquidity in response to Covid-19.

During 2020, the Group delivered on a number of its funding objectives to reduce its overall cost of borrowing and strengthen its balance sheet: (i) signed an agreement to fund the Moneybarn receivables book through securitisation (ii) repaid the remaining M&G loan facility (of which £25m was repaid early on 14 February 2020); (iii) in line with its contractual maturity, repaid a £25m bond on 14 April 2020; (iv) agreed an intragroup funding loan from Vanquis Bank; and (v) completed a tender offer for £75m of its senior bonds due to mature in 2023.

Headroom on committed facilities (£79m) and surplus cash and liquid resources (£65m) amounted to approximately £144m. A further £50m commitment on the existing bilateral securitisation facility was secured in February 2021. There are no contractual maturities of the Group's facilities until a scheduled maturity of a £65m bond in September 2021.

In line with the Group's strategy to maintain diversified sources of funding, in January 2021, Vanquis Bank established a securitisation program backed by a revolving portfolio of credit card receivables originated by the Bank, making a retained issuance on 28 January 2021. The notes have been rated AAA by Fitch Ratings, Kroll Bond Rating Agency and Standard & Poor's. The notes are held internally as an additional liquidity contingency option initially, enhancing the Vanquis Bank's ability to diversify its sources of funding.

The Group actively explores additional funding options including, but not limited, (i) changing the funding mix to be more effective; and, (ii) optimizing the mix of debt capital and senior debt in the funding profile. Vanquis Bank remains primarily retail deposit funded.

The Group applies a Capital Management Policy that requires subsidiaries, including Vanquis Bank, to maintain sufficient capital to meet regulatory requirements, manage for 12 months growth and investment whilst maintaining a management buffer. Thereafter and where applicable Vanquis Bank is required to distribute a dividend to the Group.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group are largely consistent with those set out in the 2019 Annual Report and Financial Statements and comprise the following risks: Capital risk, Liquidity and Funding risk, Credit risk, Strategy and Governance risk, Legal and Regulatory risk, People and Operational risk, and Model risk.

A full assessment of the risks and uncertainties, together with the controls and processes which are in place to monitor and mitigate the risks where possible, are set out on pages 48 to 61 of the 2020 Annual Report & Financial Statements which is available on the Group's website, www.providentfinancial.com.

Capital risk
This is defined as the risk that the Group has insufficient capital to either meet regulatory requirements or to sustain the long-term viability of the business. The Group and Bank operate within a defined capital risk appetite, with thresholds reported to and monitored by Group and Bank Boards. The Board's current view on risk appetite is to maintain a capital buffer in excess of £100m due to market uncertainties. The Group has also refined the capital buffer it maintains to be proportionate to the risk-weighted exposures and thus reflect the current and expected state of the balance sheet. The Group's capital review (C-SREP) with the PRA concluded in July 2020. The Group's Pillar 2A capital requirement has been lowered from 20.65% to 18.33% during 2020 and the fixed monetary add-on in respect of pension risk has been removed.

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

Credit risk
This is defined as the risk of unexpected credit losses arising through either adverse macro-economic factors or parties with whom the Group has contracted fail to meet their financial obligations. In response to the pandemic, each division has reviewed their respective credit profiles and has undertaken selective tightening of scorecards to ensure any higher than desired risk segments have been addressed. Credit risk appetite has been refreshed to focus more on Early Warning Indicators (EWIs) of customer stress and predictive performance of scorecards.

Strategy and Governance
This is defined as the risk of making poor strategic decisions related to acquisitions, products, distribution etc as a result of ineffective governance arrangements, processes and controls. Board governance manual and Delegated Authorities Manual (DAM) in place to provide framework for key decision making at all levels across the Group and divisions. Executive Director scorecards in place with reward incentives based on a combination of financial and non-financial measures.

Legal and Regulatory
This is defined as the risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with regulations (including handbooks, codes of conduct, financial crime etc). The Group operates in a highly regulated environment and in a sector where its customers are more vulnerable and need careful management. At all levels, the Group has worked hard to build and maintain positive relationships with our key regulators. Any regulatory actions are managed and monitored closely to ensure these are delivered fully and within the spirit of any feedback received.

Operational, people, business resilience and information and data security risk
This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The three lines of defence model throughout the Group ensures there are clear lines of accountability between management who own the risks, oversight by the risk function and independent assurance provided by Internal Audit. Group business continuity plan invoked in response to the pandemic.

Model risk
This is defined as the risk of financial losses where models fail to perform as expected due to poor governance (including design and operation). Group Head of Model Risk recruited with resourcing plan in place to build out team. New Group model risk management framework developed including Model risk policy. Critical IFRS9 models have been externally validated within Vanquis and Moneybarn.

Related party transactions

In August 2020 Vanquis Bank provided Provident Financial plc with a £70m intercompany loan facility to allow upstream funding. The loan has a two-year term and an interest rate of 6.25%. The loan has been fully utilised since it was provided, the balance outstanding at 31 December 2020 was £70m.

In December 2020, a new subsidiary holding company, Provident Financial Holdings No. 2 Limited (PFH2), was incorporated which simplified the intercompany relationships across the Group. This involved the entry into intra-group share purchase agreements between Provident Financial plc and its subsidiaries to transfer its ownership in Vanquis Bank, Moneybarn and CCD to PFH2. As part of that process certain intercompany loans with Moneybarn and CCD were transferred from the Company to PFH2 and equivalent loans were entered into between the Company and PFH2.

Vanquis Bank approved and paid dividends totalling £110.0m in 2020 (2019: £139.8m). A 2021 interim dividend of £40.0m was paid by Vanquis Bank on 31 March 2021.

