PFG | Provident Financial Group

Provident Financial plc
Interim results for the six months ended 30 June 2020

Provident Financial plc ('the Group') is the leading provider of credit products to consumers who are underserved by mainstream lenders. The Group serves c.2.2 million customers and its operations consist of Vanquis Bank, Moneybarn, and the Consumer Credit Division ('CCD') comprising Provident home credit and Satsuma.

Key financial results

	2020 £m	2019[1] £m
Adjusted profit/(loss) before tax:		
– Vanquis Bank	11.8	90.5
– Moneybarn	2.4	15.5
– CCD	(37.6)	(15.1)
– Central costs	(9.2)	(10.5)
Adjusted (loss)/profit before tax[2]	(32.6)	80.4
Amortisation of acquisition intangibles	(3.7)	(3.7)
Exceptional credit/(costs)	8.3	(33.6)
(Loss)/profit before tax	(28.0)	43.1
Adjusted basic EPS[2]	(10.1)	23.4
Basic EPS	(9.1)	9.7
Annualised RORE[3]	6.4%	22.9%

Malcolm Le May, Chief Executive Officer, commented:
"I would like to thank all my colleagues for their hard work and compassion in helping our customers through a very difficult period in their lives. The first six months of this year have been the most difficult and testing in my career. However, I am very pleased with how well the Group has responded to the challenges brought about by Covid-19, and how effectively we have operated. We are reporting an adjusted loss before tax for the period of £32.6m, this result is better than our initial view of Covid-19's potential impact on our businesses. Pleasingly, within this number Vanquis Bank and Moneybarn were both profitable.

Looking forward, our strong financial position will mean that we can keep helping, and responsibly lending to, our customers, many of whom are key workers, as we, and they, face the challenge of furlough support ending and unemployment rising in the coming months. Provident Financial has performed robustly in the first half of the year because we focused on our customers, colleagues and strengthening our balance sheet for the challenges the pandemic would bring. In fact financial and operational performance were better than expected, and therefore we have decided to repay all furlough support to the government. We believe this is the right thing to do, and on behalf of customers have also advocated the government should support wider funding for the sector. Our market will grow due to the pandemic, but at present it appears the supply of credit into the market is decreasing, which cannot be a good outcome for customers, nor a public policy one for the UK."

Highlights
Strong capital and liquidity built during H1'20; operational adaptations to Covid-19 challenges effective

- Group statutory loss before tax of £28.0m (H1'19 PBT: £43.1m[1]) includes an exceptional provision release of £8.3m (H1'19: £33.6m exceptional cost) following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims that may arise in respect of ROP in future.
- Group adjusted loss before tax of £32.6m (H1'19 PBT: £80.4m[1]) is favourable to internal plans, created at the beginning of lockdown.
- Strong capital and liquidity positions built during the period with regulatory capital of £705m at the end of June, which equates to a CET1 ratio of 35.4%, and a surplus of £215m above the minimum regulatory requirement.
- Total Group liquidity at the end of June stood at £1.2bn, including c.£1bn held by Vanquis Bank.
- The Voluntary Requirement (VREQ) entered into by Vanquis Bank in December 2016, in respect of payments of dividends and loans to companies within the Group, has been lifted by the Prudential Regulatory Authority (PRA).
- In June, a waiver was agreed up to (but excluding) 31 December 2020 and an amendment with respect to its interest cover covenant on its Revolving Credit Facility (RCF) with the lending banks.
- The Group has taken the decision to repay HMRC all money received to date in respect of the Government's job retention scheme as well as all deferred tax payments and to not benefit from future Government support in this respect.
- The Board is not proposing an interim dividend (H1'19: 9.0p per share), with the continued aim of preserving capital and supporting business stability. However, it remains the Group's intention to resume dividend payments to shareholders as soon as operational and financial conditions normalise.

Vanquis Bank responded well to the impact of Covid-19; customer spend trends improving more recently

- Vanquis Bank reported PBT for the first six months of the year of £11.8m (H1'19 restated: £90.5m[1]), in line with recently produced internal plans, but lower than last year driven by the reduction in customer spend and impairment caused by Covid-19.
- New customer bookings for the period were 147k (H1'19: 190k). Decisive action was taken in April to significantly tighten underwriting and reduce new customer bookings by 75%. New customer booking has been re-established in July at volumes close to 50% of pre-Covid-19 levels as scorecards are recalibrated.
- Customer expenditure trends continue to improve as lockdown restrictions have eased. In April, spend was 40% lower year-on-year, but the progressive improvement in customer spending has continued in the third quarter with the gap to prior year narrowing to 15% in July and August.
- Payment holiday take up by Vanquis Bank credit card customers was c.2% at the end of June representing c.4% of outstanding balances, comparatively lower than market competitors.
- The annualised impairment rate at the end of June of 18.0% (H1'19: 14.9%) reflected additional first half impairment of approximately £70m from the impact of Covid-19 and the adverse macro-economic outlook.

Moneybarn stayed open for business during lockdown and has seen new business recover strongly

- Moneybarn delivered PBT for the period of £2.4m (H1'19: £15.5m) ahead of management plans created post-lockdown but down year-on-year. The increase in Moneybarn's revenue year-on-year was offset by increased impairment.
- Moneybarn remained open to new business throughout April, at a time when many of its competitors stopped lending, and has improved its market share, as well as credit quality, as a result.
- Demand for used cars has rebounded strongly and new business volumes have followed suit, with July being a record month with over 4,500 deals written despite tighter underwriting.
- Payment holiday take-up by Moneybarn customers peaked at c.28% of customers and has now reduced to c.3.5% at the end of July.
- The annualised impairment rate increased to 12.0% (H1'19: 7.1%) driven by higher arrears across the book and provisions for the deteriorating macro-economic outlook.

CCD experienced the greatest level of operational challenges but proved its adaptability & resilience

- CCD reported a loss before tax (LBT) of £37.6m (H1'19 LBT: £15.1m), favourable compared to internal plans but a larger loss than last year, reflecting a significant reduction in receivables and an increase in impairment.
- Customer numbers ended June at c.379k (H1'19: c.531k) driven by lower customer demand and a reduction in new business.

- In home credit, collections performance for July was running at >90% of pre-Covid-19 levels with the split between cash and remote collections of c.19% and c.81% respectively. Issue values to existing customers were c.90% of pre-Covid levels in July and c.40% to new customers, demonstrating our stricter approach to lending post-lockdown.
- Receivables at the end of June stood at £147m (H1'19: £245m) reflecting lower levels of new lending and better than expected collections during the first half.
- Provident Direct (Continuous Payment Authority payment of loan instalments) was rolled out nationally in the UK by the end of March, several months ahead of schedule, to provide a non-face-to-face payment channel.

Enquiries:

Analysts and shareholders:

Owen Jones, Head of Investor Relations	07341 007842
Owen.jones@providentfinancial.com	

Media:

Richard King, Provident Financial	07919 866876
Nick Cosgrove/Simone Selzer, Brunswick	0207 4045959
providentfinancial@brunswickgroup.com	

[1] *The 2019 June comparatives have been restated to incorporate two changes in accounting policies reflected in the 2019 financial statements: (i) change in treatment of directly attributable deferred acquisition costs in Vanquis Bank; and (ii) changes in the recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn.*

[2] *Adjusted (Loss)/profit before tax is stated before: (i) £3.7m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2019: £3.7m); and (ii) an exceptional credit of £8.3m (2019: exceptional cost of £33.6m) following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims that may arise in respect of ROP in future.*

[3] *Return on average required regulatory capital (RORE) reflects annualised statutory 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.

INTERIM REPORT

Chief Executive Officer's review

Introduction

For January, February and the first three weeks of March, the Group made good progress against many of its key objectives and Key Performance Indicators (KPIs) were tracking in line, if not marginally ahead, of those seen in 2019. Then, from the 23 March 2020, the UK Government ordered that all non-essential travel and activities should cease immediately because of the threat posed by Covid-19. This meant that each of the businesses – Vanquis Bank, Moneybarn and CCD – had to adapt rapidly and introduce new ways of working. The response was swift and effective, enabling us to continue supporting our customers whilst ensuring their safety and that of our colleagues.

At the Capital Markets Day (CMD), in November 2019, my colleagues and I set out our ambitions for the future of Provident Financial. These included products and digital initiatives, funding and capital efficiencies and some medium-term financial targets. The effects of Covid-19 will, inevitably, delay the timing of these medium-term targets but it does not mean they must be abandoned entirely. Encouragingly, Covid-19 has not stopped the Group from making progress against several strategic objectives: product initiatives (e.g. Provident Direct) have been delivered ahead of plan, and we have taken steps to improve the efficiency of the funding structure, as demonstrated by the Moneybarn securitisation and the recent tender offer for a portion of the 2023 senior bonds. Cost efficiency continues to be a key focus and will remain so for the foreseeable future.

Provident Financial is a responsible lender to consumers whose needs are not well served by mainstream lenders and we aim to put people on a path to a better everyday life. Covid-19 has not, and will not, change this. There continue to be significant growth opportunities in our current markets. Inevitably, with the UK economy already in recession, the 10 to 12 million adults in the UK, who sit outside of prime, high street bank risk appetites, will increase and, at the same time, the supply of credit into this segment of the market will decrease as funding and capital constraints impact many of our immediate peers. There remains a great deal of uncertainty as to how the impact of Covid-19 will be felt but the Group has managed well to date.

Group financials

Turning to the financial results, for the first six months, the Group reported an adjusted loss before tax of £32.6m, which is lower year-on-year reflecting lower revenue less impairment offset by lower costs, but materially better than internal plans drawn up after lockdown started. As a management team, we have focused on operational innovation and capital strength. We have provided support and all necessary resource to colleagues across the Group, including ensuring that colleagues have necessary equipment to work remotely.

The Group's capital and liquidity positions have strengthened further during the period. At the end of June, the Group held total regulatory capital of £705m, equating to a total CET1 ratio of 35.4% and a surplus above the minimum regulatory requirement of £215m. The VREQ with respect to dividend and loan payments from Vanquis Bank to the Group has been removed. This development allows the Group to access lower cost retail deposit funding.

In early August, the Group launched a tender offer to buy up to £75m of the £250m senior bonds, due to mature in 2023, for which we are paying a coupon of 8 ¼ % owing to a downgrade in our credit outlook by Fitch. This tender was in line with the stated ambition from last year's CMD to seek funding efficiencies from our existing liquidity structure. The tender was successful, and the transaction closed at £75m but with total demand of c.£130m. We expect to reduce our cost of funding by around £6m on an annualised basis as a result and we will recognise an exceptional one-off P&L benefit of c.£2.0m in H2'20. This transaction was funded through an intercompany loan from Vanquis Bank of £70m. In addition, a dividend of £30m is due to be paid by Vanquis Bank to Provident Financial plc following the interim results.

Regulation

A recent statement was made by the FCA on its findings following a review into the way firms offer relending options in the high-cost short-term credit market. Management are currently in dialogue with the FCA on this report and are working with them to determine how the findings translate into a home credit context. It is also noted that the persistent debt measures introduced by the FCA have been delayed until October 2020 to allow firms more time to comply following the onset 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 than recommended payments.

