Provident Financial plc
Interim results for the six months ended 30 June 2021

Provident Financial plc ('PFG' or 'the Group'), the leading provider of credit products to consumers who are underserved by mainstream banks, today publishes its interim results for the six months ended June 2021, unless otherwise stated.

Malcolm Le May, Chief Executive Officer, commented:

"The first six months of 2021 showed a marked contrast to the extremely difficult conditions seen throughout 2020. Underlying customer trends and macroeconomic conditions have improved year-on-year, allowing us to focus on the core businesses, which is reflected in our results. For the first six months of the year, the Group generated an adjusted ongoing profit before tax, excluding our Consumer Credit Division (CCD), of £63.5m. Including losses from CCD, the Group generated a statutory loss before tax of £44.2m for the period.

In March, we notified the market of our intention to launch a Scheme of Arrangement for CCD and in May, regrettably, we took the difficult decision to place the business into a managed run-off. I am pleased that the proposed Scheme of Arrangement for CCD, which was provided for in our 2020 accounts, was sanctioned by the High Court on 4 August. We can now continue to move forwards with our plans to close the business before paying customer redress claims during 2022.

During the remainder of 2021, PFG will accelerate its transition towards becoming the leading specialist bank focused on financially underserved customers, serving growing market segments with a range of mid-cost products across credit cards, vehicle finance and unsecured personal loans. We are well positioned to complete this transition successfully and our strategy is underpinned by a robust balance sheet with access to a diverse range of funding options."

Key financial results

	Six months ended 30 June	
	2021	2020[1]
	£m	£m
Adjusted profit/(loss) before tax:		
– Vanquis Bank	57.1	11.8
– Moneybarn	15.5	2.3
– Central costs	(9.1)	(9.2)
Adjusted ongoing PBT (excluding CCD)[2]	**63.5**	**4.9**
CCD	(57.7)	(37.6)
Adjusted PBT/(LBT)[3]	**5.8**	**(32.7)**
Exceptional (costs)/credit	(46.3)	8.3
Amortisation of acquisition intangibles	(3.7)	(3.7)
Statutory loss before tax	**(44.2)**	**(28.1)**
Adjusted basic EPS (including CCD)[3]	(3.1)	(10.1)
Basic EPS	(19.6)	(9.2)
Annualised RORE[4]	19.5%	3.8%

Highlights

Strong performance from ongoing operations; Scheme of Arrangement for CCD sanctioned after the period end

- Group adjusted ongoing profit before tax (PBT), excluding CCD, of £63.5m (H1'20 restated PBT: £4.9m) reflects a reduction in impairment and costs year-on-year which combined to offset the fall in revenue.
- Group statutory loss before tax (LBT) of £44.2m (H1'20 restated LBT: £28.1m) includes £46.3m of exceptional costs related to the wind-down of the CCD businesses.

- Vanquis Bank and Moneybarn were profitable for the period, including and excluding the impact of provision releases triggered by an improvement in macroeconomic outlook. The businesses remain conscious of potential macroeconomic shocks that may arise during H2’21 as government support schemes come to an end.
- At the end of June, the Group held regulatory capital of approximately £585m, which equated to a CET1 ratio of 32.5% (H1’20: 35.4%). The reduction year-on-year predominantly reflects the performance in the period and the transitional impact of IFRS 9.
- Total Group liquidity at the end of June stood at approximately £510m (H1’20: £1.2bn) including approximately £280m held by Vanquis Bank, which represents a more normalised level of liquidity for the Bank.
- Shortly after the period end, the Group successfully refinanced its Revolving Credit Facility and Moneybarn’s securitisation facility to at least 2023, increasing its net committed funding by approximately £120m since the year end.
- The Board is not proposing a dividend with respect to this interim period (H1’20: nil) as the focus remains on preserving capital during the period of closure of the CCD business. The Group will revisit its policy at the year end, allowing time for the Board to assess the impact of the end of furlough, and any future lockdown restrictions, on the Group’s customers.

Credit card customer expenditure improved during H1’21; delinquency trends remain favourable

- The Group’s credit card and personal loans business, Vanquis Bank, reported an adjusted PBT for the first six months of the year of £57.1m (H1’20: £11.8m), driven by lower impairments as a result of more favourable macroeconomic conditions.
- New customer bookings for the period were 97k (H1’20: 147k) as the business retained a cautious approach to risk appetite and as lockdown restrictions reduced customer demand.
- Customer expenditure trends improved progressively throughout the first six months of the year as lockdown restrictions were lifted. At the end of June, expenditure levels were up by 17% year-on-year and were in-line with levels seen in June 2019 on a per customer basis.
- Customer receivables ended the period at £994m (H1’20: £1,202m), including unsecured personal loan receivables of c.£16m. The overall reduction year-on-year reflects lower customer acquisition and a reduction in customer expenditure during lockdown.
- The take-up of payment holidays amounted to approximately 0.4% (H1’20: 2%) of customers and 0.1% (H1’20: 4%) of receivables at the end of June.
- The annualised impairment rate at the end of June of 6.1% (H1’20: 22.3%) reflects a significant reduction in the impairment charge year-on-year to £30.8m (H1’20: £149.9m) and the fall in receivables. The coverage ratio increased by 1.3% to 31.5%, as the impact of the improved unemployment outlook has been more than offset by the lower than usual charge offs observed over the last 12 months as customers have been supported by government support on a reduced receivables book.

Vehicle finance receivables passed £600m for the first time and customer demand remains buoyant

- The Group’s vehicle finance business, Moneybarn, delivered an adjusted PBT for the period of £15.5m (H1’20 restated: £2.3m) driven by higher revenue year-on-year, as a result of the growth in the receivables book, and lower impairment.
- For the first six months of the year, customer demand for used vehicles improved progressively as lockdown restrictions were eased and this resulted in credit issued increasing by nearly 30% to approximately £150m (H1’20: £121m).
- Customer receivables were £602m at the end of June (H1’20 restated: £516m), representing the first time that receivables have exceeded £600m, vs. the £130m of receivables the business had when it was acquired in August 2014.
- Payment holiday take-up by Moneybarn customers remains extremely low and ended the period at just 0.1% of customers (H1’20: 3.5%).
- The annualised impairment rate improved to 6.8% during the period (H1’20: 14.1%) following Moneybarn’s inability to repossess vehicles last year and due to an improved arrears picture across the book.

- Shortly after the period end, PFG signed a new warehouse securitisation facility for Moneybarn. This increases its committed funding to £325m (from £150m at 31 December 2020) over a new 24 month period (plus any amortisation thereafter) and will increase the weighted average duration of the Group's funding sources and decrease its weighted average cost of funds to Moneybarn.

Managed run-off of CCD is progressing well; Scheme of Arrangement sanctioned by the High Court

- On 10 May 2021, PFG announced the regrettable decision to withdraw from the home credit market and subsequently placed the home credit business into a managed run-off, with the expectation that the run-off will be completed by 2022.
- The Scheme received creditor approval of approximately 98% and was sanctioned by the High Court on 4 August 2021, following the hearing on 30 July 2021.
- As at the end of July, the CCD receivables book stood at approximately £37m and, as previously announced, PFG expects the closure of CCD to lead to losses of up to £100m.

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[1] *The 2020 June comparatives have been restated to incorporate the changes in Moneybarn accounting policies in relation to the definition of default reflected in the 2020 financial statements*

[2] *Adjusted profit before tax from ongoing operations is defined as adjusted profit before tax before any losses incurred relating to CCD*

[3] *Adjusted profit before tax is stated before amortisation of acquisition intangibles and exceptional costs of £46.3m relating to the closure of CCD and the CCD Scheme of Arrangement which include: (i) redundancy costs of £22.9m, net of a curtailment credit of £0.8m on the pension scheme; (ii) costs associated with the wind down of CCD including asset write downs and supplier and property exit costs (£13.4m); (iii) additional costs in relation to the Scheme (£5m); and (iv) expected costs in relation to the CCD enforcement investigation where a provision of £5m has now been recognised, which includes management's estimate of liabilities which have not yet been discussed or agreed with the FCA.*

[4] *Return on average required regulatory capital (RORE) reflects statutory profit after tax for the period, excluding CCD, multiplied by 365/181 divided by the average regulatory capital requirement for the period.*

Note:

This report may contain certain "forward looking statements" regarding the financial position, business strategy or plans for future operations of the Group. All statements other than statements of historical fact included in this document may be forward looking statements. Forward looking statements 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 PFG'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. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report, but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors. PFG 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 report is intended as a profit forecast or estimate for any period. No statement in this report 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.