Consolidated financial statements

Consolidated income statement for the year ended 31 December

	Note	2020	2019 (restated[1])
		£m	£m
Interest income		724.3	877.2
Fee income		83.5	118.9
Total Revenue	3	807.8	996.1
Finance costs		(69.6)	(72.0)
Net interest margin		738.2	924.1
Impairment charges	7	(360.1)	(344.5)
Risk-adjusted net interest margin		378.1	579.6
Operating costs		(491.6)	(460.6)
(Loss)/profit before tax	3	(113.5)	119.0
(Loss)/profit before tax, amortisation of acquisition intangibles and exceptional items	3	(47.1)	152.8
Amortisation of acquisition intangibles	3	(7.5)	(7.5)
Exceptional items	3	(58.9)	(26.3)
Tax credit/(charge)	4	30.1	(42.6)
(Loss)/profit for the year attributable to equity shareholders		(83.4)	76.4

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	2020	2019 (restated)
		£m	£m
(Loss)/profit for the year attributable to equity shareholders		(83.4)	76.4
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	10	(1.7)	(9.7)
– fair value movements in investments	9	3.8	4.5
– tax on items taken directly to other comprehensive income	4	(0.7)	0.6
– impact of change in UK tax rate on items in other comprehensive income	4	(1.7)	(0.1)
– deferred tax credit on disposal of investments	4	2.0	-
– deferred tax credit on disposal of investments	4	(2.0)	-
Other comprehensive expense for the year		(0.3)	(4.7)
Total comprehensive (expense)/income for the year		(83.7)	71.7

(Loss)/earnings per share

	Note	2020	2019 (restated)
		pence	pence
Basic	5	(32.9)	30.1
Diluted	5	(32.9)	29.9

Dividends per share

	Note	2020	2019
		pence	pence
Total dividend for the year	6	-	25.0
Paid in the period[2]	6	-	19.0

[1] Refer to note 2 for detail of restatement

[2] The total cost of dividends paid in the year was £nil (2019: £47.6m).

Consolidated balance sheets

	Note	31 December 2020 £m	31 December 2019 (restated[1]) £m	1 January 2019 (restated[1]) £m
ASSETS				
Cash and cash equivalents		919.7	353.6	387.9
Amounts receivable from customers	7	1,799.8	2,199.6	2,200.8
Trade and other receivables		35.7	33.3	29.8
Investment held as fair value through other comprehensive income	9	9.2	16.6	47.8
Property, plant and equipment		15.5	19.3	24.6
Right of use assets		58.0	67.1	81.9
Goodwill		71.2	71.2	71.2
Other intangible assets	8	45.3	44.1	55.0
Retirement benefit asset	10	79.7	78.0	83.9
Deferred tax assets	4	44.0	25.0	34.5
TOTAL ASSETS	3	3,078.1	2,907.8	3,017.4
LIABILITIES AND EQUITY				
Liabilities				
Retail deposits		1,683.2	1,345.2	1,431.7
Bank and other borrowings		520.0	618.3	623.8
Trade and other payables		64.9	89.3	91.8
Derivative financial instrument		1.3	-	
Lease liabilities		69.4	78.3	89.0
Current tax liabilities	4	0.6	32.9	24.6
Provisions	11	91.0	14.5	53.2
Total liabilities		2,430.4	2,178.5	2,314.1
Equity attributable to owners of the parent				
Share capital		52.6	52.5	52.5
Share premium		273.2	273.2	273.2
Merger reserves		278.2	278.2	278.2
Other reserves		14.6	17.7	13.9
Retained earnings		29.1	107.7	85.5
Total equity	3	647.7	729.3	703.3
TOTAL LIABILITIES AND EQUITY		3,078.1	2,907.8	3,017.4

[1] Refer to note 2 for detail of restatement

Consolidated statement of changes in shareholders' equity

	Share capital	Share premium	Merger reserve	Other reserves	Retained earnings (restated[1])	Total
	£m	£m	£m	£m	£m	£m
At 31 December 2018	52.5	273.2	278.2	13.9	94.3	712.1
Impact of adoption of IFRS 16 'Leases'	-	-	-	-	(5.6)	(5.6)
Prior year adjustment	-	-	-	-	(3.2)	(3.2)
At 1 January 2019	52.5	273.2	278.2	13.9	85.5	703.3
Profit for the year	-	-	-	-	76.4	76.4
Other comprehensive income/(expense):						
– actuarial movements on retirement benefit asset (note 10)	-	-	-	-	(9.7)	(9.7)
– fair value movement in investments (note 9)	-	-	-	4.5	-	4.5
– tax on items taken directly to other comprehensive income (note 4)	-	-	-	(1.2)	1.8	0.6
– impact of change in UK tax rate (note 4)	-	-	-	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	68.3	71.7
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	278.2	17.7	107.7	729.3
At 1 January 2020	52.5	273.2	278.2	17.7	107.7	729.3
Loss for the year	-	-	-	-	(83.4)	(83.4)
Other comprehensive income/(expense):						
– actuarial movements on retirement benefit asset (note 10)	-	-	-	-	(1.7)	(1.7)
– fair value movement in investments (note 9)	-	-	-	3.8	-	3.8
– tax on items taken directly to other comprehensive income (note 4)	-	-	-	(1.0)	0.3	(0.7)
– impact of change in UK tax rate (note 4)	-	-	-	(0.2)	(1.5)	(1.7)
– deferred tax credit on disposal of investments (note 4)	-	-	-	2.0	-	2.0
– current tax charge on disposal of investments (note 4)	-	-	-	(2.0)	-	(2.0)
Other comprehensive income/(expense) for the period	-	-	-	2.6	(2.9)	(0.3)
Total comprehensive income/(expense) for the period	-	-	-	2.6	(86.3)	(83.7)
Transfer of cumulative gain on disposal of investment	-	-	-	(7.4)	7.4	-
Transfer of tax on disposal of investment	-	-	-	2.0	(2.0)	-
Issue of share capital	0.1	-	-	-	-	0.1
Share-based payment charge	-	-	-	2.3	-	2.3
Transfer of share-based payment reserve	-	-	-	(2.6)	2.6	-
Purchase of shares for share awards	-	-	-	-	(0.3)	(0.3)
At 31 December 2020	52.6	273.2	278.2	14.6	29.1	647.7

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. Accordingly, retained earnings are shown after directly writing off cumulative goodwill of £1.6m. In addition, cumulative goodwill of £2.3m has been written off against the merger reserve in previous years.