Payment holidays

Following FCA guidance in April, payment holidays were offered to customers in Vanquis Bank, Moneybarn and CCD of between 1 and 3 months.

Vanquis Bank saw payment holiday activations grow to a peak of 48k customers (3.5% of total customers) in June. The take-up of payment holidays since the extension to 6 months has so far been modest.

For Moneybarn, payment holidays increased significantly in April to 23k customers (27% of receivables). The activation of payment holidays has reduced significantly since this point from c.400 activations per day to 20 activations per day in July and August. Arrears have also improved, with pre-Covid roll rates returning.

Within CCD, the concept of forbearance is implicit within the business model. Payment performance deteriorated in late March and April whilst the revised working practices were rolled out through remote collection practices. Collections have since broadly returned to pre-Covid levels, whilst some customers have been formally placed on payment holidays (c.3%).

Board and Senior management changes

During the period, Neeraj Kapur took up his role on the Group Board as Group Chief Financial Officer (CFO) from Simon Thomas. Neeraj brings significant relevant experience as a main board director of a FTSE business and as a bank CFO. He has gained a wealth of knowledge in consumer deposit, lending products and treasury management in his previous roles. Neeraj has been providing capable leadership to the finance and treasury functions since he joined after the Covid-19 lockdown began.

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. Margot served as an MP from 2010 to 2019, during which she held the position of Minister of State for the Department of Digital, Culture, Media & Sport. In her role as Parliamentary Under Secretary of State at the Department for Business, Energy & Industrial Strategy, Margot had responsibility for small businesses, consumers and corporate governance, including labour markets and the retail sector. In 1985, Margot founded Shire Health Group which provided public relations and medical education services to pharmaceutical companies.

Gary Thompson was appointed as Finance Director of Vanquis Bank. Gary has been with the Group for over a decade as Head of Group Finance and Investor Relations and brings a wealth of knowledge to his new role, having worked very closely with the Vanquis Bank team during that period.

After the period end, Hamish Paton was appointed as Managing Director of CCD and David Shrimpton was appointed to the same position at Moneybarn. Hamish Paton has worked in the sub-prime segment of the market for many years having served as CEO of Brighthouse and Amigo previously. He will join Provident Financial in mid-September. Chris Gillespie has done an excellent job of stabilising CCD after 2017 and returning the business to its trajectory to return to profitability before Covid and we thank him for all his efforts and wish him well for the future.

David Shrimpton joined Moneybarn as Director of Customer Experience in January 2019, having spent time in senior roles at Wonga and Citigroup, and has held the position of interim MD of Moneybarn since March 2020. His appointment on a permanent basis follows the key role that David played in establishing Moneybarn's response to the early stages of Covid-19, which enabled Moneybarn to lend throughout the lockdown period.

Outlook

The Group's response to challenges brought on by the early stages of Covid-19 was swift, putting us in a stronger position heading into the second half of 2020. Since the end of June, some encouraging signs of increased activity levels in our markets can be seen, with improving customer demand and spending trends evident. Indeed, Moneybarn posted record levels of new business in July despite tighter underwriting. However, the potential economic shock, and uncertainty, that Covid-19 will bring to the UK economy over the coming months must not be underestimated. Looking to the full year results, the Group continues to trade in line with internal plans.

The Group's CMD last year included some medium-term financial and strategic objectives. Good progress against some of these objectives was made during the first six months, such as the accelerated roll out of Provident Direct and our successful bond tender offer. It remains the Group's intention to get back to a position to deliver against our medium-term financial objectives, albeit Covid-19 will inevitably delay this process. The target is to deliver a Return on Equity (ROE) of between 20% and 25%. We will also target significant and sustainable receivables growth through the cycle.

The focus for the second half of this year and 2021 will be on continuing our focus and support of our customers, through lending responsibly as their preferred alternative to inaccessible mainstream lenders. Our financial strength will help us to navigate the challenges of further payment holiday take-up, furlough support finishing for our customers and rising unemployment. Therefore, when combined with our robust capital position and diverse funding structure, I am cautiously optimistic about the outlook for 2020 and beyond.

Malcolm Le May
Chief Executive Officer
26 August 2020

Financial review

Group performance

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

	Six months ended 30 June		
	2020 £m	2019[1] £m	*Change*
Adjusted profit/(loss) before tax:			
– Vanquis Bank	11.8	90.5	*(87.0%)*
– Moneybarn	2.4	15.5	*(84.5%)*
– CCD	(37.6)	(15.1)	*(149.0%)*
– Central costs	(9.2)	(10.5)	*12.4%*
Adjusted (loss)/profit before tax[2]	(32.6)	80.4	*(140.5%)*
Amortisation of acquisition intangibles	(3.7)	(3.7)	-
Exceptional credit/(costs)	8.3	(33.6)	*124.7%*
(Loss)/profit before tax	(28.0)	43.1	*(165.0%)*
Adjusted basic EPS[2]	(10.1)	23.4	*(143.2%)*
Basic EPS	(9.1)	9.7	*(193.8%)*
Annualised RORE[3]	6.4%	22.9%	*(72.1%)*

[1] *The 2019 June comparatives have been restated to incorporate two changes in accounting policies reflected in the 2019 financial statements: (i) change in treatment of directly attributable deferred acquisition costs in Vanquis Bank; and (ii) changes in the recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn.*

[2] *Adjusted (loss)/profit before tax is stated before: (i) £3.7m of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 (2019: £3.7m); and (ii) an exceptional credit of £8.3m (2019: cost of £33.6m) following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims that may arise in respect of ROP in future. In 2019, the exceptional cost of £33.6m included: (i) £23.6m of defence costs associated with Non-Standard Finance's (NSF's) unsolicited offer; and (ii) £10.0m in relation to the turnaround of the home credit business.*

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

Group adjusted loss before tax of £32.6m (H1'19 PBT restated: £80.4m) is favourable when compared to internal plans but lower year-on-year driven by lower revenues, driven by lower receivables, and higher impairment charges driven by Covid-19. Group statutory loss before tax of £28.0m (H1'19 PBT restated: £43.1m) includes an exceptional provision release of £8.3m (H1'19: exceptional cost of £33.6m) following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims that may arise in respect of ROP in future.

As a result of the Covid-19 pandemic, for the first six months, Vanquis Bank has reported profit before tax for the period of £11.8m (H1'19 restated: £90.5m) and receivables ended the period at £1,202m (H1'19: £1,465m).

For the first six months of the year, Moneybarn generated a profit before tax of £2.4m (H1'19: £15.5m), with the reduction driven by a significant increase in impairment due to the macroeconomic climate brought about by Covid-19.

For the first six months, CCD reported a loss before tax of £37.6m, down from a loss before tax for H1'19 of £15.1m but significantly better than internal plans. The loss for the period reflects lower revenue being partially offset by a lower cost base.

The Group reported a basic loss per share of 9.1p per share for the period down from a basic earnings per share of 9.7p in H1'19. This reflects the loss making position of the Group, driven by lower receivables, offset by a tax credit of £4.9m. On an adjusted basis, the Group reported a loss per share of 10.1p down from 23.4p in H1'19.

The Group generated an annualised RORE of 6.4%, down from a RORE of 22.9% in H1'19, reflecting a 72% reduction in annualised statutory profits on a relatively flat annualised regulatory capital requirement.

Impairment provisioning

The Group is the leading provider of credit to the underserved in the UK. Our customers have similar traits across all our businesses: 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 IFRS 9 impairment coverage ratio (gross receivables divided by impairment provision) has increased in the period from 28.3% to 33.5% which reflects increases across all divisions:

	June-20	December-19	Increase
Vanquis Bank	27.4%	23.2%	4.2%
Moneybarn	18.8%	14.4%	4.4%
CCD	71.6%	58.1%	13.5%
Group	**33.5%**	**28.3%**	**5.2%**

The coverage ratio in Vanquis Bank has increased by 4.2% to 27.4%, reflecting the impact of the forecast worsening economic outlook and payment holidays.

The Moneybarn coverage ratio increased by 4.4% to 18.8% reflecting the increased levels of payment holidays activated, the macro-economic outlook and the nature of the secured assets.

The coverage ratio in CCD increased by 13.5% to 71.6% reflecting the deterioration in the customer base and those who have defaulted, and are therefore heavily provided, based on the 12-week impairment assessment period.

Our customers are also typically less sensitive to changes in economic conditions as they are more used to managing on tight budgets and they have lower levels of debt than prime customers. They are, therefore, often better placed to manage a recession than prime customers which is why our businesses have proven to be resilient during a downturn in economic conditions. However, we have tightened underwriting over the last six months to manage credit risk during this period of uncertainty.

Macroeconomic provision

Separate macroeconomic provisions are recognised to reflect an increased probability of default (PD) and loss given default (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, both changes in unemployment and used car sales values are assumed.

The PD impacts from rising unemployment in Moneybarn, follows consistent methodology with Vanquis Bank. Moneybarn also analyse trends in the used vehicle resale values to estimate recoveries from the sale of repossessed vehicles at auction.

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 several of the 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 scenarios have doubled from 20% at Dec-19 to 40% at Jun-20 to reflect the uncertain outlook:

Unemployment rate (%)	**Base**	**Upside**	**Downside**	**Severe**
Weighting	50%	10%	35%	5%
2020				
Peak	8.0	6.3	10.0	13.5
Average	6.1	5.3	6.8	8.0
2021				
Peak	7.4	5.7	10.2	14.1
Average	6.7	5.4	9.4	13.4

The impact of the macro-economic scenarios has increased the Group impairment provision by £73m. Whilst the forward-looking nature of IFRS 9 requires provisions to be established for all losses arising out of the current Covid-19 crisis, the level of uncertainty may mean that additional impairment provision, or releases, may be required in future periods.

Vanquis Bank

	Six months ended 30 June		
	2020 £m	2019[1] £m	*Change*
Customer numbers ('000)	1,694	1,791	*(5.4%)*
Period-end receivables	1,202	1,465	*(18.0%)*
Average receivables[2]	1,341	1,465	*(8.5%)*
Revenue	**261.1**	**291.1**	***(10.3%)***
Interest	(16.3)	(15.9)	*(2.5%)*
Net interest margin	**244.8**	**275.2**	***(11.0%)***
Impairment	(149.9)	(96.6)	*(55.2%)*
Risk-adjusted net interest margin	**94.9**	**178.6**	***(46.9%)***
Costs	(83.1)	(88.1)	*5.7%*
Profit before tax	**11.8**	**90.5**	***(87.0%)***
Annualised revenue yield[3]	39.4%	40.9%	*(3.7%)*
Annualised impairment rate[4]	18.0%	14.9%	*21.0%*
Annualised return on equity[5]	19.3%	36.9%	*(47.7%)*

1 *The 2019 June comparatives have been restated to incorporate two changes in accounting policies reflected in the 2019 financial statements: (i) change in treatment of directly attributable deferred acquisition costs in Vanquis Bank; and (ii) changes in the recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn.*
2 *Calculated as the average of month end receivables for the 6 months ended 30 June.*
3 *Revenue as a percentage of average receivables for the 12 months ended 30 June.*
4 *Impairment as a percentage of average receivables for the 12 months ended 30 June.*
5 *Profit after tax as a percentage of average equity for the 12 months ended 30 June.*

Vanquis Bank is a leading specialist in the large and established credit card market with strong capital and liquidity positions. As a consequence of Covid-19, the business reported profit before tax for the first half of £11.8m, down from £90.5m in the first half of 2019, and receivables at the end of the period of £1,202m were approximately £260m lower than June 2019 (H1’19: £1,465m).