This report is intended solely to provide information to shareholders to assess the group's strategies and neither the company nor its directors accept liability to any other person, save as would arise under English law. The report should not be relied on by any other party or for any other purpose

INTERIM REPORT

Chief Executive Officer's review

Introduction

As the UK remained under lockdown restrictions during January and February 2021, the financial year began with the Group's businesses focusing on collections from customers and maintaining operational resilience. Demand for credit cards was subdued and consumer expenditure was lower year-on-year by some 20%. However, as restrictions eased in March, consumer activity increased, and this was reflected by improving credit card expenditure and demand for vehicle finance growing sequentially from February.

In March, PFG announced that its Consumer Credit Division would seek to launch a Scheme of Arrangement in relation to potential redress claims arising from complaints based on historic home credit lending prior to 17 December 2020. In April, the High Court made an order enabling CCD to convene a meeting of Scheme creditors to consider the Scheme. In May, PFG announced that it had regrettably made the decision to withdraw from the home credit market and place CCD into a managed run-off with the expectation that this run-off will be completed by 2022. The creditor meeting took place on 19 July 2021 and the Scheme was approved by its creditors with votes cast in favour of approximately 98% by both value and number. Following the sanction hearing on 30 July, the Scheme was sanctioned by the High Court on 4 August 2021.

During the second half of 2021, the Group will continue to evolve into a specialist bank, providing mid-cost credit products to financially underserved customers. Our core products will be credit cards, vehicle finance and unsecured personal loans. As a result, PFG will no longer serve the high-cost segment of the credit market. We see this transition as being a core part of our drive towards making PFG a more sustainable lender, focused on providing much needed credit to our customers, whilst enabling good customer outcomes, and providing sustainable returns for our shareholders over the medium-term.

Consumer Credit Division (CCD)

PFG announced its intention to launch a Scheme of Arrangement for CCD in March 2021. The Scheme received creditor approval of approximately 98% and was sanctioned by the High Court on 4 August 2021, following a hearing on 30 July 2021. On 10 May 2021, PFG announced its decision to withdraw from the home credit market and, regrettably, placed the business into a managed run-off with the expectation that the run-off will be completed by 2022.

Since the announcement on 10 May, the run-off of the CCD businesses has progressed well. The Irish home credit business has been closed and, at the end of June, approximately 1,200 colleagues from across CCD left the organisation. PFG plans to move forward with the closure of the business, following the sanction of the Scheme, during the remainder of 2021. At the end of July 2021, the CCD receivables book stood at approximately £37m and, as previously announced, PFG expects the closure of CCD to lead to losses of up to £100m.

As a separate matter, CCD was informed in March by the FCA that it had opened an enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process, in the period between February 2020 and February 2021. During H1'21, PFG worked closely with the FCA to help with their investigation. The Group has taken a provision of £5m during the first half to cover expected cost (including potential liabilities) related to the investigation which, as previously stated, is not expected to conclude until 2022 at the earliest.

Group financials

For the first six months of the year, the Group reported an adjusted profit before tax of £5.8m (H1'20 restated loss before tax (LBT) of £32.7m), which improved year-on-year as a result of lower revenues, following lower levels of lending, being offset by a reduction in costs and impairment. Adjusted profit from ongoing operations, excluding CCD, was £63.5m (H1'20: £4.9m) reflecting an improvement in profitability from the Group's credit card and vehicle finance businesses. The Group reported a statutory loss of £44.2m for the period (H1'20 restated LBT: £28.1m).

Group receivables ended the period at £1,637m (H1'20 restated: £1,865m) split between credit cards of £978m (H1'20: £1,174m), vehicle finance of £602m (H1'20 restated: £516m) and unsecured personal loans of £16m (H1'20: £28m). CCD receivables stood at £42m (H1'20: £147m) at the end of June.

The Group's balance sheet remains appropriately and adequately capitalised to execute the Group's strategy. At the end of June, the Group held total regulatory capital of approximately £585m (H1'20: £705m), equating to a total CET1 ratio of 32.5% (H1'20: 35.4%) and a surplus above the minimum regulatory requirement of approximately £210m (H1'20: £215m).

Funding update

After the period end, the Group extended both its Moneybarn securitisation facility and its Revolving Credit Facility (RCF).

In January 2020, Moneybarn entered into a securitisation warehouse which provided £150m of committed funding over an 18 month period to July 2021. The new facility, announced today, will result in the committed amount increasing to £325m over a new extended period of 24 months (plus any period of amortisation thereafter). The cost of the new facility is broadly unchanged from the previous warehouse and its advance rate is significantly higher, resulting in a reduction in the weighted average cost of funding for Moneybarn.

At present, PFG also has a multi-currency RCF in place provided by several banks which had a total facility size of approximately £148m as at 31 December 2020. In line with the Group's existing strategy of reducing the reliance on its RCF, some of the new securitisation funds will be used to reduce the Group's RCF commitments, initially to £90m. The facility has also been extended to the second half of 2023. The net result of these changes will see the Group's access to funding and its weighted average duration increase.

Regulation

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

In February, Moneybarn was able to start collecting vehicles from customers where a Default Termination (DT) had occurred. Prior to this, as per FCA guidance, Moneybarn was only able to collect vehicles from Voluntary Terminations (VT).

During the period, the FCA's 'Breathing Space' guidelines came into force which enable customers in financial or mental distress to seek protection from creditors for up to 60 days. The Group's businesses have adopted the guidelines and are already helping customers who meet the requirements.

Environmental, Social and Corporate Governance (ESG)

PFG's purpose of helping to put people on a path to a better everyday life is key to ensuring that we provide our customers with sustainable and responsible products and services. It also ensures that we have the right corporate culture and commits us to play an active role in wider society. As such, an important part of our ESG strategy is to be a sustainable and successful business.

Throughout the first half of 2021, PFG has continued to develop its ESG agenda and focus attention on addressing the most pressing ESG related issues. The Group has supported colleagues and other stakeholders of CCD, who have been impacted by the announcement made in May 2021 to withdraw from the home credit market and place the division into a managed run-off and this effort will continue.

During the period, a group-wide Climate Risk Committee was established to support our reporting obligations under the Taskforce on Climate-related Financial Disclosures (TCFD). It is designed to ultimately help PFG disclose the actual and potential impacts of climate-related risks and opportunities on our businesses and Group strategy. In the second half of 2021, PFG will focus on developing its climate impact stress testing and continuing to improve its TCFD disclosures.

Outlook

The last 18 months have been extremely challenging for customers, colleagues, and the wider economy. However, the sanction of the Scheme and closure of CCD, coupled with the Covid-19 vaccination programme, should provide clarity around the future of PFG.

Macroeconomic uncertainty will remain as government support schemes, including furlough, come to an end. However, the Board and I can see scope for cautious optimism as our chosen markets return to growth. As we progress through the remainder of the year, the Board will seek to update its perspective on the potential for a phased release of provisions taken at the height of the Covid-19 pandemic.

We will continue to work towards the strategic initiatives, first introduced in November 2019, during the remainder of 2021 and over the medium-term. These include: fortifying our strong positions in growing market segments with a focus on growth in our core offerings; enabling funding efficiencies across the Group which leverage our existing deposit taking capabilities and seeking to streamline our governance and corporate framework. We will revisit these topics in greater depth at a Capital Markets Day during Q1’22, whilst keeping the market updated during the second half of this year.

As we finalise the closure of CCD, the Group will no longer serve the high-cost segment of the market. Instead, it will focus on becoming a specialist bank providing mid-cost products via its credit card, vehicle finance and unsecured personal loan offerings. In aggregate these products will target a growing market of over £16bn. The unsecured personal loan product is on track to launch its open market offering during the fourth quarter and complements our existing offerings extremely well.