The rights issue in April 2018 was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. Of the resulting merger reserve of £278.2m, £228.2m was distributable as the capital was retained for the purposes of the Company with the remaining £50.0m not distributable as it was used to inject capital into Vanquis Bank. Following the transfer of Vanquis Bank to Provident Financial Holdings No. 2 in December 2020 the full merger reserve of £278.2m is now considered distributable.

[1] Refer to note 2 for detail of restatement

Consolidated statement of cash flows for the year ended 31 December

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from operations	12	450.6	190.7
Finance costs paid		(63.1)	(66.1)
Tax paid		(23.6)	(24.3)
Net cash generated from operating activities		363.9	100.3
Cash flows from investing activities			
Purchase of intangible assets	8	(16.3)	(7.4)
Purchase of property, plant and equipment		(5.9)	(6.6)
Proceeds from disposal of property, plant and equipment		0.7	2.7
Proceeds from the sale of government gilts held as an investment		-	35.7
Net cash (used in)/generated from investing activities		(21.5)	24.4
Cash flows from financing activities			
Proceeds from bank and other borrowings		926.8	288.3
Repayment of bank and other borrowings		(690.3)	(379.7)
Payment of lease liabilities		(11.2)	(15.8)
Dividends paid to company shareholders	6	-	(47.6)
Purchase of shares for share awards		(0.3)	-
Proceeds from issue of share capital		0.1	-
Net cash generated from/(used in) financing activities		225.1	(154.8)
Net increase/(decrease) in cash, cash equivalents and overdrafts		567.5	(30.1)
Cash, cash equivalents and overdrafts at beginning of year		350.8	380.9
Cash, cash equivalents and overdrafts at end of year		918.3	350.8
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand		919.7	353.6
Overdrafts (held in bank and other borrowings)		(1.4)	(2.8)
Total cash, cash equivalents and overdrafts		918.3	350.8

Cash at bank and in hand includes £833.3 (2019: £321.9m) 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 2020, £691.9 (2019: £138.2m) 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 statements of the Group and Company are prepared in accordance with IFRS adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments and investments held at fair value through other comprehensive income.

In assessing whether the Group is a going concern, the directors have reviewed the Group's reforecast, as approved in May 2021, which includes capital and liquidity forecasts, on detailed projections for 2021 to 2023. This assessment has included consideration of the Group's principal risks and uncertainties, focusing on capital and liquidity, and the likelihood of these risks materialising into losses.

Given the uncertain outlook as a result of Covid-19, additional stress testing has been performed through modelling a range of macroeconomic scenarios. This initially assumes a severe but plausible downturn, with 'severe' being defined consistently with the Group's IFRS 9 'severe' macroeconomic weighting. This assumes that unemployment in the UK reaches a peak unemployment rate of 12%. The Group's TCR has been exceeded in all scenarios modelled both with and without management actions. The point of non-viability has been assessed for both the Group and Vanquis Bank which would need to materialise to prevent the directors from adopting the going concern assumption. This is materially higher than any economic forecasts. The Group's reforecast does not require market access for capital or liquidity during the going concern period.

2. Accounting policies

Group principal accounting policies under IFRS have been consistently applied to all the years presented. In the current year the Group has updated its accounting policy in respect of the definition of default for Moneybarn.

Following the scheduled review of the Moneybarn IFRS 9 model in late 2020, it was determined that the previous definition of default of 'termination of the vehicle contract' did not meet the requirements of IFRS 9. Loans in IFRS 9 stage 2 were identified to have been greater than 90 days past due, despite it being inappropriate to rebut the 90-day backstop presumption included within IFRS 9. The change in the point of default from termination to 3 missed payments (90 days) has resulted in higher impairment charges being recognised in current and prior periods.

The change in definition of default has not affected the 30 days past due trigger for receivables moving to IFRS 9 stage 2. It does however impact the point at which receivables should have moved to IFRS 9 stage 3. As revenue is calculated based on the net receivable in IFRS 9 stage 3, the change in the point of default has resulted in lower revenue as more accounts are considered defaulted. This does not impact profit before tax as it is offset by an equivalent decrease in impairment charges.

Management have concluded that this is a prior period error and have therefore retrospectively restated results. In the 2020 financial statements, the 2019 consolidated income statement, consolidated statement of comprehensive income, balance sheet and statement of changes in shareholders' equity have all been restated. An opening balance sheet as at 1 January 2019 has also been presented.

The prior year restatement has resulted in a decrease in receivables of £3.2m and an adjustment to retained earnings of £3.2m at 1 January 2019. The 2019 profit before tax decreased by £9.8m, comprising an increase in impairment of £7.6m and a reduction in revenue of £2.2m. Receivables at 31 December 2019 reduced by £13.0m.

2. Accounting policies (continued)

A summary of the impact of the changes in treatment, for 2019, on the Group's primary statements is set out below:

	Previously presented	Adjustments	Restated
	£m	£m	£m
Consolidated Income statement			
Revenue	998.3	(2.2)	996.1
Finance costs	(72.0)	-	(72.0)
Impairment charges	(336.9)	(7.6)	(344.5)
Operating costs	(460.6)	-	(460.6)
Profit before tax	128.8	(9.8)	119.0
Tax charge	(44.4)	1.8	(42.6)
Profit for the year attributable to equity shareholders	84.4	(8.0)	76.4
Total comprehensive income for the period	79.7	(8.0)	71.7
Basic earnings per share (pence)	33.3	(3.2)	30.1
Diluted earnings per share (pence)	33.1	(3.2)	29.9
Consolidated balance sheet			
Amounts receivable from customers	2,212.6	(13.0)	2,199.6
Other assets	708.2	-	708.2
TOTAL ASSETS	2,920.8	(13.0)	2,907.8
Current tax liability	34.7	(1.8)	32.9
Other liabilities	2,145.6	-	2,145.6
Retained earnings	118.9	(11.2)	107.7
Other equity	621.6	-	621.6
TOTAL LIABILITIES AND EQUITY	2,920.8	(13.0)	2,907.8

3. Segment reporting

	Revenue		Profit/(loss) before tax	
	2020	2019 (restated)	2020	2019 (restated)
	£m	£m	£m	£m
Vanquis Bank	481.4	580.9	38.0	173.5
Moneybarn	134.0	119.8	10.9	21.1
CCD	192.4	295.4	(74.9)	(20.8)
Central costs	-	-	(21.1)	(21.0)
Total group before amortisation of acquisition intangibles and exceptional items	807.8	996.1	(47.1)	152.8
Amortisation of acquisition intangibles (note 8)	-	-	(7.5)	(7.5)
Exceptional items	-	-	(58.9)	(26.3)
Total group	807.8	996.1	(113.5)	119.0

Revenue for Vanquis Bank, Moneybarn and CCD comprises interest and fee income earned on amounts receivable from customers.