In response to the Covid-19 pandemic, Vanquis Bank successfully moved 80% of contact centre and 100% of head office colleagues to remote working by mid-April with minimal impact on customer service levels. Customer support was maintained through dialler technology and increased use of SMS communications and those customers in financial difficulty were provided support either through: (i) payment holidays in line with FCA measures; (ii) the payment freeze option within the ROP product; and (iii) Vanquis Bank’s other forbearance measures. Alongside this, in early April, underwriting standards were significantly tightened to reduce new credit card bookings by 25%, curtail all new loans business and suspend the Credit Line Increase (CLI) programme.

New account bookings for the first six months of the year were 147k, down from 190k in the first half of 2019, following the decision taken to reduce new customer bookings by 75% in April. Vanquis Bank has now initiated a staged re-entry into the market, increasing new credit card volumes to c.50% of their pre-Covid-19 levels and recently recommenced personal loan lending to existing credit card customers. Customer numbers ended the period at 1,694k (H1’19: 1,791k), a reduction of 5.4% on June 2019.

Receivables ended the period at £1,202m (H1’19: £1,465m), a decrease of 18% or £263m compared with the first half of 2019. In addition to the impact of lower new customer acquisition and the suspension of the CLI programme, customer spending was significantly reduced in the second quarter during the Covid-19 lockdown. On a year-on-year basis, customer spending was approximately 40% lower in April, 35% lower in May and 20% lower in June. As a result, account utilisation levels have reduced from c.60% at the start of the year to c.53% at the end of June. The progressive improvement in customer spending has continued early in the third quarter with the gap to prior year narrowing to 15% in July and August. Vanquis Bank has recently recommenced a phased introduction of its CLI programme.

Vanquis Bank generated revenue in the first half of £261.1m, down from £291.1m in the first half of 2019. The reduction was driven by a combination of the fall in receivables and a moderation in the revenue yield. The annualised revenue yield at the end of June was 39.4%, a year-on-year reduction of c.150bps, reflecting the ongoing c.£15-20m annual reduction in ROP income, changes to the basis of charging default and over limit fees and the ban on the use of credit cards for gambling transactions which came into effect in April.

The impairment charge for the period was £149.9m (H1'19: £96.6m), an increase of 55% compared with the first half of 2019 notwithstanding the overall reduction in receivables. This equates to an annualised impairment rate at the end of June of 18.0% compared with 14.9% at June 2019, reflecting the impact of Covid-19, including the forecast of a deterioration in the macro-economic outlook and the exit performance of customers taking payment holidays, which has increased the impairment charge in the first half of 2020 by approximately £70m.

The take-up of payment holidays, in line with the FCA measures introduced in April, amounted to approximately 2% of customers and 4% of gross balances at the end of June. This represents a reduction from the peak in May of approximately 3% of customers and 5% of receivables. The daily take-up of payment holidays has continued to be modest in July and August.

The combination of a lower revenue yield and higher impairment rate resulted in the risk-adjusted margin ('RAM') reducing from 26.0% at June 2019 to 21.4% at June 2020.

First half costs reduced by 5.7% to £83.1m (H1'19: £88.1m), reflecting the ongoing cost efficiency programme at Vanquis Bank together with the cessation of all discretionary spend in response to Covid-19.

Interest costs increased by 2.5% to £16.3m (H1'19: £15.9m) during the first half notwithstanding the reduction in receivables. This reflects the decisive action taken to raise additional retail deposits at the onset of Covid-19 to mitigate the potential for a market wide liquidity stress. Accordingly, Vanquis Bank has been prudently carrying £800m of additional liquidity over and above its regulatory requirements during the second quarter of the year which has resulted in additional funding costs of approximately £2m.

The Group notes that the persistent debt measures introduced by the FCA have been delayed until October 2020 to allow firms more time to comply following the onset 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 than recommended payments

Vanquis Bank has successfully supported both customers and colleagues through the significant disruption caused by Covid-19 since the start of the second quarter. The business has delivered first half profits and has strong capital and liquidity positions meaning it is well-placed to switch the focus back to re-growing customers and receivables in a sustainable manner. Enhancing the customer and digital propositions as well as broadening the range of products, including an open market launch of loans in early 2021, remain important pillars of developing Vanquis Bank to the 'Bank for the underserved'.

Moneybarn

	Six months ended 30 June		
	2020 £m	2019[1] £m	*Change*
Customer numbers ('000)	82	70	*17.1%*
Period-end receivables	529.4	484.7	*9.2%*
Average receivables[2]	520.6	436.2	*19.3%*
Revenue	**66.1**	**58.3**	***13.4%***
Interest	(13.3)	(13.7)	*2.9%*
Net interest margin	**52.8**	**44.6**	***18.4%***
Impairment	(37.5)	(17.5)	*(114.3%)*
Risk-adjusted net interest margin	**15.3**	**27.1**	***(43.5%)***
Costs	(12.9)	(11.6)	*(11.2%)*
Adjusted profit before tax[3]	**2.4**	**15.5**	***(84.5%)***
Annualised revenue yield[4]	25.2%	24.7%	*2.0%*
Annualised impairment rate[5]	12.0%	7.1%	*70.3%*
Annualised return on assets[6]	8.9%	10.9%	*(18.3%)*

1 *The 2019 June comparatives have been restated to incorporate two changes in accounting policies reflected in the 2019 financial statements: (i) change in treatment of directly attributable deferred acquisition costs in Vanquis Bank; and (ii) changes in the recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn.*

2 *Calculated as the average of month end receivables for the 6 months ended 30 June. 2019 is stated prior to the impact of the balance reduction adjustment of £1.8m in respect of the FCA investigation into affordability, forbearance and termination options.*

3 *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £3.7m (2019: £3.7m).*

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

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

6 *Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 30 June.*

In the five years since acquisition by Provident Financial, Moneybarn has become one of the largest suppliers of vehicle finance to underserved customers in the UK. The business has a strong track record, delivering high levels of growth and strong returns, and is in an excellent position to continue to deliver profitable growth in the medium term from existing and adjacent markets. For the first six months of the year, Moneybarn generated a profit before tax of £2.4m (H1'19: £15.5m), with the reduction driven by a significant increase in impairment.

Moneybarn was able to continue lending to its customers throughout the entire lockdown period thanks to actions taken at the outset to ensure that all customer facing colleagues were able to work remotely. Moneybarn's contact centre is now back operating at close to full capacity thanks to working pattern changes, such as coordinated shifts and changes to working hours. 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 January and February remained strong, and were consistent with 2019 growth trends, as were the first three weeks of March. For April, new business volumes fell significantly, before starting to recover in May mainly due to the fact that car sales outlets were initially closed. Despite tightening underwriting criteria during the period, which saw the Tier 3A category – the highest risk level accepted – fall from c.17% to c.2%, new business volumes were encouraging in June with July seeing record levels of new business. One feature of the new business levels has been the migration of customers away from prime and near-prime lenders towards Moneybarn, i.e. we have started to see a change in risk appetite elsewhere in the sector. In addition, since lockdown began in the third week of March, over 40% of Moneybarn's lending has been to people classified as keyworkers. Overall, customer numbers and receivables are up by around 10% since December to 82k and £529m, respectively.

Moneybarn ended the period with 82k customers, representing an increase vs. H1’19 of 12k or 17%. This performance was in line with management’s expectations set at the beginning of the year and was achieved despite underwriting standards tightening during the period. Moneybarn wrote over 4,500 new loans in July representing record new business volumes for a single month. There is a clear underlying demand for quality used cars, especially within Moneybarn’s core market, driven by post-lockdown concerns around the use of public transport and prime- and near-prime providers pulling back from the market.

At the end of June, receivables stood at £529.4m vs. £484.7m at H1’19 driven by better than anticipated new business volumes of 16k (H1’19: 20k), particularly towards the end of the period. In the context of the disruption that Covid-19 brought, and the knock-on impact to Moneybarn’s key introducers and underlying customer base, the new business performance is significantly ahead of internal plans.

As a result of the higher receivables base, revenues during H1’20 increased by 13.4% year-on-year to £66.1m (H1’19: £58.3m), in line with internal plans. The growth was partially offset by a reduction in higher risk lending during the period which brought the average APR lower. The resulting annualised revenue yield at the end of June was 25.2% vs. 24.7% in June 2019.

Impairment increased significantly during the period to £37.5m (H1’19: £17.5m) as a result of Covid-19 impacting arrears rates and an increase in provisions driven by a forecast deterioration in the macroeconomic environment. The annualised impairment rate increased from 7.1% in June 2019 to 12.0%.

As a result of the increased impairment rate, the risk-adjusted margin fell to 13.2% at the end of June vs. 17.6% a year earlier. Moneybarn’s impairment rate continues to be impacted by higher provision amounts as the termination process remains challenging as the company is restricted in terms of its ability and its partners’ ability to collect vehicles, a situation that is improving but unlikely to fully recover until October.

Moneybarn took a proactive approach to offering its customers a solution to ease any potential financial hardship they, or their households, might be experiencing. Before the FCA’s formal guidance, Moneybarn was offering its customers a payment holiday arrangement. 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 27.5% of customers (or c.23k customers). Following the expiry of the first 3 month payment holiday the current live payment holiday number is around 5k customers (c.3.5% of customers) who have come off payment holidays, around a third then go on to miss a repayment, in line with internal expectations.

Costs increased slightly in the period to £12.9m, from £11.6m last year, reflecting an increase in headcount, an increase in volume driven costs – such as credit bureau searches – and arrangements for working remotely. Interest costs are broadly flat year-on-year reflecting a lower cost of funding being offset by a higher receivables balance.

After the period end, the FCA announced its intention to ban motor finance discretionary commission models, following a consultation in October 2019. This covers some arrangements whereby car retailers and motor finance brokers receive commission which is linked to the interest rate that customers pay which, in the eyes of the FCA, creates an incentive to sell more expensive credit to certain customers. Moneybarn has never employed this commission structure, and pays largely fixed commissions except for very limited volume-related discounts to its larger introducers.

Consumer Credit Division

	Six months ended 30 June 2020 £m	2019 £m	*Change*
Customer numbers ('000)	379	531	*(28.6%)*
Period-end receivables	146.9	245.4	*(40.1%)*
Average receivables[1]	191.2	254.2	*(24.8%)*
Revenue	**118.4**	**152.1**	***(22.2%)***
Interest	(4.6)	(5.1)	*9.8%*
Net interest margin	**113.8**	**147.0**	***(22.6%)***
Impairment	(52.9)	(51.8)	*(2.1%)*
Risk-adjusted net interest margin	**60.9**	**95.2**	***(36.0%)***
Costs	(98.5)	(110.3)	*10.7%*
Adjusted loss before tax[2]	**(37.6)**	**(15.1)**	***(149.0%)***
Annualised revenue yield[3]	121.2%	117.3%	*3.3%*
Annualised impairment rate[4]	45.1%	38.0%	*18.7%*
Annualised return on assets[5]	(15.8%)	(5.5%)	*(187.3%)*

[1] *Calculated as the average of month end receivables for the 6 months ended 30 June.*

[2] *In 2019, adjusted loss before tax was stated before exceptional costs of £10.0m in relation to the turnaround of the home credit business following the poor execution of the migration to the new operating model in July 2017.*

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

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

[5] *Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 30 June.*

The Consumer Credit Division ('CCD'), which comprises Provident home credit and Satsuma, was on track to break even during 2020 prior to Covid-19. It is still the Group's intention to return this business to standalone profitability, albeit the timing of this has been delayed. The strategy for CCD will be to focus on leveraging efficiency in serving its customers, while continuing to be underpinned by a relationship model, and offering customer choice.