We are confident in both the market opportunity and our ability to execute our strategic initiatives to deliver improving and sustainable returns for our shareholders. As we focus on providing credit to the underserved customer in the mid-cost credit card, vehicle finance and personal loan markets, we will see a step change in our addressable markets from £11bn to c.£16bn. Furthermore, as a result of Covid-19, the number of potential customers in these markets is set to increase to approximately 14 million (from 10-12 million historically). In this market context, the Group’s strategic ambitions and its capital allocation framework, the Board will review the Group’s ability to resume dividend payments at the end of the year.

Our credit card and vehicle finance businesses have started the second half of 2021 in line with our expectations. There continues to be positive momentum in customer spend on credit cards and delinquency remains stable. Our vehicle finance business reported lower volumes in July month-on-month, in line with seasonal trends seen across the vehicle finance market, and delinquency also remains stable.

Malcolm Le May
Chief Executive Officer
11 August 2021

Financial Review

Group performance

The Group's 2021 interim results can be summarised as follows:

	Six months ended 30 June	
	2021 £m	2020[1] £m
Adjusted profit/(loss) before tax:		
– Vanquis Bank	57.1	11.8
– Moneybarn	15.5	2.3
– Central costs	(9.1)	(9.2)
Adjusted ongoing PBT (excluding CCD)[2]	**63.5**	**4.9**
CCD	(57.7)	(37.6)
Adjusted PBT/(LBT)[3]	**5.8**	**(32.7)**
Exceptional (costs)/credit	(46.3)	8.3
Amortisation of acquisition intangibles	(3.7)	(3.7)
Statutory loss before tax	**(44.2)**	**(28.1)**
Adjusted basic EPS (including CCD)[3]	(3.1)	(10.1)
Basic EPS	(19.6)	(9.2)
Annualised RORE[4]	19.5%	3.8%

1 *The 2020 June comparatives have been restated to incorporate the changes in Moneybarn accounting policies in relation to the definition of default reflected in the 2020 financial statements*

2 *Adjusted profit before tax from ongoing operations is defined as adjusted profit before tax before any losses incurred relating to CCD*

3 *Adjusted profit before tax is stated before amortisation of acquisition intangibles and exceptional costs of £46.3m relating to the closure of CCD and the CCD Scheme of Arrangement which include: (i) redundancy costs of £22.9m, net of a curtailment credit of £0.8m on the pension scheme; (ii) costs associated with the wind down of CCD including asset write downs and supplier and property exit costs (£13.4m); (iii) additional costs in relation to the Scheme (£5m); and (iv) expected costs in relation to the CCD enforcement investigation where a provision of £5m has now been recognised, which includes potential liabilities.*

4 *Return on average required regulatory capital (RORE) reflects statutory profit after tax for the period, excluding CCD, multiplied by 365/181 divided by the average regulatory capital requirement for the period.*

The Group reported an adjusted ongoing PBT (excluding CCD) of £63.5m for the period. Including CCD, the Group reported an adjusted profit before tax of £5.8m (H1'20 restated adjusted LBT: £32.7m) for the first six months of the year. The significant improvement year-on-year is driven by lower revenues, from a lower receivables base, being offset by significantly lower impairment and costs in the business. The Group statutory loss before tax of £44.2m (H1'20 restated LBT: £28.1m) includes £46.3m of exceptional items which relate to the closure of the CCD business.

The Group's credit card and personal loan business, Vanquis Bank, reported an adjusted profit before tax for the period of £57.1m (H1'20: £11.8m) and receivables ended the period at £993m (H1'20: £1,202m).

The Group's vehicle finance business, Moneybarn, generated an adjusted profit before tax of £15.5m (H1'20 restated: £2.3m), with the increase driven by significantly lower impairment and higher revenues year-on-year. Receivables crossed the £600m mark for the first time and ended the period at £602m (H1'20 restated: £516m).

For the first six months, CCD reported an adjusted loss before tax of £57.7m (H1'20: £37.6m), driven by the cessation of new lending during the period.

The Group reported a basic loss per share of (19.6p) for the period vs. a basic loss per share of (9.2p) in H1'20. This reflects the loss-making position of the Group on a statutory basis. On an adjusted basis, the Group reported a loss per share of (3.1p) vs. a loss per share of (10.1p) in H1'20.

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 coverage ratio has increased marginally in the period from 34.7% to 36.7%:

	June-21	**December-20**	**Change**
Vanquis Bank	31.5%	30.2%	1.3%
Moneybarn	23.5%	22.8%	0.7%
CCD	88.0%	69.4%	18.6%
Group	**36.7%**	**34.7%**	**2.0%**

The coverage ratio in Vanquis Bank has increased by 1.3% to 31.5%, as the impact of the improved unemployment outlook has been more than offset by the lower than usual charge offs observed over the last 12 months as customers have been supported by furlough, payment freezes and the rent moratorium on a reduced receivables book.

The Moneybarn coverage ratio increased by 0.7% to 23.5% reflecting increased Stage 3 provisions following the end of the FCA moratorium allowing customer agreements to be terminated.

The coverage ratio in CCD increased by 18.6% to 88.0% reflecting the expected deterioration in the customer recoveries as collections transfer from the field-based CEM's to third-party Debt Collection Agencies.

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, underwriting has been tightened over the last 18 months to manage exposure during the period of uncertainty.

Credit cards – Vanquis Bank

	Six months ended 30 June 2021 £m	2020 £m	*Change*
Customer numbers ('000)	1,537	1,694	*(9.3%)*
Period-end receivables	993	1,202	*(17.4%)*
Average receivables[1]	1,004	1,341	*(25.1%)*
Revenue	**195.6**	**261.1**	***(25.1%)***
Interest	(14.2)	(16.3)	*12.9%*
Net interest margin	**181.4**	**244.8**	***(25.9%)***
Impairment	(30.8)	(149.9)	*79.5%*
Risk-adjusted net interest margin	**150.6**	**94.9**	***(58.7%)***
Costs	(93.5)	(83.1)	*(12.5%)*
Adjusted Profit before tax	**57.1**	**11.8**	***383.9%***
Annualised revenue yield[2]	39.0%	38.9%	*0.1%*
Annualised impairment rate[3]	(6.1%)	(22.4%)	*16.2%*
Annualised return on equity[4]	28.2%	5.6%	*22.4%*

1 *Calculated as the average of month end receivables for the 6 months ended 30 June.*
2 *Revenue for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.*
3 *Impairment for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.*
4 *Adjusted profit after tax for the period multiplied by 365/181 as a percentage of average equity for the 6 months ended 30 June.*

The Group's credit card business, Vanquis Bank, is a leading specialist in the large and established credit card market in the UK. The business reported an adjusted profit before tax of £57.1m in H1'21, up from £11.8m in H1'20. This reflects a significant reduction in impairment as H1'20 was impacted by the initial phase of the Covid-19 pandemic and a more pessimistic view of the economic outlook. Receivables at the end of the first half stood at £993m (H1'20: £1,202m), approximately 17% lower year-on-year, as customer acquisition and customer expenditure reduced significantly during 2020 as a result of Covid-19 restrictions.

New account bookings for the first half were 97k, down from 147k in H1'20. Vanquis continues to maintain a cautious stance compared with pre-Covid-19 risk appetite although there has been a modest relaxation in underwriting standards since the reduction in volumes of 75% implemented in April 2020 at the onset of Covid-19. Accordingly, new account bookings during May 2021 and June 2021 were approximately 50% higher than the corresponding period last year following a new TV advertising campaign. Customer numbers ended the period at 1,537k (H1'20: 1,694k) reflecting the closure of approximately 114k dormant accounts and lower new business volumes. This has been partly offset by lower charge offs which are currently at c.50% of historical levels reflecting the impact of Government measures such as the furlough and payment freezes.

Net receivables ended the period at £993m (H1'20: £1,202m), with the year-on-year fall being driven by lower customer acquisition volumes, reduced card expenditure during 2020 and increased impairment provision.