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The amortisation charge in 2020 amounted to £7.5m (2019: £7.5m).

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

3. Segment reporting (continued)

Exceptional items in 2020 represent a net exceptional charge of £58.9m (2019: charge of £26.3m) and comprise:

Charge/(credit)	2020 £m	2019 £m
Release of provisions in respect of ROP refund programme	8.3	14.2
Gain in respect of the redemption of bonds	1.9	-
Exceptional complaints provision in CCD (note 11)	(65.0)	-
Restructuring costs, primarily in respect of the ongoing turnaround of CCD	(2.0)	(19.3)
Costs in respect of the new intermediate holding company	(1.4)	-
Pension charges in respect of GMP equalisation (note 10)	(0.7)	-
Bid defence costs associated with NSF's unsolicited offer for the Group	-	(23.8)
Release of provisions in respect of Moneybarn FCA investigation	-	2.6
Net exceptional charges	(58.9)	(26.3)

Restructuring costs in 2020 of £2.0m relate to redundancy costs in CCD. In 2019 these costs comprised £14.4m in relation to (i) the ongoing turnaround of CCD comprising redundancy and other related costs of £13.0m, an exceptional impairment charge of £1.9m in respect of intangible assets and an exceptional pension credit of £0.5m (see note 10); and (ii) redundancy and other one-off costs in respect of central activities and Vanquis Bank of £3.1m and £1.8m respectively.

	Segment assets		Segment net assets/(liabilities)	
	2020	2019 (restated)	2020	2019 (restated)
	£m	£m	£m	£m
Vanquis Bank	2,037.1	1,889.5	326.5	397.3
Moneybarn	611.0	528.0	19.3	28.4
CCD	187.8	284.9	(215.1)	(59.9)
Central	730.4	443.3	517.0	363.5
Total before intra-group elimination	3,566.3	3,145.7	647.7	729.3
Intra-group elimination	(488.2)	(237.9)	-	-
Total group	3,078.1	2,907.8	647.7	729.3

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:

	2020 £m	2019 (restated) £m
Current tax:		
– UK	10.7	(32.6)
Total current tax	10.7	(32.6)
Deferred tax		
– UK	16.0	(10.3)
– overseas	(0.1)	-
Impact of change in UK tax rate	3.5	0.3
Total tax charge	30.1	(42.6)

The rate of tax credit (2019: charge) on the loss (2019: profit) before taxation for the year is higher than (2019: higher than) the average rate of mainstream corporation tax in the UK of 19.0% (2019: 19.0%). This can be reconciled as follows:

	2020 £m	2019 (restated) £m
(Loss)/profit before taxation	(113.5)	119.0
(Loss)/profit before taxation multiplied by the average rate of mainstream corporation tax in the UK of 19.0% (2019: 19.0%)	21.6	(22.7)
Effects of:		
– impact of change in UK tax rate (a)	3.5	0.3
– impact of bank corporation tax surcharge (b)	(2.1)	(13.9)
– impact of lower tax rates and losses overseas (c)	(1.8)	(1.1)
– adjustment in respect of prior years (d)	7.5	0.7
– non-deductible general expenses	0.4	0.2
– benefit of capital losses offset against capital gain (e)	0.9	-
– utilisation of losses not recognised for deferred tax (e)	1.1	-
– write off of deferred tax assets (f)	(1.0)	-
– non-deductible bid defence costs (g)	-	(4.5)
– non-deductible bank compensation payments (h)	-	(1.4)
– additional 10% of bank compensation payments(h)	-	(0.2)
Total tax credit/(charge)	30.1	(42.6)

a) Impact of change in UK tax rate
In 2016, changes in corporation tax rates were enacted which reduced the mainstream corporation tax rate to 17% with effect from 1 April 2020. Prior to 1 April 2020, the mainstream corporation tax rate was 19%. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate has remained at 19% for 2020. Deferred tax balances at 31 December 2019 were measured at the combined mainstream corporation tax (17.0%) and bank corporation tax surcharge rate (8.0%) of 25% to the extent that the temporary differences on which the deferred tax had been calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances have been remeasured at the combined mainstream corporation tax rate (19.0%) and bank corporation tax surcharge rate (8.0%) of 27.0% (2019: 25.0%), as have movements in the deferred tax balances during the year. A tax credit of £3.5m (2019: £0.3m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £1.7m (2019: charge of £0.1m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income.

(b) Impact of bank corporation tax surcharge
The adverse impact of the bank corporation tax surcharge amounts to £2.1m (2019: £13.9m) 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 any bank compensation payments, the 10% deemed taxable receipt in respect of such payments and other add backs, but ignoring the benefit of losses elsewhere in the Group, including capital losses.

4. Tax charge (continued)

(c) Impact of lower tax rates and losses overseas
The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2019: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.0% (2019: 19.0%). In 2020, the home credit business in the Republic of Ireland made a loss (2019: loss) which can only be relieved against future profits of the business in the Republic of Ireland at the 12.5% statutory rate rather than the 19.0% UK statutory tax rate. No deferred tax asset has been recognised in respect of this loss giving rise to a total adverse impact on the Group tax charge of £1.8m (2019: adverse impact of £1.1m).