For the first six months, CCD reported a loss before tax of £37.6m, down from a loss for H1'19 of £15.1m but significantly better than internal plans. The loss for the period reflects lower net revenue being partially offset by a lower cost base.

The home credit business responded to the challenges presented by Covid-19 by introducing several new ways of working, in order to adapt and continue supporting its customers. Home credit field-based colleagues 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 to support with a particular focus on later-stage arrears. As lockdown restrictions have eased, some field-based colleagues have been able to make home visits again since mid-June onwards. However, they are only able to do so when agreed in advance with the customer.

The home credit team implemented a process 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 on a payment holiday which equates to around 3% of customers and 1% of receivables. In Satsuma, payment holiday take-up at the end of June represented c.3% of customers and 4% of receivables.

The significant operational changes outlined above have enabled new ways of working and our Customer Experience Managers (CEMs) have become more efficient as a result and are more effectively aligned to customer preferences. Alongside that, the reduction in customer numbers and receivables have led to more immediate cost base action being necessary. At the end of July, home credit launched a consultation period with a view to removing around 300 CEMs and Customer Service Managers (CSMs). The proposal is to replace the CEMs/CSMs role with a new Customer Representative

('CR') role, reporting to Business Managers. The proposed CR role will also see the introduction of a higher level of variable remuneration.

Customer numbers ended the period at 379k, which represents a reduction vs H1'19 of c.29%, driven by significantly reduced new customer bookings during the Covid-19 lockdown period. This is reflected in new issue volumes being down by c.40% vs H1'19 in home credit as a result of tighter underwriting standards and operational restrictions, particularly in the early stages of lockdown. Lending volumes fell by c.80% in Satsuma in H1'20 due to changes in the affordability assessment and customer onboarding processes during the first quarter and a subsequent pause in all lending in Satsuma during May which will remain in place until more operational and regulatory certainty can be established.

CCD receivables ended the period at £147m, which represents a decline of 40% year-on-year, driven by lower issue volumes during the period and higher provisioning levels. Satsuma receivables of £16m at the end of June represented a fall of c.60% year-on-year as lending to new and existing customers was paused alongside collection activity remaining strong.

Revenue for the period was £118.4m, a reduction of 22% vs H1'19, which is consistent with the c.25% fall in average receivables over the same period. The reported annualised revenue yield for H1'20 is 121%, ahead of the comparable figure for H1'19 of 117%.

Impairment for the first six months of the year amounted to £52.9m, an increase of just 2% vs H1'19. Despite the significantly smaller book year-on-year, the impairment charge has remained similar to the prior year owing to a more adverse arrears distribution as a consequence of Covid-19. The impairment charge equates to an annualised impairment rate at the end of June of 45.1% vs 38.0% in H1'19. The RAM at the end of June was 71.9%, lower vs H1'19 by 32.8%, owing to lower net revenue encompassing a higher impairment.

Costs of £98.5m were £11.8m lower vs H1'19. Expenses were lower, driven by lower salary costs following management action taken in 2018 and 2019, in restricting and lowering headcount in both the field and head office, partially offset by higher complaint costs.

Central costs

Central costs have reduced from £10.5m to £9.2m year on year reflecting lower share incentive, Blueprint and Group risk costs. A £1.8m funding cost was incurred from carrying the increased liquidity headroom in response to Covid-19.

Exceptional items

The exceptional credit in the first half of 2020 reflects the £8.3m release of provisions established in 2017 following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims which may arise in respect of ROP complaints. Exceptional costs in 2019 comprised (i) £23.6m of defence costs associated with Non-Standard Finance plc's (NSF's) unsolicited offer for the Group; and (ii) £10.0m in relation to the ongoing turnaround of the home credit business.

Tax

The tax credit/(charge) for the period has been calculated by applying the best estimate of the effective tax rate for the financial year of 21.4% (2019: 26.3%), to the (loss)/profit before tax, amortisation of acquisition intangibles and exceptional items for the period. The tax rate reflects the impact of the bank corporation tax surcharge of 8% which came into force on 1 January 2016 and applies to Vanquis Bank profits in excess of £25m. It also reflects (i) the beneficial impact of measuring deferred tax assets at 19% (2019: 17%), and in the case of Vanquis Bank at 27% (2019: 25%), following the announcement in the March 2020 Budget that the rate of mainstream UK corporation tax would remain at 19% from 1 April 2020 rather than the previously enacted rate of 17%; (ii) the benefit of the release of part of the provision for uncertain tax liabilities which is no longer required; and (iii) the adverse impact of the write off of deferred tax assets related to share awards reflecting the reduction in expected tax relief as a result of the lower share price and expected level of vesting.

The tax rate also reflects the recognition of deferred tax assets in respect of losses and other temporary differences on the basis that the Group is expected to have sufficient taxable profits available in the future to enable such deferred tax assets to be recovered.

The tax charge in respect of the exceptional credit in 2020 amounts to £2.2m which represents tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £8.3m exceptional release of provisions established in 2017 following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally. The tax credit in 2019 in respect of exceptional costs amounted to £2.0m and represented: (i) tax relief of £1.9m in respect of the exceptional restructuring costs in CCD; and (ii) tax relief of £0.1m in respect of exceptional costs associated with the defence of the unsolicited offer from NSF.

The tax credit in respect of the amortisation of acquisition intangibles is £0.1m (2019: £0.7m) and represents a tax credit of £0.7m in respect of the amortisation net of the impact of measuring the related deferred tax liability at 19% (2019: 17%) following the announcement that the rate of mainstream UK corporation tax will remain at 19% from 1 April 2020 rather than the previously enacted rate of 17%, which amounts to £0.6m.

Dividends

The Board is not proposing an interim dividend with respect to this financial year (H1’19: 9.0p per share), in line with its decision to preserve capital, and support business stability, when deciding to not pay the final dividend for FY’19. However, it remains our intention 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:

- Regulatory capital headroom at 30 June 2020 of approximately £215m excluding the capital conservation buffer of approximately £50m which is held and may be used at the Group’s discretion including the advent of a stress scenario such as currently being experienced in the UK.

- Liquidity headroom on committed facilities and surplus cash and liquid resources amounting to approximately £200m plus approximately £1bn of liquid resources held by Vanquis Bank (c£200m in respect of their regulatory requirements) as well as ongoing access to the retail deposits market.

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 19.33% and the fixed monetary add-on in respect of pension risk has been removed.

The Group’s CET1 ratio on an accrued profits basis at 30 June 2020 was 35.4% compared with the Group’s Pillar 2A requirement of 19.3%. The regulatory capital headroom above total requirements was approximately £215m. The Board’s current view on risk appetite is to maintain a capital buffer in excess of £100m due to market uncertainties. The increase in headroom from £160m at 31 December 2019 reflects: (i) the preservation of capital through the cancellation of the 2019 dividend; and (ii) reduced risk weighted exposures in respect of customer receivables. These benefits were partly offset by the consolidated Group loss to 30 June and the anticipated third year transitional impact of IFRS 9 (net of additional capital mitigation in response to Covid-19 noted below).

As previously reported, the Group has elected to phase in the impact of adopting IFRS 9 over a five-year period. This is achieved 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 plus any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period. The PRA 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 increase in ECL in the non-credit impaired book arising in 2020 and 2021 to be fully added back in those years. This relief is then phased out over the following three years on a straight line basis (2022: 75%, 2023: 50%, 2024: 25%, 2025: 0%). The impact of the IFRS 9 transitional arrangements on CET 1 as at 30 June 2020 was £159.2m.

The Group continues to actively explore a number of options to improve capital efficiency. These include, but are not limited to, supplementing the existing capital base made up entirely of core equity tier one with tier 2 debt capital to support growth and improved return on equity. The Board also continues to monitor its risk appetite in respect of the appropriate level of regulatory capital headroom with regard to the Group’s recovery post Covid-19.

The Group’s current funding strategy is to maintain committed facilities to meet contractual maturities and fund growth for at least the following 12 months and maintain access to four main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; (iii) securitisation; and (iv) retail deposits.

The flow of retail deposits within Vanquis Bank has continued to be strong and, at 30 June 2020, Vanquis Bank had retail deposit funding of £1.9bn, up from £1.3bn at 31 December 2019, which reflects the steps taken by Vanquis Bank to increase liquidity in response to Covid-19.

During the first half of 2020, the Group delivered on a number of its funding objectives: (i) signed an agreement to fund the Moneybarn receivables book through securitisation (ii) repaid early the remaining M&G loan facility of £25m on 14 February 2020; (iii) in line with its contractual maturity, repaid a £25m bond on 14 April 2020. After the period end, the Group secured intra-Group funding through Vanquis Bank.

In addition, after the period end, consistent with the Group's strategy of cost effective management of its liabilities, the Group successfully completed a tender offer for £75m of senior bonds due to mature in 2023. The transaction reduces the Group's overall cost of borrowing and strengthens its balance sheet in line with the overall strategy of strengthening its position in the market.

Headroom on the Group's committed debt facilities was £196m at 30 June 2020. Together with the ongoing retail deposits programme, this comfortably meets the Group's funding strategy. There are no further contractual maturities of the Group's facilities until a scheduled maturity of a £65m bond in September 2021.

The Group is actively exploring additional funding options including, but not limited to: (i) changing the funding mix to be more efficient; (ii) securitisation of the Vanquis Bank receivables book; and (iii) optimising the mix of debt capital and senior debt in the funding profile.

On 5 April 2020, Fitch Ratings revised the Group's outlook to negative, reflecting the economic fallout from the Covid-19 pandemic. The credit rating is therefore currently BB+ with a negative outlook.

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: credit risk, capital risk, liquidity and funding risk, information and data security risk, operational risk, regulatory and conduct risk, business resilience, people 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 42 to 53 of the 2019 Annual Report & Financial Statements which is available on the Group's website, www.providentfinancial.com.

The Group Board, directors and management have focused on the Group's principal risks throughout the first half in response to the changing and challenging operational environment as a result of Covid-19. This was essential to ensure the principal risks were appropriately managed and further mitigated where possible. The response through the first half, and planned approach for the remaining six months of the 2020 financial year, are:

Credit risk

All of the Group's divisions have tightened lending policies and underwriting criteria through the first half, thereby limiting new business and improving the quality of newly acquired customers. The relaxation of tightening will be gradual, on a test and learn basis, and an assessment of repayment performance will be made before further changes are made. All divisions have also worked closely with their customers by offering payment holidays, or payment arrangements, as appropriate. This close relationship with customers will continue in the second half of the year as the economic uncertainty continues.