Customer expenditure remained below historical levels through the first quarter of the year, as lockdown restrictions persisted. However, during the second quarter, spend per customer returned to the levels last seen in the equivalent period in 2019. Accordingly, the gross receivables (before impairment provision) plateaued through the second quarter and showed modest growth in June.

Revenue of £195.6m in the first half was down from £261.1m in the first half of 2020. The reduction was driven by a combination of the fall in receivables and a stable revenue yield. The annualised revenue yield at the end of June was 39.0% vs. 38.9% in H1'20. This reflected the ongoing reduction in non-interest income associated with ROP and changes to over limit and default charges being offset by the higher average impairment provision held over the last 12 months.

The impairment charge for the period was £30.8m, a significant improvement compared to H1’20 of £149.9m, which reflected a materially worse economic outlook at that stage of Covid-19. Delinquency and charge-off levels are currently at historical lows reflecting the impact of Government measures as noted earlier. However, there remains ongoing uncertainty in H2’21 as Government measures are withdrawn and unemployment is expected to increase. The impairment provision coverage ratio has increased by 1.3% to 31.5%, as the impact of the improved unemployment outlook has been more than offset by the lower than usual charge offs observed over the last 12 months as customers have been supported by furlough, payment freezes and the rent moratorium on a reduced receivables book.

The lower impairment charge equates to an annualised impairment rate at the end of June of 6.1% vs. 22.4% for H1’20. The number of customers on payment freezes amounted to approximately 0.4% (H1’20: 2%) of customers and 0.1% (H1’20: 4%) of receivables at the end of June, significantly lower than at the equivalent time last year.

The risk-adjusted net interest margin increased to 30.0% at June 2021 vs. 14.2% at June 2020 reflecting the materially lower impairment charge during the period, which offsets the fall in revenue.

First half costs increased by £10.4m to £93.5m (H1’20: £83.1m), reflecting the launch of the new brand campaign (Walk Tall), including TV advertising, investment in change and IT resource and the ongoing increase in risk, controls and compliance costs.

Interest costs showed a year-on-year reduction of nearly 13% to £14.2m (H1’20: £16.3m) during H1’21, in line with the reduction in gross receivables. The net funding rate for Vanquis was unchanged at broadly 2.8% in H1’21.

Vanquis Bank has continued to support both customers and colleagues through the significant disruption caused by Covid-19. The business has delivered an increase in first half profits and has strong capital and liquidity positions. As a result, the business is well-placed to navigate the ongoing effects of Covid-19 and deliver sustainable growth in customers and receivables in the future. Further investment in the bank’s data and digital capability, as well as broadening the product range, remain key strategic aims.

Vehicle finance – Moneybarn

	Six months ended 30 June		
	2021 £m	2020[1] £m	*Change*
Customer numbers ('000)	94	82	*14.8%*
Period-end receivables	602	516	*16.5%*
Average receivables[2]	588	505	*16.5%*
Revenue	**68.8**	**64.1**	***7.3%***
Interest	(14.1)	(13.3)	*(6.0%)*
Net interest margin	**54.7**	**50.8**	***7.7%***
Impairment	(20.0)	(35.6)	*43.8%*
Risk-adjusted net interest margin	**34.7**	**15.2**	***(128.3%)***
Costs	(19.2)	(12.9)	*(48.8%)*
Adjusted profit before tax[3]	**15.5**	**2.3**	***573.9%***
Annualised revenue yield[4]	23.4%	25.4%	*(2.0%)*
Annualised impairment rate[5]	(6.8%)	(14.1%)	*7.3%*
Annualised return on assets[6]	10.3%	6.2%	*(4.1%)*

1 *The 2020 June comparatives have been restated to incorporate the changes in Moneybarn accounting policies in relation to the definition of default reflected in the 2020 financial statements.*
2 *Calculated as the average of month end receivables for the 6 months ended 30 June.*
3 *Adjusted profit before tax is stated before the amortisation of acquisition intangibles of £3.7m (2020: £3.7m).*
4 *Revenue for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.*
5 *Impairment for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.*
6 *Profit before interest after tax for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.*

The Group's vehicle finance business, Moneybarn, was acquired in 2014 and has grown since to become one of the largest suppliers of vehicle finance to underserved customers in the UK. For the first six months of the year, Moneybarn generated an adjusted profit before tax of £15.5m (H1'20 restated: £2.3m), with the increase driven by growth in receivables, enabling higher revenue generation, and a significant reduction in impairment year-on-year.

New business volumes during January and February were lower year-on-year as the lockdown restrictions dampened demand for vehicles. However, from March onwards as restrictions eased, customer demand picked up accordingly and new customer volumes increased. Underwriting standards have not been eased since they were tightened in H1'20 and, as a result, new business written continues to be to customers with a higher credit rating on average. A second feature of new business written during the period was that approximately 34% went to people classed as key workers.

Moneybarn ended the period with 93.8k customers, representing an increase vs. H1'20 of 12.1k or 14.8%. At the end of June, receivables stood at £602m vs. £516m in H1'20 driven by continued healthy new business volumes of 20k (H1'20: 16k) and credit issued of approximately £155m (H1'20: £121m).

As a result of the higher receivables base, revenues during H1'21 increased by 7.3% year-on-year to £68.8m (H1'20 restated: £64.1m). The annualised revenue yield at the end of June was 23.4% vs. 25.4% in June 2020, which reflects a shift in the make-up of the lending book away from higher risk, higher APR loans towards near-prime and lower APR loans.

Impairment reduced by 43.8% during the period to £20.0m (H1'20 restated: £35.6m) as H1'20 was impacted by the early stages of the Covid-19 pandemic, and as a result of favourable delinquency trends and lower arrears rates year-on-year, which have been helped by the stock of repossessions reducing from February onwards. As a result, the annualised impairment rate decreased from 14.1% in June 2020 to 6.8%.

At the end of June, the number of customers with active payment holidays was 69 which equates to less than 0.1% of customers.

The marginally lower revenue yield seen during the period was offset by the reduction in the impairment rate, resulting in the risk-adjusted net interest margin increasing to 11.8% at the end of June vs. 6.0% a year earlier.

Costs and expenses increased in the period to £19.2m, from £12.9m last year, reflecting an increase in headcount, volume driven costs and increased collections costs as the company dealt with higher levels of repossessions than in H1'20. In addition, approximately £1m of capitalised software costs were written off during H1'21.

Interest costs were stable year-on-year at £14.1m (H1'20: £13.3m) as a lower cost of funding was offset by a higher receivables base.

For the remainder of the year and into 2022, Moneybarn will continue to focus on strengthening its partnerships with key introducers, whilst also developing its direct proposition. It will continue to focus on developing its core offering as well, which includes evaluating new products and services for its customers.

Consumer Credit Division

	Six months ended 30 June		
	2021 £m	2020 £m	*Change*
Customer numbers ('000)	198	379	*(47.6%)*
Period-end receivables	42.1	146.9	*(71.3%)*
Average receivables[1]	89	191	*(53.7%)*
Revenue	**52.3**	**118.4**	***(55.8%)***
Interest	(6.1)	(4.6)	*(32.6%)*
Net interest margin	**46.2**	**113.8**	***(59.4%)***
Impairment	(38.5)	(52.9)	*27.2%*
Risk-adjusted net interest margin	**7.7**	**60.9**	***(87.4%)***
Costs	(65.4)	(98.5)	*33.6%*
Adjusted loss before tax[2]	**(57.7)**	**(37.6)**	***(53.5%)***
Annualised revenue yield[3]	118.2%	123.8%	*(5.6%)*
Annualised impairment rate[4]	(90.9%)	(62.6%)	*(28.3%)*
Annualised return on assets[5]	(116.4%)	(34.5%)	*(81.9%)*

1 *Calculated as the average of month end receivables for the 6 months ended 30 June.*
2 *In 2021, adjusted loss before tax was stated before exceptional costs of £46.3m predominantly in relation to the scheme of arrangement and closure of CCD.*
3 *Revenue for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended June 30.*
4 *Impairment for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.*
5 *Profit before interest after tax for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.*

For the first six months of 2021, CCD reported an adjusted loss before tax of £57.7m (H1'20: £37.6m). The loss for the period reflects materially lower lending year-on-year, reflecting tighter underwriting standards and operational restrictions due to Covid-19 and the subsequent decision to place the division into a managed run-off.