(d) Adjustment in respect of prior years
The £7.5m credit in respect of prior years primarily represents the benefit of claiming deductions for the costs incurred in 2019 in connection with the defence of the unsolicited offer from NSF, for which no tax deduction was assumed in the prior year, along with a release of part of the provision for uncertain tax liabilities net of other prior year adjustments. In 2019, the £0.7m in respect of prior years represented the impact of resolving historical tax liabilities net of the release of part of the provision for uncertain tax liabilities.

(e) Benefit of capital losses offset against capital gain utilisation of losses
The conversion and subsequent sale of part of the preferred stock in Visa Inc. during the year gave rise to a capital gain which has been offset partly by: (i) in year capital losses which give rise to a beneficial impact on the tax charge of £0.9m (2019: £nil); and (ii) brought forward capital losses in respect of which a deferred tax asset was not previously recognised, which gives rise to a beneficial impact on the tax charge of £1.1m (2019: £nil).

(f) Write off of deferred tax assets
Deferred tax assets written off of £1.0m (2019: £nil) primarily relate to deferred tax assets in respect of share scheme awards where future tax deductions are expected to be lower than previously anticipated.

(g) Non-deductible bid defence costs
In 2019, most of the costs associated with the defence of the unsolicited offer from NSF were considered to be non-tax deductible in computing the Group's taxable profits. This gave rise to an adverse impact on the tax charge of £4.5m.

(h) Bank compensation payments
In 2019, 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 arose following completion of the refund programme in respect of ROP in Vanquis Bank are treated as bank compensation payments and are therefore non-deductible in computing Vanquis Bank's profits for tax purposes. This gave rise to an adverse impact on the tax charge of £1.4m. It also gave rise to an additional 10% deemed taxable receipt under the bank compensation provisions on the additional balance reductions related to charged off accounts. This gave rise to an adverse impact on the tax charge of £0.2m.
The tax credit in respect of exceptional items in 2020 amounts to £10.3m (2019: tax charge of £2.9m) and represents:

- a tax credit of £12.4m in respect of the exceptional complaints provision in CCD;
- a tax charge of £0.4m (2019: £nil) in respect of the exceptional net gain arising as a result of the bond buy back;
- a tax charge of £2.2m (2019: £6.0m) which represents tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £8.3m (2019: £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. The 2019 tax charge of £6.0m also included 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;
- tax relief of £0.4m (2019: £3.7m) in respect of exceptional restructuring costs in CCD and the wider Group; and
- a tax credit of £0.1m (2019: £nil) in respect of the GMP equalisation charge in respect of the Group's defined benefit scheme.

4. Tax charge (continued)

The tax credit in 2019 also comprised:

- tax relief of £0.1m in respect of exceptional costs associated with the defence of the unsolicited offer from NSF; and
- a tax charge of £0.7m in respect of the £2.7m release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options at Moneybarn.

The tax credit in respect of the amortisation of acquisition intangibles, after taking into account the impact of the change in the rate of mainstream corporation tax, amounts to £0.7m (2019: £1.4m). The effective rate of tax for 2020, prior to the amortisation of acquisition intangibles and exceptional items, is 40.4% (2019 (restated): 27.0%).

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

	2020 £m	2019 £m
Deferred tax charge on fair value movements in investments	(1.0)	(1.2)
Deferred tax credit on disposal of investment	2.0	-
Current tax charge on disposal of investment	(2.0)	-
Deferred tax credit on actuarial movements on retirement benefit asset	0.3	1.8
Tax credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	(0.7)	0.6
Impact of change in UK tax rate	(1.7)	(0.1)
Total tax (charge)/credit on items taken directly to other comprehensive income	(2.4)	0.5

During the year, Vanquis Bank converted and subsequently sold its holding in the 'A' preference shares in Visa Inc which has given rise to a capital gain.

The £1.0m deferred tax charge (2019: £1.2m) recognised in other comprehensive income represents deferred tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rate of 27.0% on the movement in the valuation of the preferred stock in Visa Inc which has been retained, as well as the movement in the valuation of the preferred stock in Visa Inc up to the point of conversion and sale. The conversion and sale of the preferred stock in Visa Inc has resulted in a deferred tax credit of £2.0m (2019: £nil) in other comprehensive income which represents the reversal of the £2.0m deferred tax charge in respect of the valuation of the Vanquis Bank's shareholding in the preferred stock in Visa Inc that has been recognised in other comprehensive income, and a current tax charge of £2.0m, representing tax at the combined mainstream UK corporation tax and bank corporation tax surcharge rate of 27.0% on the cumulative fair value gain on the disposed shares which has been recognised in other comprehensive income.

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

	2020 £m	2019 (restated) £m
At 1 January	25.0	34.5
(Charge)/credit to the income statement	15.9	(10.3)
Credit on other comprehensive income prior to impact of change in UK tax rate	1.3	0.6
Impact of change in UK tax rate:		
– credit/(charge) to the income statement	3.5	0.3
– charge to other comprehensive income	(1.7)	(0.1)
At 31 December	44.0	25.0

5. (Loss)/earnings per share

Basic (loss)/earnings (L/EPS) per share is calculated by dividing the (loss)/profit for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted L/EPS calculates the effect on L/EPS assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated as follows:

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

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

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share. Reconciliations of basic and diluted (loss)/earnings per share are set out below:

	2020			2019 (restated)		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	(83.4)	253.6	(32.9)	76.4	253.4	30.1
Dilutive effect of share options and awards	-	-	-	-	1.9	(0.2)
Diluted (loss)/earnings per share	(83.4)	253.6	(32.9)	76.4	255.3	29.9

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

The directors have elected to show an adjusted earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 and prior to exceptional items (see note 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:

	2020			2019 (restated)		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	(83.4)	253.6	(32.9)	76.4	253.4	30.1
Amortisation of acquisition intangibles, net of tax	6.8	-	2.7	6.2	-	2.5
Exceptional items, net of tax	48.6	-	19.2	29.2	-	11.5
Adjusted basic (loss)/earnings per share	(28.0)	253.6	(11.0)	111.8	253.4	44.1
Diluted (loss)/earnings per share	(83.4)	253.6	(32.9)	76.4	255.3	29.9
Amortisation of acquisition intangibles, net of tax	6.8	-	2.7	6.2	-	2.5
Exceptional items, net of tax	48.6	-	19.2	29.2	-	11.4
Adjusted diluted (loss)/earnings per share	(28.0)	253.6	(11.0)	111.8	255.3	43.8

6. Dividends

		2020 £m	2019 £m
2018 final	- 10.0p per share	-	25.1
2019 interim	- 9.0p per share	-	22.5
Total dividends paid		-	47.6

On 27 March 2020, following the unprecedented challenges of Covid-19, the final dividend for 2019 of 16.0p was no longer proposed at the Annual General Meeting in order to retain liquidity and balance sheet stability during unprecedented levels of uncertainty.