Capital risk

The 2019 final dividend was not proposed for approval at Provident Financial's AGM in May to preserve both cash and capital. The Group has also decided not to pay an interim dividend for the half year. Future dividend decisions will be made as and when conditions normalise. A reduction in customer receivables, combined with tighter underwriting has increased surplus capital held. When combined with the reduction in countercyclical buffer and increased dynamic provisions, through relief for Covid-19 related provisions, the Group's surplus regulatory capital has increased from £117m at 31 December 2019 to £215m at 30 June 2020.

Liquidity and funding risk
The Group was able to raise additional liquidity rapidly through April and May resulting in headroom on committed facilities and surplus cash and liquid resources increasing to approximately £1.2bn in May to mitigate risk of operational disruption and utilisation of undrawn credit facilities in Vanquis Bank. £1bn of surplus liquidity continues to be held to mitigate against any ongoing risk.

Operational, people, business resilience and information and data security risk
All divisions had to adapt rapidly and introduce new ways of working in response to Covid-19. The response was swift and effective, enabling us to continue supporting our customers whilst ensuring the safety and wellbeing of our colleagues. This support has enabled colleagues from across the Group to have the necessary equipment to work remotely. The provisions to work remotely have proved to be effective and therefore the measures will remain in place for the short to medium-term. Colleagues will return to working from the Group's offices when this is deemed to be safe and operationally viable.

Regulatory and conduct risk
The Group has worked closely with its regulators through the first half to ensure customers could continue to be served responsibly, recognising that many of these are vulnerable. This has included offering payment holidays and other forbearance where appropriate. There continues to be heightened Claims Management Company (CMC) activity in relation to non-standard lending, particularly in respect of irresponsible lending in high-cost credit and more recently in-home credit. As a result, CCD (Home Credit) has seen an increase in the number of such complaints during 2020. An increasing proportion of complaints are being managed internally, reducing referrals to the FOS. CCD continues to robustly defend inappropriate or unsubstantiated claims.

Model risk
A Model Risk policy has been approved by the Group Board in the first half. Independent model validation has been initiated for the Group's most significant models.

Related party transactions

In August 2020, Provident Financial plc agreed a £70m intercompany facility with Vanquis Bank to allow upstream funding which facilitated the tender of the 2023 bonds.

Unaudited condensed interim financial statements

Consolidated income statement

	Note	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 (restated) £m
Revenue	4	445.6	501.5
Finance costs		(36.0)	(36.5)
Net interest margin		**409.6**	**465.0**
Impairment charges		(240.3)	(165.9)
Risk-adjusted net interest margin		**169.3**	**299.1**
Administrative and operating costs		(197.3)	(256.0)
(Loss)/profit before tax	4	(28.0)	43.1
(Loss)/profit before tax, amortisation of acquisition intangibles and exceptional items	4	(32.6)	80.4
Amortisation of acquisition intangibles	4	(3.7)	(3.7)
Exceptional items	4	8.3	(33.6)
Tax credit/(charge)	5	4.9	(18.5)
(Loss)/profit for the period attributable to equity shareholders		(23.1)	24.6

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 (restated) £m
(Loss)/profit for the period attributable to equity shareholders		(23.1)	24.6
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	9	38.3	(15.7)
– fair value movement in investments	10	1.4	3.9
– tax on items that will not be reclassified subsequently to the income statement		(7.7)	2.0
– impact of change in UK tax rate on items that will not be reclassified subsequently to the income statement		(1.9)	(0.3)
Items that may be reclassified subsequently to the income statement:			
– exchange differences on translation of foreign operations		-	0.1
Other comprehensive income/(expense) for the period		30.1	(10.0)
Total comprehensive income for the period		7.0	14.6

(Loss)/earnings per share	Note	Six months ended 30 June 2020 pence	Six months ended 30 June 2019 (restated) pence
Basic	6	(9.1)	9.7
Diluted	6	(9.1)	9.7

Dividends per share		Six months ended 30 June 2020 pence	Six months ended 30 June 2019 pence
Interim dividend	7	-	9.0
Paid in the period*	7	-	10.0

* Dividends paid in the period were £nil (2019: £25.1m).

Consolidated balance sheet

	Note	30 June 2020	31 December 2019	30 June 2019 (restated)
		£m	£m	£m
ASSETS				
Non-current assets				
Goodwill		71.2	71.2	71.2
Other intangible assets		40.7	44.1	51.1
Property, plant and equipment		19.1	19.3	22.3
Right of use assets		62.4	67.1	79.8
Financial assets:				
– amounts receivable from customers	8	385.1	418.3	401.4
Retirement benefit asset	9	118.4	78.0	70.3
Deferred tax asset		21.0	25.0	32.0
		717.9	723.0	728.1
Current assets				
Financial assets:				
– investment held at fair value through other comprehensive income	10	18.0	16.6	21.1
– amounts receivable from customers	8	1,493.3	1,794.3	1,793.5
– cash and cash equivalents		1,042.7	353.6	440.0
– trade and other receivables		45.5	33.3	49.8
		2,599.5	2,197.8	2,304.4
Total assets	4	3,317.4	2,920.8	3,032.5
LIABILITIES				
Current liabilities				
Financial liabilities:				
– retail deposits		(997.4)	(410.0)	(375.9)
– bank and other borrowings		(0.8)	(53.5)	(83.8)
Total borrowings		(998.2)	(463.5)	(459.7)
– trade and other payables		(80.1)	(89.3)	(92.3)
– lease liabilities		(9.5)	(10.2)	(13.6)
Current tax liabilities		(12.0)	(34.7)	(30.6)
Provisions	12	(9.0)	(14.5)	(35.6)
		(1,108.8)	(612.2)	(631.8)
Non-current liabilities				
Financial liabilities:				
– retail deposits		(919.9)	(935.2)	(1,096.4)
– bank and other borrowings		(475.5)	(564.8)	(533.5)
Total borrowings		(1,395.4)	(1,500.0)	(1,629.9)
– derivatives		(1.2)	-	-
– lease liabilities		(64.1)	(68.1)	(72.7)
Total liabilities		(2,569.5)	(2,180.3)	(2,334.4)
NET ASSETS	4	747.9	740.5	698.1
SHAREHOLDERS' EQUITY				
Share capital		52.6	52.5	52.5
Share premium		273.2	273.2	273.2
Other reserves		295.5	295.9	295.6
Retained earnings		126.6	118.9	76.8
TOTAL EQUITY		747.9	740.5	698.1

Consolidated statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings (restated) £m	Total £m
At 31 December 2018 (restated)	52.5	273.2	292.1	94.3	712.1
Impact of adoption of IFRS 16 'Leases'	-	-	-	(5.6)	(5.6)
At 1 January 2019	52.5	273.2	292.1	88.7	706.5
Profit for the period	-	-	-	24.6	24.6
Other comprehensive income/(expense):					
– fair value movement in investments	-	-	3.9	-	3.9
– actuarial movements on retirement benefit asset (note 9)	-	-	-	(15.7)	(15.7)
– exchange differences on translation of foreign operations	-	-	-	0.1	0.1
– tax on items taken directly to other comprehensive income	-	-	(1.0)	3.0	2.0
– impact of change in UK tax rate	-	-	-	(0.3)	(0.3)
Other comprehensive income/(expense) for the period	-	-	2.9	(12.9)	(10.0)
Total comprehensive income for the period	-	-	2.9	11.7	14.6
Transactions with owners:					
– share-based payment charge	-	-	2.1	-	2.1
– transfer of share-based payment reserve	-	-	(1.5)	1.5	-
– dividends	-	-	-	(25.1)	(25.1)
At 30 June 2019 and 1 July 2019	52.5	273.2	295.6	76.8	698.1
Profit for the period	-	-	-	59.8	59.8
Other comprehensive income/(expense):					
– fair value movement in investments	-	-	0.6	-	0.6
– actuarial movements on retirement benefit asset (note 9)	-	-	-	6.0	6.0
– exchange differences on translation of foreign operations	-	-	-	(0.1)	(0.1)
– tax on items taken directly to other comprehensive income	-	-	(0.2)	(1.2)	(1.4)
– impact of change in UK tax rate	-	-	0.1	0.1	0.2
Other comprehensive income for the period	-	-	0.5	4.8	5.3
Total comprehensive income for the period	-	-	0.5	64.6	65.1
Transactions with owners:					
– share-based payment credit	-	-	(0.2)	-	(0.2)
– dividends	-	-	-	(22.5)	(22.5)
At 31 December 2019	52.5	273.2	295.9	118.9	740.5
At 1 January 2020	52.5	273.2	295.9	118.9	740.5
Loss for the period				(23.1)	(23.1)
Other comprehensive income/(expense):					
– fair value movement in investments	-	-	1.4	-	1.4
– actuarial movements on retirement benefit asset (note 9)	-	-	-	38.3	38.3
– tax on items taken directly to other comprehensive income	-	-	(0.4)	(7.3)	(7.7)
– impact of change in UK tax rate	-	-	(0.3)	(1.6)	(1.9)
Other comprehensive income for the period	-	-	0.7	29.4	30.1
Total comprehensive income for the period	-	-	0.7	6.3	7.0
Transactions with owners:					
– issue of share capital	0.1	-	-	-	0.1
– share-based payment charge	-	-	0.3	-	0.3
– transfer of share-based payment reserve	-	-	(1.4)	1.4	-
At 30 June 2020	52.6	273.2	295.5	126.6	747.9

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

Consolidated statement of cash flows

	Note	Six months ended 30 June 2020	2019 (restated)
		£m	£m
Cash flows from operating activities			
Cash generated from operations	15	330.0	67.4
Finance costs paid		(28.7)	(31.3)
Tax paid		(23.4)	(8.1)
Net cash generated from operating activities		277.9	28.0
Cash flows from investing activities			
Purchase of intangible assets		(3.8)	(2.5)
Purchase of property, plant and equipment		(3.9)	(3.7)
Proceeds from disposal of property, plant and equipment		0.7	1.1
Sale of government gilts		-	30.6
Net cash (used in)/generated from investing activities		(7.0)	25.5
Cash flows from financing activities			
Proceeds from bank and other borrowings		809.3	157.5
Repayment of bank and other borrowings		(384.5)	(125.7)
Payment of lease liabilities		(4.7)	(6.8)
Dividends paid to company shareholders	7	-	(25.1)
Proceeds from issue of share capital		0.1	-
Net cash generated from/(used in) financing activities		420.2	(0.1)
Net increase in cash, cash equivalents and overdrafts		691.1	53.4
Cash, cash equivalents and overdrafts at beginning of period		350.8	380.9
Cash, cash equivalents and overdrafts at end of period		1,041.9	434.3
Cash, cash equivalents and overdrafts at end of period comprise:			
Cash at bank and in hand		1,042.7	440.0
Overdrafts (held in bank and other borrowings)		(0.8)	(5.7)
Total cash, cash equivalents and overdrafts		1,041.9	434.3

Cash at bank and in hand includes £1,014.4m (2019: £423.3m) 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 30 June 2020, £825.0m (2019: £143.3m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

Notes to the unaudited condensed interim financial statements

1. General information

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

The unaudited condensed interim financial statements do not constitute the statutory financial statements of the Group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2019 were approved by the board of directors on 27 February 2020 and have been delivered to the Registrar of Companies. The report of the auditor on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

The unaudited condensed interim financial statements for the six months ended 30 June 2020 have been reviewed, not audited, and were approved by the board of directors on 26 August 2020.