In May, PFG announced that it had taken the difficult decision to withdraw from the home collected credit market and, as a result, to place the division into managed run-off. At that point, all lending stopped, and the business focused on ensuring customers were able to make their repayments. Since then, collections performance has remained within management expectations facilitated by the operational capabilities put in place as part of the response to Covid-19 which have enabled remote and digital repayments from customers online, through card payments over the phone, Allpay cards and Provident Direct.

Customer numbers ended the period at 198k (H1'20: 379k), which represents a reduction vs. H1'20 of c.48%, driven by significantly reduced new customer bookings, higher levels of customer attrition during the period and the closure of the Republic of Ireland business at the end of June. New credit issue value also reduced by c.80% vs. H1'20 to £14.1m (H1'20: £72.0m) as a result of operational restrictions and as the business was placed into run-off.

CCD receivables at the period end stood at £42.1m (H1'20: £146.9m) split between home credit (£39.9m) and Satsuma (£2.2m), which in total represents a decline of approximately 71% year-on-year reflecting the wind down of the business.

Revenue for the period was £52.3m, a reduction of 56% vs. H1'20, reflecting the lower receivables base year-on-year. The reported annualised revenue yield at the end of June is 118.2% (H1'20: 123.8%).

Impairment for the first six months of the year amounted to £38.5m (H1'20: £52.9m), a decrease of c.27% vs. H1'20 reflecting the receivables balance as the company is wound down and a more supportive economic environment during the period. The impairment charge equates to an annualised impairment rate at the end of June of 90.9% vs. 62.6% in H1'20.

Costs of £65.4m were £33.1m lower vs. H1'20 predominantly reflecting a reduction in complaint related costs following the announcement of the proposed Scheme of Arrangement and a reduction in headcount year-on-year. Interest costs for the period stood at £6.1m (H1'20: £4.6m) reflecting a higher cost of funds being offset by a lower receivables base.

Central costs

Central costs were broadly flat year-on-year at £9.1m (H1'20: £9.2m).

Exceptional items

Exceptional costs in the first half of 2021 of £46.3m relate to the closure of CCD and the CCD Scheme of Arrangement and include: (i) redundancy costs of £22.9m, net of a curtailment credit of £0.8m on the pension scheme; (ii) costs associated with the wind down of CCD including asset write downs and supplier and property exit costs (£13.4m); (iii) additional costs in relation to the Scheme (£5m); and (iv) expected costs in relation to the CCD enforcement investigation where a provision of £5m has now been recognised, which includes potential liabilities.

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.

Tax

The tax charge for the period on profit before tax, amortisation of acquisition intangibles and exceptional items is £13.6m (H1'20: tax credit £7.0m). The tax charge (H1'20: credit) reflects (i) the impact of the bank corporation tax surcharge of 8% which applies to Vanquis Bank profits in excess of £25m; and (ii) the impact of losses in the branch in the Republic of Ireland for which no tax relief is available. It also reflects (i) the beneficial impact of measuring deferred tax balances at 25% to the extent the underlying temporary differences will reverse after 1 April 2023 (H1'20: 19%), and in the case of Vanquis Bank at 33% (H1'20: 27%), following the announcement in the March 2021 Budget that the rate of mainstream UK corporation tax would be increased to 25% from 1 April 2023; and (ii) the adverse impact of the write off of deferred tax assets in CCD amounting to £14.8m (H1'20: nil) in respect of losses carried forward and other temporary differences for which tax relief is now unlikely to be available following the announcement of the closure of the business.

The tax credit in respect of the exceptional charge amounts to £7.5m and represents tax at the mainstream corporation tax rate of 19% in respect of the exceptional costs apart from those costs which are attributable to the Irish branch in respect of which tax relief will not be available and costs which may be considered capital and therefore non-deductible for tax purposes. The tax charge in respect of the exceptional credit in 2020 amounted to £2.2m which represented 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 respect of the amortisation of acquisition intangibles is £0.7m (H1'20: £0.1m) and represents a tax credit of £0.7m (H1'20: £0.7m) in respect of the amortisation, and in the case of 2020 is net of £0.6m, being the impact of measuring the related deferred tax liability at 19% following the announcement in 2020 that the rate of mainstream UK corporation tax would remain at 19% from 1 April 2020 rather than the previously enacted rate of 17%. The change in the rate of mainstream corporation tax to 25% from 1 April 2023 has no impact in the period as the temporary differences in respect of the related deferred tax liability are all expected to reverse prior to 1 April 2023.

Dividends

The Board is not proposing an interim dividend with respect to this interim period (H1'20: 0.0p per share). The focus remains on preserving capital during the period of closure of the CCD business. The Group will revisit its policy at the year end, allowing time for the Board to assess the impact of the end of furlough, and any future lockdown restrictions, on the Group's customers.

Funding and Capital

The Group maintained its capital and liquidity positions, comprising:

- Total regulatory capital of approximately £585m, equating to a total CET1 ratio of 32.5% and a surplus above its regulatory capital requirements and capital buffers of approximately £210m.

- Liquidity resources comprising surplus cash and headroom on committed facilities of c.£226m. This is in addition to an excess of £220m of liquid resources held by Vanquis Bank above Group Liquidity Coverage Ratio requirements which represents a more normalised level of liquidity resource held by the Bank.

- Shortly after 30 June, the Group completed a refinancing of the securitisation of Moneybarn assets for £325m of which £275m is now drawn (£200m at 30 June). It also refinanced its Revolving Credit Facility for £90m (£141m on 30 June). Both facilities in aggregate provide funding of £415m with contractual maturities that have been extended to at least H2'23. The incremental funding lowers the weighted average cost of funds to the Moneybarn book and further strengthens the Group's liquidity and funding position.

- The Group continues to maintain its £2bn EMTN Programme from which it can issue Senior Unsecured Debt and Tier 2 Subordinated Debt Capital, subject to market conditions.

The Group's CET1 ratio at 30 June 2021 was 32.5% vs. a minimum regulatory requirement of 20.8% including combined buffers but excluding any confidential PRA and management buffers, if any. This represents regulatory capital headroom above the Group's minimum regulatory requirement of approximately £210m. The decrease in headroom from £264m at 31 December 2020 predominantly reflects the performance in the period and the transitional impact of IFRS 9.

The Group continues to phase-in the impact of adopting IFRS 9 over the five-year period ending 31 December 2022 through add-back factors of 95%, 85%, 70%, 50% and 25% over years one to five of the transitional period. This is in addition to any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period.

The 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 impact on regulatory capital of any increase in ECL in the non-credit impaired book arising from 1 January 2020 to be phased in over the five-year period to 31 December 2024 (2020: 100%, 2021: 100%, 2022: 75%, 2023: 50%, 2024: 25%). The impact of the IFRS 9 transitional arrangements (including relief from the new measures in response to Covid-19) on CET1 as at 30 June 2021 was £155m.

The Group continues to explore a number of options to improve capital efficiency. These include supplementing the existing capital base that is made up entirely of Common Equity Tier one with debt capital (in particular Tier 2) to support growth and the Group's return on capital, and that can be issued from the Group's EMTN programme. The Board continually monitors its risk appetite in respect of the appropriate level of regulatory capital headroom.

The performance of retail deposits in Vanquis Bank has continued to be strong and, at 30 June 2021, Vanquis Bank had retail deposit funding of £1.1bn. The decrease from £1.9bn a year earlier represents a managed return to normalised levels following the steps taken by Vanquis Bank to increase liquidity in response to Covid-19. There remains a significant excess of liquidity of £220m over the Bank's regulatory requirements.

At 30 June 2021, headroom on committed facilities (£77m) and surplus cash and liquid resources (£149m) amounted to approximately £226m of available liquidity compared to £144m at 31 December 2020. The strengthening of the position reflects a further £50m drawing from the Moneybarn securitisation in February 2021 to £200m, together with the receipt of dividends from Vanquis Bank in line with the Group's internal Capital Management Policy that requires subsidiaries, including Vanquis Bank, to maintain sufficient capital to meet regulatory requirements, manage for 12 months growth and investment whilst maintaining a management buffer. Any excesses are distributed to the Group.