The directors are not recommending a final dividend in respect of the financial year ended.

7. Amounts receivable from customers

	2020 £m	2019 (restated) £m
Vanquis Bank	1,094.2	1,461.5
Moneybarn	566.6	489.1
CCD	139.0	249.0
Total group	1,799.8	2,199.6

Vanquis Bank receivables comprise £1,075.1m (2019: £1,432.6m) in respect of credit cards and £19.1m (2019: £28.9m) in respect of loans.

CCD receivables comprise £135.3m in respect of the home credit business (2019: £205.8m) and £3.7m in respect of Satsuma (2019: £43.2m).

7. Amounts receivable from customers (continued)

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross receivables				
Vanquis Bank	1,044.5	188.3	335.6	1,568.4
Moneybarn	443.8	100.1	190.5	734.4
CCD	76.9	17.9	359.4	454.2
Total group	1,565.2	306.3	885.5	2,757.0
Allowance account				
Vanquis Bank	(170.0)	(90.2)	(214.0)	(474.2)
Moneybarn	(21.8)	(17.9)	(128.1)	(167.8)
CCD	(5.7)	(3.8)	(305.7)	(315.2)
Total group	(197.5)	(111.9)	(647.8)	(957.2)
Net receivables				
Vanquis Bank	874.5	98.1	121.6	1,094.2
Moneybarn	422.0	82.2	62.4	566.6
CCD	71.2	14.1	53.7	139.0
Total group	1,367.7	194.4	237.7	1,799.8

	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	131.0	118.2	584.6
CCD	155.9	36.0	402.0	593.9
Total group	1,859.2	338.6	883.8	3,081.6
Allowance account				
Vanquis Bank	(146.6)	(85.2)	(209.8)	(441.6)
Moneybarn	(9.5)	(12.4)	(73.6)	(95.5)
CCD	(10.4)	(10.1)	(324.4)	(344.9)
Total group	(166.5)	(107.7)	(607.8)	(882.0)
Net receivables				
Vanquis Bank	1,221.3	86.4	153.8	1,461.5
Moneybarn	325.9	118.6	44.6	489.1
CCD	145.5	25.9	77.6	249.0
Total group	1,692.7	230.9	276.0	2,199.6

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

	2020				2019			
	Vanquis Bank	Moneybarn	CCD	Total	Vanquis Bank	Moneybarn	CCD	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Brought forward	31.8	24.6	1.9	58.3	21.3	19.8	1.3	42.4
Capitalised	11.9	22.4	1.6	35.9	18.3	23.0	8.8	50.1
Amortised	(10.8)	(19.1))	(3.1)	(33.0)	(7.8)	(18.2)	(8.2)	(34.2)
Carried forward	32.9	27.9	0.4	61.2	31.8	24.6	1.9	58.3

7. Amounts receivable from customers (continued)

Macro-economic provision

Separate macroeconomic provisions are recognised to reflect the expected impact of future economic events on a customer's ability to make payments on their agreements and the losses which are expected to be incurred given default, in addition to the core impairment provisions, already recognised.

For Vanquis Bank, the provision reflects an adjustment for future losses based on changes in unemployment under a range of forecasts provided by a number of economists, as approved by the Group Treasury Committee.

For Moneybarn, both changes in unemployment and used car sales values to calculate a separate macroeconomic provision. CCD customers often have unpredictable levels of disposable income as they are often not in salaried roles. They are therefore not considered to be reflective of the wider economy. They are typically less indebted and are therefore not impacted by the same macroeconomic factors or to the same degree.

Consequently there is no evidence of any meaningful correlation between the impairment charge and any macro employment statistics. A separate macroeconomic provision is therefore not held. The assumptions are reviewed at each balance sheet date, and have been reviewed following Covid-19.

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

	2020 £m	2019 (restated) £m
Vanquis Bank	239.9	198.9
Moneybarn	72.7	49.4
CCD	47.5	96.2
Total group	360.1	344.5

8. Other intangible assets

	2020 Acquisition intangibles £m	2020 Computer software £m	2020 Total £m	2019 Acquisition intangibles £m	2019 Computer software £m	2019 Total £m
Cost						
At 1 January	75.0	65.4	140.4	75.0	76.2	151.2
Additions	-	16.3	16.3	-	7.4	7.4
Disposals	-	(3.8)	(3.8)	-	(18.2)	(18.2)
At 31 December	75.0	77.9	152.9	75.0	65.4	140.4
Accumulated amortisation and impairment						
At 1 January	40.0	56.3	96.3	32.5	63.7	96.2
Charged to the income statement	7.5	7.6	15.1	7.5	8.9	16.4
Exceptional impairment charge (note 3)	-	-	-	-	1.9	1.9
Disposals	-	(3.8)	(3.8)	-	(18.2)	(18.2)
At 31 December	47.5	60.1	107.6	40.0	56.3	96.3
Net book value						
At 31 December	27.5	17.8	45.3	35.0	9.1	44.1
At 1 January	35.0	9.1	44.1	42.5	12.5	55.0

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.

Additions to computer software in the year of £16.3m (2019: £7.4m) comprise £13.8m (2019: £1.3m) of internally generated assets and £2.5m (2019: £6.1m) of externally purchased software.