2. Basis of preparation

The unaudited condensed interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The unaudited condensed interim financial statements should be read in conjunction with the statutory financial statements for the year ended 31 December 2019 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In assessing whether the Group is a going concern, the directors have reviewed the Group's latest budgets, as approved in July 2020, which includes capital and liquidity forecasts, on detailed projections for 2020 and 2021 together with outline projections for the three subsequent years. This assessment has included consideration of the Group's principal risks and uncertainties, including that of Covid-19, 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 macro-economic scenarios. This initially assumes a severe but plausible downturn, with 'severe' being defined consistently with the Group's IFRS 9 'severe' macro-economic weighting. This assumes that unemployment in the UK reaches a peak unemployment rate of 14%. Further, more severe, scenarios have been modelled which would need to materialise to prevent the directors from adopting the going concern assumption. The projections do not assume any further refinancing, or government support, and the Group's revised TCR has been assumed in all scenarios modelled.

Based on this review, the directors are satisfied that the Group has the required resources to continue in business for a period of at least twelve months following the approval of the interim financial statements. For this reason, the directors continue to adopt the going concern basis in preparing the unaudited condensed interim financial statements.

3. Accounting policies

The accounting policies applied in preparing the unaudited condensed interim financial statements are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2019. The 2019 June comparatives have been restated to reflect the two changes in accounting policies reflected in the 2019 financial statements: (i) change in treatment of directly attributable deferred acquisition costs in Vanquis Bank; and (ii) changes in the recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn.

<u>Change in treatment of directly attributable acquisition costs in Vanquis Bank</u>
As part of a refresh of contractual terms with affiliates during 2019, the Group reviewed the treatment of directly attributable acquisition costs paid by Vanquis Bank to third parties upon acceptance of new credit card customers introduced by those third parties. Historically, such costs were charged to the income statement as incurred on the basis that the credit card customer is not required to use the credit card. Upon review of this policy, it was determined that the expected use of the issued credit cards can be reliably predicted and it was probable that the issued credit cards would be used resulting in the recognition of credit card receivables with the associated benefits flowing to Vanquis

3. Accounting policies (continued)

Bank. Accordingly, directly attributable acquisition costs are now capitalised as part of credit card receivables and amortised over the expected life of customer accounts.

The Group concluded that the new treatment represented a change in accounting policy and restated the 2018 results. The June 2019 consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in shareholders' equity have therefore also been restated. The prior year restatement has resulted in an increase in receivables of £26.7m at June 2019 and an increase in profit before tax in the first six months ended 30 June 2019 of £5.5m, comprising a reduction in costs of £9.0m and a reduction in revenue of £3.5m.

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

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

The Group concluded that the new treatment reflected a change in accounting policy required to be applied retrospectively and accordingly restated the 2018 results. The June 2019 consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in shareholders' equity have therefore also been restated. The restatement results in a reduction in Moneybarn's revenue for the 6 months ended 30 June 2019 of £8.6m with a corresponding reduction in administrative and operating costs of £8.6m. There is no impact on profit before tax. The carrying value of receivables at 30 June 2019 has increased by £23.4m with a corresponding reduction in trade and other receivables.

Critical accounting judgements and key sources of estimation uncertainty

The significant accounting judgements exercised by management and key sources of estimation uncertainty in the interim financial statements are consistent with those adopted in the statutory financial statements for the year ended 31 December 2019 with the exception of the impact of Covid-19.

Amounts receivable from customers

As disclosed in the 2019 Annual report and financial statements, the valuation of amounts receivable from customers remains a significant accounting judgement.

Expected Credit Losses (ECL) are recognised on inception of a loan based on the probability of default (PD), exposure at default (EAD) and the loss given default (LGD). For the purposes of assessing ECL for amounts receivable from customers, receivables are categorised based on the PD into IFRS 9 stages and cohorts which are believed to provide evidence of a significant increase in credit risk (SICR) or default. These stages are considered to be the most reliable indication of ECL.

Stage 1 - Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months.

Stage 2 - When an account has suffered a SICR but have not defaulted, the account is move to Stage 2 based on comparisons of current PD's to origination PD's. Lifetime losses are recognised when a significant increase in credit risk is evident.

Stage 3 – When an account defaults.

- Probability of Default (PD)

A SICR for customers in Vanquis Bank is when there has been a significant increase in behavioural score or when one contractual monthly payment has been missed. In Moneybarn and on the Satsuma monthly product, a significant increase in credit risk is when one contractual monthly payment has been missed. In CCD, credit risk is assumed to increase significantly when the cumulative amount of two or more contractual weekly payments has been missed in the previous 12 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly.

Default is assumed in Vanquis Bank and the Satsuma monthly product when three contractual repayments have been missed. Moneybarn assumes default when the customer's vehicle has been terminated and CCD when the customer has missed a cumulative amount of five or more contractual weekly payments in the previous 12 weeks.

3. Accounting policies (continued)

The PD and evidence of a SICR has been reassessed by both Vanquis Bank and Moneybarn in response to Covid-19, In particular for:

- Customers who have activated a payment holiday where PD estimates have been revised reflecting customer repayment behaviour on exiting the payment holiday; and
- In Vanquis Bank, due to the low level of payment holidays activated in the first half, and detailed customer-level bureau analysis being held, PD's have also been adjusted for customers who may activate a payment holiday in the second half of the year. This is in response to revised FCA guidance on payment holidays to credit card customers issued in June 2020.

The home credit business has payment holidays implicit within their business model; customers value the fixed cost product with no missed payment penalties. The accounting methodology was therefore not required to be adjusted, at 30 June. This was supported by customer repayment levels returning to pre Covid-19 levels by 30 June.

- Exposure at Default (EAD)

EAD in Vanquis Bank reflects the current balance on the card plus future expected spend and interest. It does not include any credit line increases which a customer may become eligible for after the balance sheet date. For loan balances, an estimation is made of the outstanding loan, based on assumed repayments, at the point of default, discounted to the balance sheet date.

- Loss Given Default (LGD)

LGD reflect estimated losses following default and takes account of subsequent customer repayments, including through payment arrangements, recoveries through third party debt collection agencies and external debt sales. For Moneybarn the LGD also takes account of proceeds from the sale of the vehicle at auction.

Key sources of estimation uncertainty:

The level of impairment recognised by each of the Group's businesses is calculated using models which utilise historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage, and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment product mix and recent customer payment performance.

The impact of Covid-19 has significantly influenced ECL in the period. Each division has reviewed individual customer behaviour in light of Covid-19 to adjust the previous calculations of PD, EAD and LGD. This reflects assumptions in respect of:

- higher 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 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 to 31 October;
- higher loss given default 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 changing forecasts in macro-economic environment.

Based on IASB guidance, the activation of a payment holiday by a customer is not automatically deemed to be indicative of a SICR. A customer who is not in arrears on activation of a payment holiday, would remain in stage 1 unless internal data or external bureau analysis, utilised by Vanquis Bank and Moneybarn respectively, indicates a SICR. If this were to be evident, a customer would be moved to stage 2. Individual customer behaviour has continued to be analysed to understand repayment behaviour on exit of a payment holiday to update the PD's, and stage classification, accordingly.

3. Accounting policies (continued)

Macro-economic 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 macro-economic 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 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 macro-economic 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 macro-economic 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 macro-economic 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 scenarios have doubled from 20% at Dec-19 to 40% at Jun-20 to reflect the uncertain outlook:

	Base	Upside	Downside	Severe
Weighting	50%	10%	35%	5%
2020				
Peak	8.0	6.3	10.0	13.5
Average	6.1	5.3	6.8	8.0
2021				
Peak	7.4	5.7	10.2	14.1
Average	6.7	5.4	9.4	13.4

Whilst the forward-looking nature of IFRS 9 requires provisions to be established for all losses arising out of the current Covid-19 crisis, the level of uncertainty may mean that additional impairment provision, or releases, may be required in future periods.

Sensitivities on the key sources of estimation uncertainty are included within note 8.

Corporation tax

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

The impact of new standards adopted by the Group from 1 January 2020

There are no new standards adopted by the Group from 1 January 2020.

The impact of new standards not yet effective and not adopted by the Group from 1 January 2020

There are no new standards not yet effective and not adopted by the Group from 1 January 2020 which are expected to have a material impact on the Group.

4. Segment reporting

	Revenue Six months ended 30 June 2020	Revenue Six months ended 30 June 2019 (restated)	Profit/(loss) before tax Six months ended 30 June 2020	Profit/(loss) before tax Six months ended 30 June 2019 (restated)
	£m	£m	£m	£m
Vanquis Bank	261.1	291.1	11.8	90.5
Moneybarn	66.1	58.3	2.4	15.5
CCD	118.4	152.1	(37.6)	(15.1)
Central costs	-	-	(9.2)	(10.5)
Total Group before amortisation of acquisition intangibles and exceptional items	445.6	501.5	(32.6)	80.4
Amortisation of acquisition intangibles	-	-	(3.7)	(3.7)
Exceptional items	-	-	8.3	(33.6)
Total Group	445.6	501.5	(28.0)	43.1

All of the above activities relate to continuing operations.

Revenue between business segments is not significant.

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. The amortisation charge in the first half of 2020 amounted to £3.7m (2019: £3.7m).

The exceptional credit in the first half of 2020 reflects the £8.3m exceptional release of provisions established in 2017 following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims which may arise in respect of ROP complaints more generally. Exceptional costs in 2019 comprised (i) £23.6m of defence costs associated with Non-Standard Finance plc's (NSF's) unsolicited offer for the Group; and (ii) £10.0m in relation to the ongoing turnaround of the home credit business following the poor execution of the migration to the new operating model in 2017, including a voluntary redundancy programme within central support functions which resulted in a reduction in headcount of approximately 200. The redundancy costs are stated net of an exceptional pension credit of £0.5m (see note 9).

	Segment assets 30 June 2020	Segment assets 31 December 2019	Segment assets 30 June 2019 (restated)	Net assets/(liabilities) 30 June 2020	Net assets/(liabilities) 31 December 2019	Net assets/(liabilities) 30 June 2019 (restated)
	£m	£m	£m	£m	£m	£m
Vanquis Bank	2,332.1	1,889.5	2,030.3	333.7	397.3	404.5
Moneybarn	566.5	541.0	512.2	39.4	39.6	29.4
CCD	183.6	284.9	294.4	(96.1)	(59.9)	(28.7)
Central	544.4	443.3	377.2	470.9	363.5	292.9
Total before intra-Group elimination	3,626.6	3,158.7	3,214.1	747.9	740.5	698.1
Intra-group elimination	(309.2)	(237.9)	(181.6)	-	-	-
Total Group	3,317.4	2,920.8	3,032.5	747.9	740.5	698.1

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

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

5. Tax charge

The tax credit/(charge) for the period has been calculated by applying the best estimate of the effective tax rate for the financial year of 21.4% (2019: 26.3%), to the (loss)/profit before tax, amortisation of acquisition intangibles and exceptional items for the period. This reflects the impact of the bank corporation tax surcharge of 8% which applies to Vanquis Bank profits in excess of £25m. It also reflects (i) the beneficial impact of measuring deferred tax assets at 19% (2019: 17%), and in the case of Vanquis Bank at 27% (2019: 25%), following the announcement in the March 2020 Budget that the rate of mainstream UK corporation tax would remain at 19% from 1 April 2020 rather than the previously enacted rate of 17%; (ii) the benefit of the release of part of the provision for uncertain tax liabilities which is no longer required; and (iii) the adverse impact of the write off of deferred tax assets related to share awards reflecting the reduction in expected tax relief as a result of the lower share price and expected level of vesting. The tax rate also reflects the recognition of deferred tax assets in respect of losses and other temporary differences on the basis that the Group is expected to have sufficient taxable profits available in the future to enable such deferred tax assets to be recovered.