Shortly after 30 June 2021, the Group extended both its Moneybarn securitisation facility and its Revolving Credit Facility. The new Moneybarn facility will result in the committed amount increasing to £325m, of which £275m is initially drawn, over a new extended period of 24 months (plus any period of amortisation thereafter). The cost of the new facility is broadly unchanged from the previous warehouse and its advance rate is significantly higher, resulting in a reduction in the weighted average cost of funding for Moneybarn.

The Group also had a multi-currency RCF in place provided by several banks with a total facility size of approximately £148m as at 31 December 2020. In line with the Group's existing strategy of reducing any potential reliance on the RCF, a portion of the new securitisation funds were used to reduce the Group's RCF commitments, initially to £90m, alongside an extension to the facility to the second half of 2023. It is also now funded by fewer banks.

In aggregate, the new Moneybarn securitisation facility and RCF refinancing provides £415m funding with a contractual maturity of H2 2023 and beyond, so increasing the weighted average duration of the Group's funding sources. It further strengthens the Group's liquidity resources. Beyond the scheduled maturity of the Group's 2021 Retail Bond for £65m in September 2021 the Group has no further external contractual maturities until mid-2023.

Shortly after the period end, we received notification that Vanquis Bank AAA-rated notes have been accepted as eligible collateral for the Bank of England funding and liquidity schemes.

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, typically changes in unemployment and used car sales values are assumed. The PD impacts from rising unemployment in Moneybarn, follows consistent methodology with Vanquis Bank. Given the favourable trends on used car sales prices through 2021, a macro-economic overlay has not been recognised for used vehicle resale values at 30 June 2021 which would normally reflect estimated 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 2020 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 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 weightings used are consistent with those used at the year end.

	Base	Upside	Downside	Severe
Weighting	50%	10%	35%	5%
2021				
Peak	6.0	5.0	8.6	10.1
Average	5.4	4.6	7.3	8.8
2022				
Peak	5.9	4.9	8.4	9.8
Average	5.5	4.6	7.9	9.2

The unemployment assumptions have reduced from the year end reflecting the improving outlook of the UK macro-economic environment since 31 December 2020.

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.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group are largely consistent with those set out in the 2020 Annual Report and Financial Statements and comprise the following risks: Capital, Liquidity and Funding, Credit, Strategy and Governance, Legal, Regulatory and Conduct, Operational, People, Business Resilience and Information and Data Security and Model. We are in the process of adding Financial Crime and Climate risk as principal risks in H2'21 and these will feature in the 2021 Annual Report.

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

Capital

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

Liquidity and Funding

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

Credit

This is defined as the risk that the Group will suffer loss in the event of a default by a customer, bank counterparty or the UK Government. In 2020 and 2021 in response to the pandemic, each division within the Group reviewed its respective credit profiles and undertook selective tightening of scorecards to ensure any higher than desired risk segments have been addressed. The Group and each division continue to assess the evolving Economic environment to ensure that Credit Risk Appetite remains appropriate. There continues to be enhanced focus on Early Warning Indicators (EWIs) of customer stress, and predictive performance of scorecards.

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

Legal, Regulatory and Conduct
This is defined as the risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with regulations (including handbooks, codes of conduct, financial crime etc.). The Group operates in a highly regulated environment and in a sector where its customers are more vulnerable and need careful management. At all levels, the Group has worked hard to build and maintain positive relationships with our key regulators. Any regulatory actions are managed and monitored closely to ensure these are delivered fully and within the spirit of any feedback received. In Q1'21, the FCA opened a CCD enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process, in the period between February 2020 and February 2021. The Business is cooperating fully with the FCA in this matter.

Operational, People, Business Resilience and Information and Data Security
This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group continues to assess and enhance its systems resilience. There has been a comprehensive effort to ensure people risk has been managed as effectively as possible. This was particularly heightened due to Covid-19. The three lines of defence model throughout the Group ensures there are clear lines of accountability between management who own the risks, oversight by the Risk function, and independent assurance provided by Group Internal Audit.

Model
This is defined as the risk of financial losses where models fail to perform as expected due to poor governance (including design and operation). The Group Head of Model Risk, recruited in 2020, has now fully resourced the team and a series of Model validations have been undertaken in H1'21. This team will embed in H2'21 which should lead to enhanced Model Governance throughout the Group.

Related party transactions

During the period, Provident Financial plc received dividend payments from Vanquis Bank amounting to £65m.

Unaudited condensed interim financial statements

Consolidated income statement

	Note	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 (restated)[1] £m
Interest income		285.8	398.2
Fee income		30.9	45.4
Total revenue	4	316.7	443.6
Finance costs		(31.2)	(36.0)
Net interest margin		**285.5**	**407.6**
Impairment charges		(89.3)	(238.4)
Risk-adjusted net interest margin		**196.2**	**169.2**
Operating costs		(240.4)	(197.3)
Loss before tax	4	(44.2)	(28.1)
Profit/(loss) before tax, amortisation of acquisition intangibles and exceptional items	4	5.8	(32.7)
Amortisation of acquisition intangibles	4	(3.7)	(3.7)
Exceptional items	4	(46.3)	8.3
Tax (charge)/credit	5	(5.4)	4.9
Loss for the period attributable to equity shareholders		(49.6)	(23.2)

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 (restated)[1] £m
Loss for the period attributable to equity shareholders		(49.6)	(23.2)
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	9	10.7	38.3
– fair value movement in investments	10	0.5	1.4
– tax on items taken directly to other comprehensive income		(2.7)	(7.7)
– impact of change in UK tax rate on items in other comprehensive income		(5.1)	(1.9)
Other comprehensive income for the period		3.4	30.1
Total comprehensive (expense)/income for the period		(46.2)	6.9

Loss per share	Note	Six months ended 30 June 2021 pence	Six months ended 30 June 2020 (restated)[1] pence
Basic	6	(19.6)	(9.2)
Diluted	6	(19.6)	(9.2)

Dividends per share		Six months ended 30 June 2021 pence	Six months ended 30 June 2020 pence
Interim dividend	7	-	-
Paid in the period[2]	7	-	-

[1] Refer to note 2 for details of restatement.
[2] Dividends paid in the period were £nil (2020: £nil).

Consolidated balance sheet

	Note	30 June 2021	31 December 2020	30 June 2020 (restated)[1]
		£m	£m	£m
ASSETS				
Cash and cash equivalents		485.8	919.7	1,042.7
Amounts receivable from customers	8	1,637.2	1,799.8	1,865.3
Trade and other receivables		37.4	35.7	45.5
Current tax asset		3.5	-	-
Investment held as fair value through other comprehensive income	10	9.7	9.2	18.0
Property, plant and equipment		12.9	15.5	19.1
Right of use assets		52.0	58.0	62.4
Goodwill		71.2	71.2	71.2
Other intangible assets		40.8	45.3	40.7
Retirement benefit asset	9	92.7	79.7	118.4
Deferred tax assets	5	26.7	44.0	21.0
TOTAL ASSETS	4	2,469.9	3,078.1	3,304.3
LIABILITIES AND EQUITY				
Liabilities				
Retail deposits		1,062.8	1,683.2	1,917.3
Bank and other borrowings		567.2	520.0	476.3
Trade and other payables		106.2	64.9	80.1
Derivative financial instrument		0.2	1.3	1.2
Lease liabilities		64.9	69.4	73.6
Current tax liabilities	5	-	0.6	10.2
Provisions	12	65.6	91.0	9.0
Total liabilities		1,866.9	2,430.4	2,567.7
Equity attributable to owners of the parent				
Share capital		52.6	52.6	52.6
Share premium		273.2	273.2	273.2
Merger reserves		278.2	278.2	278.2
Other reserves		14.8	14.6	17.3
Retained earnings		(15.8)	29.1	115.3
Total equity	4	603.0	647.7	736.6
TOTAL LIABILITIES AND EQUITY		2,469.9	3,078.1	3,304.3

[1] Refer to note 2 for details of restatement.