9. Investments

	2020 £m	2019 £m
Visa Inc. shares	9.2	16.6

Visa Inc. shares

The Visa Inc. 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 due on the third anniversary of the completion date. The deferred consideration was received in June 2019.

During 2020 there was a partial conversion event and 50% of the preferred stock was converted into class A shares which were then sold in December. On disposal of the shares, the cumulative gain recognised in the fair value reserve was transferred to retained earnings (£7.4m) net of the tax arising on the disposal (£2.0m). The movement in the fair value during the year of the A shares, until they were sold, and the preferred stock, has been recognised in the statement of comprehensive income (£3.8m (2019: £4.5m)).

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.

10. 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. As a result, the Group recognises surplus assets under IAS 19.

The Group is exposed to a number of risks, the most significant of which are as follows:
– Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match liabilities.

– Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.
– Inflation risk – some of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a long-term de-risking strategy, the scheme has increased its portfolio in inflation matched assets.
– Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

10. Retirement benefit asset (continued)

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

	2020 £m	2019 £m
Fair value of scheme assets	933.0	842.6
Present value of defined benefit obligation	(853.3)	(764.6)
Net retirement benefit asset recognised in the balance sheet	79.7	78.0

The amounts recognised in the income statement were as follows:

	2020 £m	2019 £m
Current service cost	(1.7)	(1.7)
Interest on scheme liabilities	(15.1)	(19.5)
Interest on scheme assets	16.7	21.9
Net (charge)/credit recognised in the income statement before exceptional past service (charge)/credit	(0.1)	0.7
Exceptional past service charge – Plan amendment (note 3)	(0.7)	-
Exceptional past service credit – Curtailment credit (note 3)	-	0.5
Exceptional past service (charge)/credit	(0.7)	0.5
Net (charge)/credit recognised in the income statement	(0.8)	1.2

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

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

	2020 £m	2019 £m
Fair value of scheme assets at 1 January	842.6	788.3
Interest on scheme assets	16.7	21.9
Actuarial movements on scheme assets	102.8	67.4
Contributions by the group	4.2	2.6
Net benefits paid out	(33.3)	(37.6)
Fair value of scheme assets at 31 December	933.0	842.6

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

	2020 £m	2019 £m
Present value of defined benefit obligation at 1 January	(764.6)	(704.4)
Current service cost	(1.7)	(1.7)
Interest on scheme liabilities	(15.1)	(19.5)
Exceptional past service charge – Plan amendment (note 3)	(0.7)	-
Exceptional past service credit – Curtailment credit (note 3)	-	0.5
Actuarial movement – experience	4.3	0.1
Actuarial movement – demographic assumptions	(2.0)	19.9
Actuarial movement – financial assumptions	(106.8)	(97.1)
Net benefits paid out	33.3	37.6
Present value of defined benefit obligation at 31 December	(853.3)	(764.6)

10. Retirement benefit asset (continued)

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

	2020	2019
	%	%
Price inflation – RPI	2.85	2.95
Price inflation – CPI	2.25	2.05
Rate of increase to pensions in payment	2.70	2.70
Inflationary increases to pensions in deferment	2.20	2.10
Discount rate	1.30	2.00

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 2 tables (2019: SAPS series 2 tables), with multipliers of 96% (2019: 96%) and 101% (2019: 101%) respectively for males and females. The 4% downwards (2019: 4% downwards) adjustment to mortality rates for males and a 1% upwards (2019: 1% upwards) adjustment for females reflect higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2019 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	
	2020	2019	2020	2019
	years	years	years	years
Current pensioner aged 65	21.9	21.8	23.5	23.3
Current member aged 45 from age 65	23.2	23.1	25.0	24.8

If the discount rate decreased by 0.5% (2019: 0.1%), the net retirement benefit asset would have been increased by approximately £79m (2019: £14m).

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

	2020	2019
	£m	£m
Actuarial movements on scheme assets	102.8	67.4
Actuarial movements on scheme liabilities	(104.5)	(77.1)
Actuarial movements recognised in the statement of comprehensive income in the period	(1.7)	(9.7)
Cumulative movement recognised in other comprehensive income	(97.6)	(95.9)

11. Provisions

	2020	2019
	£m	£m
At 1 January	14.5	53.2
Created in the period	45.5	-
Created in the year (Scheme)	65.0	-
Reclassified in the period	17.6	-
Utilised during the year	(43.3)	(21.9)
Released during the year	(8.3)	(16.8)
At 31 December	91.0	14.5

11. Provisions (continued)

Complaints of irresponsible lending in CCD and the scheme of arrangement

Provident Personal Credit Limited, which forms part of the CCD division, has received significantly higher claims volumes in 2020 in respect of irresponsible lending of home credit loans. Some claims have been received directly from customers, although the majority have been received from Claims Management Companies (CMC's).

Claims are deemed to be irresponsible based on, what has become the Claims methodology under the Scheme. The methodology takes account of indicators of unaffordable lending such as the number and frequency of loans and other creditworthiness factors. The Scheme covers lending from 6 April 2007 to 17 December 2020.

£23.4m has been provided at 31 December 2020 for claims received for irresponsible lending. This reflects recent uphold rates and settlement values. The provision also assumes a settlement rate of customer claims to the Practice Statement Letter (PSL), being issued as part of the Scheme of Arrangement (the 'Scheme').

The Group has decided to pursue the Scheme, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from complaints based on historic home credit lending prior to 17 December 2020 ('relevant claims') and has worked collaboratively with the FCA to get to this point.

When approved, the Scheme will remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline in February 2022. The successful implementation of a Scheme is deemed to be probable, but is subject to the approval of the requisite majority of customers with redress claims and the sanction of the Court. The objective of the Scheme is to ensure:

- all of our customers with redress claims are treated fairly; and
- outstanding claims are treated consistently with all customers who submit a claim under the Scheme.

The Group will fund legitimate Scheme claims with £50m and will cover further Scheme-related costs estimated at approximately £15m.