The tax charge in respect of the exceptional credit in 2020 amounts to £2.2m which represents tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £8.3m exceptional release of provisions established in 2017 following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally. The tax credit in 2019 in respect of exceptional costs amounted to £2.0m and represented: (i) tax relief of £1.9m in respect of the exceptional restructuring costs in CCD; and (ii) tax relief of £0.1m in respect of exceptional costs associated with the defence of the unsolicited offer from NSF.

The tax credit in respect of the amortisation of acquisition intangibles amounts to £0.1m (2019: £0.7m) and represents a tax credit of £0.7m in respect of the amortisation net of the impact of measuring the related deferred tax liability at 19% (2019: 17%) following the announcement that the rate of mainstream UK corporation tax will remain at 19% from 1 April 2020 rather than the previously enacted rate of 17%, which amounts to £0.6m.

6. (Loss)/earnings per share

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

Diluted (loss)/earnings per share calculates the effect on earnings per share assuming conversion of all dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share. Dilutive potential ordinary shares are calculated as follows:

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

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

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

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

	Six months ended 30 June					
	2020			2019 (restated)		
	Earnings	Weighted average number of shares	Per share amount	Earnings (restated)	Weighted average number of shares	Per share amount (restated)
	£m	m	pence	£m	m	pence
Basic (loss)/earnings per share	(23.1)	253.5	(9.1)	24.6	253.3	9.7
Dilutive effect of share options and awards	-	-	-	-	1.2	-
Diluted (loss)/earnings per share	(23.1)	253.5	(9.1)	24.6	254.5	9.7

An adjusted (loss)/earnings per share has been presented prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 and prior to exceptional items (see note 4). This is presented to show the (loss)/earnings per share generated by the Group's underlying operations. A reconciliation of basic and diluted (loss)/earnings per share to adjusted basic and diluted (loss)/earnings per share is as follows:

	Six months ended 30 June					
	2020			2019 (restated)		
	Earnings	Weighted average number of shares	Per share amount	Earnings	Weighted average number of shares	Per share amount
	£m	m	pence	£m	m	pence
Basic (loss)/earnings per share	(23.1)	253.5	(9.1)	24.6	253.3	9.7
Amortisation of acquisition intangibles, net of tax	3.6	-	1.4	3.0	-	1.2
Exceptional items, net of tax	(6.1)	-	(2.4)	31.6	-	12.5
Adjusted basic (loss)/earnings per share	(25.6)	253.5	(10.1)	59.2	253.3	23.4
Diluted (loss)/earnings per share	(23.1)	253.5	(9.1)	24.6	254.5	9.7
Amortisation of acquisition intangibles, net of tax	3.6	-	1.4	3.0	-	1.2
Exceptional items, net of tax	(6.1)	-	(2.4)	31.6	-	12.4
Adjusted diluted (loss)/earnings per share	(25.6)	253.5	(10.1)	59.2	254.5	23.3

7. Dividends

	Six months ended 30 June	
	2020	2019
	£m	£m
2018 final - 10.0p per share	-	25.1
Total dividends paid	-	25.1

The directors have not declared an interim dividend in respect of the six months ended 30 June 2020 (2019: 9.0p).

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. In 2019, the final 2018 dividend of 10.0p per share was paid,

8. Amounts receivable from customers

	30 June 2020 £m	31 December 2019 £m	30 June 2019 (restated) £m
Vanquis Bank	1,202.1	1,461.5	1,464.8
Moneybarn	529.4	502.1	484.7
CCD	146.9	249.0	245.4
Total Group	1,878.4	2,212.6	2,194.9
Analysed as:			
– due in more than one year	385.1	418.3	401.4
– due within one year	1,493.3	1,794.3	1,793.5
Total Group	1,878.4	2,212.6	2,194.9

Vanquis Bank receivables comprise £1,174.1m (31 December 2019: £1,432.6m, 30 June 2019 (restated): £1,440.6m) in respect of credit cards and £28.0m (31 December 2019: £28.9m, 30 June 2019: £24.2m) in respect of loans. The balance at 30 June 2019 is stated net of a balance reduction provision of £1.2m (30 June 2020: £nil, 31 December 2019: £nil) following the resolution of the FCA investigation into ROP.

Moneybarn receivables at 30 June 2019 were stated net of a balance reduction provision of £1.8m (30 June 2020: £nil, 30 December: £nil) in respect of the FCA investigation into affordability, forbearance and termination options.

CCD receivables comprise £130.5m in respect of the home credit business (31 December 2019: £205.2m, 30 June 2019: £201.8m), £15.9m in respect of Satsuma (31 December 2019: £43.2m, 30 June 2019: £42.9m) and £0.5m in respect of the collect-out of glo (31 December 2019: £0.6m, 30 June 2019: £0.7m).

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

	30 June 2020			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Vanquis Bank	1,139.0	165.2	350.6	1,654.8
Moneybarn	367.5	155.6	128.6	651.7
CCD	68.2	22.9	425.3	516.4
Total Group	1,574.7	343.7	904.5	2,822.9
Allowance account				
Vanquis Bank	(153.8)	(86.4)	(212.5)	(452.7)
Moneybarn	(9.9)	(32.1)	(80.3)	(122.3)
CCD	(3.4)	(5.2)	(360.9)	(369.5)
Total Group	(167.1)	(123.7)	(653.7)	(944.5)
Net receivables				
Vanquis Bank	985.2	78.8	138.1	1,202.1
Moneybarn	357.6	123.5	48.3	529.4
CCD	64.8	17.7	64.4	146.9
Total Group	1,407.6	220.0	250.8	1,878.4

An increase of 1% in the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £5m (31 December 2019: £6m, 30 June 2019: £5m).

A 50% reduction in the Group's forecast activation of payment holidays in the second half of the year would have reduced the Group's interim impairment charge by c.£30m.

8. Amounts receivable from customers (continued)

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

	30 June 2019 (restated)			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross receivables				
Vanquis Bank	1,281.7	218.6	435.9	1,936.2
Moneybarn	338.5	151.0	150.1	639.6
CCD	137.1	43.7	500.6	681.4
Total Group	1,757.3	413.3	1,086.6	3,257.2
Allowance account				
Vanquis Bank	(122.5)	(97.7)	(251.2)	(471.4)
Moneybarn	(10.4)	(29.9)	(114.6)	(154.9)
CCD	(9.0)	(11.1)	(415.9)	(436.0)
Total Group	(141.9)	(138.7)	(781.7)	(1,062.3)
Net receivables				
Vanquis Bank	1,159.2	120.9	184.7	1,464.8
Moneybarn	328.1	121.1	35.5	484.7
CCD	128.1	32.6	84.7	245.4
Total Group	1,615.4	274.6	304.9	2,194.9

Macro-economic provision

Macro-economic provisions are recognised to reflect an increased PD and loss LGD, in addition to the core impairment provisions recognised, based on future macro-economic scenarios.

For Vanquis Bank, the provision reflects the potential for future changes in unemployment under a range of unemployment forecasts. For Moneybarn, both changes in unemployment and used car sales values are assumed.

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 macro-economic factors, or to the same degree. Consequently there is no evidence of any significant correlation between the impairment charge and macro-economic statistics. Consistent with the 2019 year end, a separate macro-economic provision is not held for CCD.

8. Amounts receivable from customers (continued)

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

	Six months ended 30 June 2020	2019 (restated)
	£m	£m
Vanquis Bank	149.9	96.6
Moneybarn	37.5	17.5
CCD	52.9	51.8
Total Group	240.3	165.9

9. Retirement benefit asset

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

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

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the Group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2018. Scheme assets are stated at fair value as at the balance sheet date.

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

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

	30 June 2020	31 December 2019	30 June 2019
	£m	£m	£m
Fair value of scheme assets	933.1	842.6	844.1
Present value of defined benefit obligation	(814.7)	(764.6)	(773.8)
Net retirement benefit asset recognised in the balance sheet	118.4	78.0	70.3

The amounts recognised in the income statement were as follows:

	Six months ended 30 June 2020	2019
	£m	£m
Current service cost	(0.8)	(1.1)
Interest on scheme liabilities	(7.6)	(9.8)
Interest on scheme assets	8.4	11.0
Net credit recognised in the income statement before exceptional curtailment credit	-	0.1
Exceptional curtailment credit (note 4)	-	0.5
Net credit recognised in the income statement	-	0.6

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

9. Retirement benefit asset (continued)

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

	Six months ended 30 June 2020 £m	2019 £m
Fair value of scheme assets at 1 January	842.6	788.3
Interest on scheme assets	8.4	11.0
Actuarial movements on scheme assets	95.9	63.6
Contributions by the Group	2.1	1.5
Net benefits paid out	(15.9)	(20.3)
Fair value of scheme assets at 30 June	933.1	844.1

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

	Six months ended 30 June 2020 £m	2019 £m
Present value of defined benefit obligation at 1 January	(764.6)	(704.4)
Current service cost	(0.8)	(1.1)
Interest on scheme liabilities	(7.6)	(9.8)
Exceptional curtailment credit (note 4)	-	0.5
Actuarial movements on scheme liabilities	(57.6)	(79.3)
Net benefits paid out	15.9	20.3
Present value of defined benefit obligation at 30 June	(814.7)	(773.8)

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

	30 June 2020 %	31 December 2019 %	30 June 2019 %
Price inflation – RPI	2.80	2.95	3.30
Price inflation – CPI	1.90	2.05	2.20
Rate of increase to pensions in payment	2.60	2.70	3.00
Inflationary increases to pensions in deferment	2.00	2.10	2.20
Discount rate	1.50	2.00	2.20

A 0.1% change in the discount and inflation rates would change the present value of the defined benefit obligation by approximately £15m (31 December 2019: £14m, 30 June 2019: £13m) and £7m (31 December 2019: £6m, 30 June 2019: £6m) respectively.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 2 tables (31 December 2019: series 2 tables, 30 June 2019: series 2 tables), with multipliers of 96% (31 December 2019: 96%, 30 June 2019: 96%) and 101% (31 December 2019: 101%, 30 June 2019: 101%) respectively for males and females. The 4% downwards (31 December 2019: 4% downwards, 30 June 2019: 4% downwards) adjustment to mortality rates for males and a 1% upwards (31 December 2019: 1% upwards, 30 June 2019: 1% upwards) adjustment for females reflects higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes following an updated study of the scheme's membership. Future improvements in mortality are based on the latest available Continuous Mortality Investigation (CMI) model with a long-term improvement trend of 1.25% per annum.