Consolidated statement of changes in shareholders' equity

	Share capital	Share premium	Merger reserve	Other reserves	Retained earnings (restated)[1]	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2020	52.5	273.2	278.2	17.7	107.7	729.3
Loss for the period	-	-	-	-	(23.2)	(23.2)
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 OCI	-	-	-	(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	6.2	6.9
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 and 1 July 2020	52.6	273.2	278.2	17.3	115.3	736.6
Loss for the period	-	-	-	-	(60.2)	(60.2)
Other comprehensive income/(expense):						
- fair value movement in investments	-	-	-	2.4	-	2.4
- actuarial movements on retirement benefit asset (note 9)	-	-	-	-	(40.0)	(40.0)
- tax on items taken directly to OCI	-	-	-	(0.6)	7.6	7.0
- impact of change in UK tax rate	-	-	-	0.1	0.1	0.2
- deferred tax credit on disposal of investments	-	-	-	2.0	-	2.0
- current tax charge on disposal of investments	-	-	-	(2.0)	-	(2.0)
Other comprehensive income/(expense) for the period	-	-	-	1.9	(32.3)	(30.4)
Total comprehensive income/(expense) for the period	-	-	-	1.9	(92.5)	(90.6)
Transfer of cumulative gain on disposal of investment	-	-	-	(7.4)	7.4	-
Transfer of tax on disposal of investment	-	-	-	2.0	(2.0)	-
Share-based payment charge	-	-	-	2.0	-	2.0
Transfer of share-based payment reserve	-	-	-	(1.2)	1.2	-
Purchase of shares for share awards	-	-	-	-	(0.3)	(0.3)
At 31 December 2020	52.6	273.2	278.2	14.6	29.1	647.7
At 1 January 2021	52.6	273.2	278.2	14.6	29.1	647.7
Loss for the period	-	-	-	-	(49.6)	(49.6)
Other comprehensive income/(expense):						
- fair value movement in investments	-	-	-	0.5	-	0.5
- actuarial movements on retirement benefit asset (note 9)	-	-	-	-	10.7	10.7
- tax on items taken directly to OCI	-	-	-	(0.1)	(2.6)	(2.7)
- impact of change in UK tax rate	-	-	-	(0.3)	(4.8)	(5.1)
Other comprehensive income for the period	-	-	-	0.1	3.3	3.4
Total comprehensive income/(expense) for the period	-	-	-	0.1	(46.3)	(46.2)
Share-based payment charge	-	-	-	1.5	-	1.5
Transfer of share-based payment reserve	-	-	-	(1.4)	1.4	-
At 30 June 2021	52.6	273.2	278.2	14.8	(15.8)	603.0

[1] Refer to note 2 for details of restatement.

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. Following the transfer of Vanquis Bank to Provident Financial Holdings No. 2 in December 2020 the full merger reserve of £278.2m is now considered distributable.

Consolidated statement of cash flows

	Note	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Cash flows from operating activities			
Cash generated from operations	15	184.4	330.0
Finance costs paid		(36.1)	(28.7)
Tax paid		-	(23.4)
Net cash generated from operating activities		148.3	277.9
Cash flows from investing activities			
Purchase of intangible assets		(0.9)	(3.8)
Purchase of property, plant and equipment		(8.2)	(3.9)
Proceeds from disposal of property, plant and equipment		-	0.7
Net cash used in investing activities		(9.1)	(7.0)
Cash flows from financing activities			
Proceeds from bank and other borrowings		143.9	809.3
Repayment of bank and other borrowings		(712.5)	(384.5)
Payment of lease liabilities		(4.7)	(4.7)
Proceeds from issue of share capital		-	0.1
Net cash (used in)/generated from financing activities		(573.3)	420.2
Net (decrease)/increase in cash, cash equivalents and overdrafts		(434.1)	691.1
Cash, cash equivalents and overdrafts at beginning of period		918.3	350.8
Cash, cash equivalents and overdrafts at end of period		484.2	1,041.9
Cash, cash equivalents and overdrafts at end of period comprise:			
Cash at bank and in hand		485.8	1,042.7
Overdrafts (held in bank and other borrowings)		(1.6)	(0.8)
Total cash, cash equivalents and overdrafts		484.2	1,041.9

Cash at bank and in hand includes £279.3m (2020: £1,014.4m) 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 2021, £86.3m (2020: £825.0m) 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 2020 were approved by the board of directors on 10 May 2021 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 2021 have been reviewed, not audited, and were approved by the board of directors on 11 August 2021.

2. Basis of preparation

The unaudited condensed interim financial statements for the six months ended 30 June 2021 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the UK. The annual report and financial statements for the year ended 2021 will also be prepared on this basis. The change in basis of preparation from IFRS as adopted by the EU to IFRS as adopted by the UK is required as a result of the UK's exit from the EU on 31 January 2020. This change does not constitute a change in accounting policy and there is no impact on recognition, measurement or disclosure between the two frameworks in the period reported. The unaudited condensed interim financial statements should be read in conjunction with the statutory financial statements for the year ended 31 December 2020.

In assessing whether the Group is a going concern, the directors have reviewed the Group's reforecast, as approved in May 2021, which includes capital and liquidity forecasts, on detailed projections for 2021 and 2023. 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, stress testing has been performed through modelling a range of macro-economic scenarios, consistent with the full year assessment performed in May 2021. This assumes a severe but plausible downturn, with 'severe' being defined consistently with the Group's IFRS 9 'severe' macro-economic weighting. The Group's TCR is exceeded in all scenarios modelled both with and without management actions. The point of non-viability has been assessed for both the Group and Vanquis Bank which would need to materialise to prevent the directors from adopting the going concern assumption. This is materially higher than any economic forecasts. The Group's reforecast does not require market access for capital or liquidity during the going concern period.

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 2020. The 2020 June comparatives have been restated to reflect the change in definition of default from 'termination of the vehicle contract' accounting policy reflected in the 2020 financial statements.

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

3. Accounting policies (continued)

The change in definition of default did not affect the 30 days past due trigger for receivables moving to IFRS 9 stage 2. It did however impact the point at which receivables should have moved to IFRS 9 stage 3. As revenue is calculated based on the net receivable in IFRS 9 stage 3, the change in the point of default resulted in lower revenue as more accounts are considered defaulted. This has no impact profit before tax as it is offset by an equivalent decrease in impairment charges.

At the 2020 year end management concluded that this was a prior period error and therefore retrospectively restated the 2019 results. The June 2020 consolidated income statement, consolidated statement of comprehensive income, balance sheet and statement of changes in shareholders' equity have also been restated.

The 2020 first half loss before tax decreased by £0.1m, comprising a reduction in impairment of £1.9m and a reduction in revenue of £2.0m. Receivables at 30 June 2020 reduced by £13.1m.

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 2020.

<u>Amounts receivable from customers</u>
As disclosed in the 2020 Annual report and financial statements, the valuation of amounts receivable from customers remains a significant accounting judgement.

The amounts receivable from customers are reviewed for impairment at each balance sheet date. For the purposes of assessing the impairment, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance.

Significant increase in credit risk (SICR):
Assessments are made to determine whether there is objective evidence of a significant increase in credit risk (SICR) which indicates there has been an adverse effect on 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, a SICR is typically when one contractual monthly payment has been missed.

In CCD, collection curves have been used historically to estimate the expected future losses on loans exhibiting similar risk characteristics. The collection curves were based on historical performance. However, collections will now continue both by some CEM's collecting from customers in the field, but increasingly through the transfer of collections to Debt Collection Agencies. The collection curves have therefore been refreshed at 30 June 2021 with judgemental performance haircuts applied to the collections levels in order to reflect the expected reduction in collection performance. The impact of the collections shortfall has been recognised at 30 June 2021. To the extent that the collections performance exceeded/(fell short) from the current expected performance by 5%, this would increase/(reduce) the CCD net receivable at 30 June 2012 by £2.0m.

Default
For the purpose of IFRS 9, default is assumed in Vanquis Bank and Moneybarn when three contractual repayments have been missed or when a customer enters a payment arrangement.