The uncertainty in respect of customer complaints for irresponsible lending, which was previously disclosed as a contingent liability, has been removed through the proposal of the Scheme. There is a chance of the proposed Scheme not being approved. If this were to happen, it is likely that CCD will be placed into administration or liquidation and CCD customers would then not be expected to receive any redress payment.

Vanquis Bank

As previously reported, Vanquis Bank agreed a settlement with the FCA into their investigation into ROP. The ROP refund programme was completed in 2019. As a result, the provision reduced to £11.7m at 31 December 2019. A further review has been performed in 2020 to determine the level of provision required. This assessment has concluded that £2.6m provision continues to be required, as a result £8.3m was released as an exceptional gain in 2020.

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.

Moneybarn

As previously reported, 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.

At 31 December 2019, a provision of £2.8m remained, reflecting the estimated fine payable on completion of the investigation. The amount was paid to the FCA on 18 February 2020.

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

	2020	2019 (restated)
	£m	£m
Profit after tax	(83.4)	76.4
Adjusted for:		
– tax (credit)/charge	(30.1)	42.6
– finance costs	71.5	72.0
– exceptional gain on redemption of bonds	(1.9)	-
– share-based payment charge	2.3	1.9
– retirement benefit charge/(credit) before exceptional past service charge/(credit)	0.1	(0.7)
– exceptional pension charge/(credit)	0.7	(0.5)
– amortisation of intangible assets	15.1	16.4
– exceptional impairment of intangible assets	-	1.9
– exceptional complaints provision in CCD	65.0	-
– provisions created in the year	45.5	-
– depreciation of property, plant and equipment and right of use assets	15.7	24.6
– loss on disposal of property, plant and equipment	0.6	2.2
– exceptional release of provisions	(8.3)	(16.8)
– hedge ineffectiveness	0.7	-
Changes in operating assets and liabilities		
– amounts receivable from customers	399.8	1.2
– trade and other receivables	11.6	(3.5)
– trade and other payables	(6.8)	(2.5)
– provisions	(43.3)	(21.9)
– contributions into the retirement benefit scheme	(4.2)	(2.6)
Cash generated from operations	450.6	190.7

13. Contingent liabilities

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

Challenge to self-employed status of UK home credit agents

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 control of all aspects of the customer relationship.

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 and it is expected that the review could continue for at least 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 national insurance contributions, on the approximate £80m 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 through self-assessment which are available for offset, it is difficult to calculate an accurate liability should the Group be unsuccessful in defending the position. HMRC has raised protective assessments which have all been appealed but these are purely a procedural matter to ensure that, in the event the review concludes that taxes are payable, HMRC can recover such amounts in respect of the oldest year that would otherwise drop out due to the lapse of statutory time limits.

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

13. Contingent liabilities (continued)

FCA investigation into home credit lending from February 2020 and February 2021

Provident Personal Credit, which forms part of CCD, was recently informed that the FCA has opened an enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process, in the period between February 2020 and February 2021.

The start of the investigation period relates to the FOS decision which was taken in February of last year. The appointment of investigators does not mean that the FCA has determined that rule breaches or any other contraventions have occurred. The FCA also continues to assess whether CCD is complying, and is likely to comply, with the standards it is expected to meet and the Group's proposed approach to future lending as and when further details of such proposal are made available. CCD intends to work closely with the FCA in the coming months, including in relation to the investigation, which is unlikely to conclude until the end of 2022 at the earliest.

Other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, agents, customers, investors or third parties. This extends to legal and regulatory reviews, challenges, investigations, enforcement actions combined with tax authorities taking a view that is different to the view the Group has taken on the tax treatment in its tax returns, both in the UK and overseas. All such material matters are periodically assessed, with the assistance of external professional 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 may not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the merits of the case, and no provisions are held in relation to such matters. However, the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations of cash flows.

14. Post balance sheet events

CCD scheme of arrangement

Provisions were recognised in CCD as at 31 December 2020, for a proposed Scheme of Arrangement which will provide remediation of £50m, plus estimated costs of delivering the settlement (£15m). The Group has decided to pursue the Scheme, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from complaints based on historic home credit lending prior to 17 December 2020 ('relevant claims') and has worked collaboratively with the FCA to get to this point.

When approved, the Scheme will remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline in February 2022. The Group will fund legitimate Scheme claims with £50m and will cover further Scheme-related costs estimated at approximately £15m, see note 11 for further detail.

Vanquis Bank access to Sterling Monetary Framework

On 28 January 2021, Vanquis Bank issued secured notes collateralised against a portion of the credit card receivables book. This is a fully retained transaction, therefore Vanquis Bank will keep all of the notes issued and the notes will not be sold publicly. It is intended that the notes will be placed with the Bank of England later in the year to support borrowings against the Sterling Monetary Framework (SMF) facilities. The transaction issued two classes of notes with an aggregate principal amount of £453m. The programme enhances the Group's ability to diversify its sources of funding.

Taxation

In the March 2021 Budget, the Government announced that the mainstream corporation tax rate would increase to 25% from 1 April 2023. Revaluing the deferred tax balances at 31 December 2020 at 25%, to the extent they relate to temporary differences which are expected to reverse after 1 April 2023, gives a rise to a tax credit of £8.3m.

14. Post balance sheet events (continued)

Operational review

Following the CCD operational review, and in response to evolving market and customer dynamics, the Group has regrettably decided to withdraw from the home credit market entirely. The Group intends to either place the business into a managed run-off or consider a disposal. It is anticipated that the cost to the Group of placing it into managed run-off or disposing of CCD will be up to c.£100m. CCD begins a collective consultation process for c.2,100 colleagues on 10 May 2021.

Directors' responsibility statement

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

(i) the group financial statements which have been prepared in accordance with IFRS as adopted by the 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 2020 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 2020 Annual Report and Financial Statements together with the notice of the annual general meeting will be posted to shareholders on or around 24 May 2021.

2. The annual general meeting will be held on 30 June 2021 at the London office of Provident Financial plc, Floor 28, 20 Fenchurch Street, London, EC3M 3BY.