9. Retirement benefit asset (continued)

Under these mortality assumptions, the life expectancies of members are as follows:

	Male			Female		
	30 June 2020 Years	31 December 2019 Years	30 June 2019 Years	30 June 2020 Years	31 December 2019 Years	30 June 2019 years
Current pensioner aged 65	21.9	21.8	22.3	23.5	23.3	23.8
Current member aged 45 from age 65	23.2	23.1	23.7	25.0	24.8	25.4

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £41m (31 December 2019: £38m, 30 June 2019: £30m).

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

	Six months ended 30 June	
	2020 £m	2019 £m
Actuarial movements on scheme assets	95.9	63.6
Actuarial movements on scheme liabilities	(57.6)	(79.3)
Actuarial movements recognised in the statement of comprehensive income in the period	38.3	(15.7)

10. Investments

	30 June 2020 £m	31 December 2019 £m	30 June 2019 £m
Government gilts	-	-	5.1
Visa Inc. shares	18.0	16.6	16.0
	18.0	16.6	21.1

Government gilts

Government gilts at 30 June 2019 comprised UK government gilts which formed part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime. Vanquis Bank's total liquid assets buffer and other liquid resources, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £1,014.4m (31 December 2019: £321.9m, 30 June 2019: £428.4m). This includes £1,014.4m (31 December 2019: £321.9m, 30 June 2019: £423.3m) held in cash and cash equivalents.

Visa Inc. shares

The Visa shares represents preferred stock in Visa Inc. held by Vanquis Bank following completion of Visa Inc.'s acquisition of Visa Europe Limited on 21 June 2016. In consideration for Vanquis Bank's interest in Visa Europe Limited, Vanquis Bank received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m which was due and received on the third anniversary of the completion date in June 2019. The preferred stock is convertible into Class A common stock of Visa Inc. at a future date, subject to certain conditions.

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 30 June 2020 of £18.0m (31 December 2019: £16.6m, 30 June 2019: £16.0m) is held at fair value through OCI. The increase in the fair value of the investment during the six month period of £1.4m (2019: £3.9m) in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates has been recognised in other comprehensive income.

11. Fair value disclosures

The Group holds the following financial instruments at fair value:

	30 June 2020 £m	31 December 2019 £m	30 June 2019 £m
Financial assets			
Government gilts	-	-	5.1
Visa Inc. shares	18.0	16.1	16.0
	18.0	16.1	21.1
Financial liabilities			
Derivatives	(1.2)	-	-

Derivatives of £1.2m (31 December £nil, 30 June 2019: £nil) relate to the balance guaranteed swap entered into as part of the Moneybarn securitisation in January 2020.

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

	Carrying value			Fair value		
	30 June 2020 £m	31 December 2019 £m	30 June 2019 (restated) £m	30 June 2020 £m	31 December 2019 £m	30 June 2019 £m
Financial assets						
Amounts receivable from customers	1,878.4	2,212.6	2,194.9	2,336.4	3,008.3	3,233.8
Financial liabilities						
Retail deposits	(1,917.3)	(1,345.1)	(1,472.3)	(1,921.9)	(1,351.6)	(1,468.3)
Bank and other borrowings	(476.3)	(618.4)	(617.3)	(463.4)	(631.3)	(619.6)
Total	(2,393.6)	(1,963.5)	(2,089.6)	(2,385.3)	(1,982.9)	(2,087.9)

12. Provisions

	30 June 2020 £m	31 December 2019 £m	30 June 2019 £m
At 1 January	14.5	53.2	53.2
Created in the period	8.9	-	-
Reclassified in the period	8.6	-	-
Used during the period	(14.7)	(21.9)	(17.6)
Released in the period	(8.3)	(16.8)	-
At the period end	9.0	14.5	35.6

In preparing the 2020 interim financial statements, the Group has reassessed both the probability and the reliability of the estimates in settling a number of liabilities previously included within accruals. The level of certainty required to include these amounts as accruals is not evident. Therefore the existing accrual has been reclassified to provisions.

Vanquis Bank

As previously reported, Vanquis Bank agreed a settlement with the FCA into their investigation into ROP. The total estimated cost of redress settlement amounted to £172.1m and was reflected in the 2017 financial statements.

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 at 30 June 2020 to determine the level of provision required. This assessment has concluded that £2.9m provision continues to be required, as a result £8.3m has been released as an exceptional gain in the period.

12. Provisions (continued)

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.

Complaints

Claims raised which could subsequently be referred to the Financial Ombudsman Service (FOS) against CCD. See note 13 below.

13. Contingent liabilities

Challenge to self-employed status of UK home credit agents

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

In July 2017, the Group changed its home credit operating model in the UK from a self-employed agent model to an employed workforce to take 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 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)

Irresponsible lending complaints and the Financial Ombudsman Service (FOS)
There continues to be heightened Claims Management Company (CMC) activity in relation to non-standard lending, particularly in respect of irresponsible lending in high-cost credit and more recently in-home credit. As a result, CCD has seen an increase in the number of such complaints during 2020. An increasing proportion of complaints are being managed internally, reducing referrals to the FOS. CCD continues to robustly defend inappropriate or unsubstantiated claims.

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

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

14. Capital

The Group's capital management policy is focused on optimising shareholder value, in a safe and sustainable manner. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board regularly reviews the capital position. The following table shows the regulatory capital resources as managed by the Group:

	30 June 2020 £m	31 December 2019 £m	30 June 2019 £m
Share capital	52.6	52.5	52.5
Share premium	273.2	273.2	273.2
Retained earnings and other reserves	422.1	414.8	352.4
Total equity	747.9	740.5	678.1
Retirement benefit asset (net of tax)	(95.9)	(64.7)	(58.3)
Goodwill	(71.2)	(71.2)	(71.2)
Intangible assets (net of tax)	(35.1)	(38.1)	(44.5)
IFRS 9 transition adjustment	159.2	183.6	156.4
CET 1 capital before foreseeable dividend	704.9	750.1	660.5
Deduction of foreseeable dividend	-	(40.4)	(22.8)
Own funds	704.9	709.7	637.7

14. Capital (continued)

The capital resources shown in the table above include accrued profits for the periods to June 2019 and December 2019, which were automatically eligible for inclusion following the audit of the 2019 financial statements. The losses incurred in the period to June 2020 are automatically deducted from own funds.

The transitional adjustment to capital arises from the Group making an election to phase in the impact of transitioning to IFRS 9 over a five-year period, 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 plus any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period. The PRA 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 increase in ECL in the non-credit impaired book arising in 2020 and 2021 to be fully added back in those years. This relief is then phased out over the following three years on a straight line basis (2022: 75%, 2023: 50%, 2024: 25%, 2025: 0%). At June 2020, the impacts of these adjustments amounted to the following:

	30 June 2020 £m	31 December 2019 £m	30 June 2019 £m
Initial IFRS 9 transition adjustment	184.0	184.0	184.0
Increase in ECL in the non-credit impaired book from transition to 31 December 2019	22.7	32.0	-
	206.7	216.0	184.0
Percentage add back	70%	85%	85%
	144.7	183.6	156.4
Increase in ECL on the non performing book during the 6 months ended 30 June 2020	14.5	-	-
Percentage add back	100%	-	-
	14.5	-	-
IFRS 9 transition adjustment	159.2	183.6	156.4

15. Reconciliation of (Loss)/profit after tax to cash generated from operations

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 (restated) £m
(Loss)/profit after tax	(23.1)	24.6
Adjusted for:		
– tax charge	(4.9)	18.5
– finance costs	36.0	36.5
– share-based payment charge	0.3	2.1
– retirement benefit credit before exceptional curtailment credit (note 9)	-	(0.1)
– exceptional pension curtailment credit (note 9)	-	(0.5)
– amortisation of intangible assets	7.3	7.6
– depreciation of property, plant and equipment and right of use assets	8.0	8.7
Changes in operating assets and liabilities:		
– amounts receivable from customers	334.2	9.1
– trade and other receivables	(11.3)	(20.0)
– trade and other payables	(9.2)	-
– contributions into the retirement benefit scheme (note 9)	(2.1)	(1.5)
– derivative financial instruments	0.3	-
– provisions (note 12)	(5.5)	(17.6)
Cash generated from operations	330.0	67.4

16. Post balance sheet events

In August 2020, the Group tendered the £250m 5-year fixed rate bonds carrying a semi-annual coupon of 8¼% and mature in June 2023. £75m of the £250m bonds were tendered and redeemed at a 3.1% discount resulting in an exceptional credit of c.£2m which will be reflected in the full year results. The remaining bonds of £175m will mature on their original maturity date in June 2023.

In August 2020, Provident Financial plc also agreed a £70m intercompany facility with Vanquis Bank to allow upstream funding which facilitated the tender of the 2023 bonds.

Alternative Performance Measures (APMs)

APM	Method of calculation	Relevance
Adjusted basic earnings per share (EPS)	Profit after tax, excluding the amortisation of acquisition intangibles and exceptional items, divided by the weighted average number of shares in issue.	Assesses the Group's operational performance from continuing operations per ordinary share. It removes the effect of amortisation of acquisition intangibles and exceptional items.
Average receivables	Average of month-end receivables for the 6 months ended 30 June.	Average receivables smooths the seasonality of receivables.
Net interest margin	Revenue less funding costs for the period divided by average receivables.	Demonstrates the return generated from the average receivables over the period after adjusting for the cost of funding the receivables book.
Return on assets (ROA)	Adjusted profit before interest after tax as a percentage of average receivables.	Measures the return a company generates from its assets prior to the impact of funding strategy for each division.
Return on equity (ROE)	Adjusted profit after tax as a percentage of average equity. Equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments.	ROE shows the return being generated from the shareholders' equity retained in the business.
Return on required equity	Adjusted profit after tax as a percentage of average required regulatory capital equity for the 12 months ended 30 June.	RORE shows the return being generated from the required regulatory capital held.
Risk-adjusted net interest margin	Revenue less funding costs and impairment charge for the period divided by average receivables.	Demonstrates the return generated from the average receivables over the period after adjusting for impairment provisioning and the cost of funding the receivables book.
Common equity tier 1 (CET1) ratio	The ratio of the Group's regulatory capital to the Group's risk-weighted assets measured in accordance with CRD IV.	
Funding headroom	Committed bank and debt facilities less borrowings on those facilities.	This represents the difference between the total amount of committed contractual debt facilities provided by banks, bond holders and other lenders and the amount of funds drawn on those facilities.

Statement of directors' responsibilities

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

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

A list of current directors is maintained on the Provident Financial website: www.providentfinancial.com. Simon Thomas resigned on 31 March 2020 and Neeraj Kapur was appointed to the Board on 1 April 2020. In addition, Margot James was appointed to the Board on 27 July 2020. There have been no other changes in directors during the six months ended 30 June 2020.

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

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

By order of the board

Malcolm Le May – Chief Executive Officer
26 August 2020

Neeraj Kapur – Chief Financial Officer

INDEPENDENT REVIEW REPORT TO PROVIDENT FINANCIAL PLC

We have been engaged by the company to review the condensed interim financial statements in the interim report for the six months ended 30 June 2020 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and related notes 1 to 16. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim financial statements.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements in the interim report for the six months ended 30 June 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
26 August 2020

Information for shareholders

The interim report will be posted to shareholders on 2 September 2020.