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 cohort of customers in each arrears stage. These are regularly tested using subsequent cash collections to assess accuracy.

The impact of Covid-19 significantly influenced ECL during the pandemic. Each division has reviewed customer behaviour in light of Covid-19 to adjust the previous assumptions within 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;
- 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; and
- the potential impact to PD and LGD as a result of changing forecasts in the macroeconomic environment.

Macro-economic provision

Macroeconomic provisions are recognised in Vanquis Bank and Moneybarn to reflect an increased PD and LGD, in addition to the core impairment provisions, already recognised based on future macroeconomic scenarios. The provision reflects the potential for future changes in unemployment under a range of unemployment forecasts, as analysis has clearly evidenced correlation between changes in unemployment and credit losses incurred. The Group will continue to analyse and assess if there are any additional macroeconomic indicators which also correlate with credit losses.

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 weightings used are consistent with those used at the year end.

	Base	**Upside**	**Downside**	**Severe**
Weighting	50%	10%	35%	5%
2021				
Peak	6.0	5.0	8.6	10.1
Average	5.4	4.6	7.3	8.8
2022				
Peak	5.9	4.9	8.4	9.8
Average	5.5	4.6	7.9	9.2

The unemployment assumptions have reduced from the year end reflecting the improving outlook of the UK macro-economic environment during 2021.

Increasing the downside weighting by 5% from 35% to 40% and a corresponding reduction in the base case would increase the allowance account by £5.5m for Vanquis Bank and £0.7m for Moneybarn.

Increasing the upside weighting by 5% from 10% to 15%, and a corresponding reduction in the base case would decrease the allowance account by £0.4m for Vanquis Bank and £0.1m for Moneybarn.

Whilst the forward-looking nature of IFRS 9 requires provisions to be established for all potential losses arising out of the Covid-19 pandemic, the level of uncertainty is currently heightened given customer support in the form of furlough, payment freezes and the rent moratorium on a reduced receivables book. Although a conservative approach to provisioning is currently adopted, performance when these support measures come to an end may mean that additional impairment provision, or releases, may be required in future periods.

The impact of new standards adopted by the Group from 1 January 2021

There are no new standards adopted by the Group from 1 January 2021.

The impact of new standards not yet effective and not adopted by the Group from 1 January 2021

There are no new standards not yet effective and not adopted by the Group from 1 January 2021 which are expected to have a material impact on the Group

4. Segment reporting

	Revenue Six months ended 30 June 2021	Revenue Six months ended 30 June 2020 (restated)[1]	Profit/(loss) before tax Six months ended 30 June 2021	Profit/(loss) before tax Six months ended 30 June 2020 (restated)[1]
	£m	£m	£m	£m
Vanquis Bank	195.6	261.1	57.1	11.8
Moneybarn	68.8	64.1	15.5	2.3
CCD	52.3	118.4	(57.7)	(37.6)
Central costs	-	-	(9.1)	(9.2)
Total Group before amortisation of acquisition intangibles and exceptional items	316.7	443.6	5.8	(32.7)
Amortisation of acquisition intangibles	-	-	(3.7)	(3.7)
Exceptional items	-	-	(46.3)	8.3
Total Group	316.7	443.6	(44.2)	(28.1)

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 2021 amounted to £3.7m (2020: £3.7m).

Exceptional costs in the first half of 2021 of £46.3m relate to the closure of CCD and the CCD scheme of arrangement and include: (i) redundancy costs of £22.9m, net of an curtailment credit of £0.8m on the pension scheme; (ii) costs associated with the wind down of CCD including asset write downs and supplier and property exit costs (£13.4m); (iii) additional costs in relation to the Scheme (£5m) and; (iv) cost in relation to the CCD enforcement where a provision of £5.0m has now been recognised.

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.

	Segment assets 30 June 2021	Segment assets 31 December 2020	Segment assets 30 June 2020 (restated)[1]	Net assets/(liabilities) 30 June 2021	Net assets/(liabilities) 31 December 2020	Net assets/(liabilities) 30 June 2020 (restated)[1]
	£m	£m	£m	£m	£m	£m
Vanquis Bank	1,389.0	2,037.1	2,332.1	310.7	326.5	333.7
Moneybarn	653.5	611.0	553.4	31.9	19.3	28.1
CCD	58.6	187.8	183.6	(330.6)	(215.1)	(96.1)
Central	659.4	730.4	544.4	591.0	517.0	470.9
Total before intra-Group elimination	2,760.5	3,566.3	3,613.5	603.0	647.7	736.6
Intra-group elimination	(290.6)	(488.2)	(309.2)	-	-	-
Total Group	2,469.9	3,078.1	3,304.3	603.0	647.7	736.6

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.

Up to 30 June 2021, the Group's businesses operate in the UK and Republic of Ireland.

[1] Refer to note 2 for details of restatement.

5. Tax charge

Given the impact of CCD losses on the tax charge, the H1-21 charge has been calculated by:

- calculating the best estimate of the effective tax rate for each division for the financial year, excluding deferred tax asset write offs and revaluations of deferred tax balances at 31 December 2020;
- applying this to the profit/(loss) before tax, amortisation of acquisition intangibles and exceptional items for the relevant division for the period and aggregating the resultant amount; and
- adding to this the write off of deferred tax assets in CCD and the revaluations of deferred tax balances at 31 December 2020 due to the change in the mainstream corporation tax rate, which are attributable to the first half of the financial year.

The H1-20 tax credit reflected the best estimate of the effective tax rate for the Group for the FY-20 financial year, including revaluations of deferred tax balances and any write off of deferred tax assets. This was applied to the H1-20 loss before tax, amortisation of acquisition intangibles and exceptional items. The treatment of the revaluation of deferred tax balances in H1-21 is a change in accounting policy compared with the comparative period, where the revaluation was included within the estimate of the effective tax rate for the financial year. The prior period comparatives have not been restated as the change in accounting policy would not be material.

This gives a tax charge for the period on profit before tax, amortisation of acquisition intangibles and exceptional items of £13.6m (2020: tax credit £7.0m). The tax charge (2020: credit) reflects:

- the impact of the bank corporation tax surcharge of 8% which applies to Vanquis Bank profits in excess of £25m; and
- the impact of losses in the branch in the Republic of Ireland for which no tax relief is available.

It also reflects:

- the beneficial impact of measuring deferred tax balances at 25% to the extent the underlying temporary differences will reverse after 1 April 2023 (2020: 19%), and in the case of Vanquis Bank at 33% (2020: 27%), following the announcement in the March 2021 Budget that the rate of mainstream UK corporation tax would be increased to 25% from 1 April 2023; and
- the adverse impact of the write off of deferred tax assets in CCD amounting to £14.8m (2020: £nil) in respect of losses carried forward and other temporary differences for which tax relief is now unlikely to be available following the announcement of the closure of the business.

The tax charge reflects the recognition of deferred tax assets in respect of losses and other temporary differences elsewhere across the Group to the extent the Group is expected to have sufficient taxable profits available in the future to enable such deferred tax assets to be recovered.

The tax credit in respect of the exceptional charge amounts to £7.5m and represents tax at the mainstream corporation tax rate of 19% in respect of the exceptional costs apart from those costs which are attributable to the Irish branch in respect of which tax relief will not be available and costs which may be considered capital and therefore non-deductible for tax purposes.

The tax charge (2020: tax credit) in respect of the exceptional credit in 2020 amounted to £2.2m which represented 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 respect of the amortisation of acquisition intangibles is £0.7m (2020: £0.1m) and represents a tax credit of £0.7m (2020: £0.7m) in respect of the amortisation, and in the case of 2020 is net of £0.6m, being the impact of measuring the related deferred tax liability at 19% following the announcement in 2020 that the rate of mainstream UK corporation tax would remain at 19% from 1 April 2020 rather than the previously enacted rate of 17%. The change in the rate of mainstream corporation tax to 25% from 1 April 2023 has no impact in the period as the temporary differences in respect of the related deferred tax liability are all expected to reverse prior to 1 April 2023.

6. Loss per share

Basic loss 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 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 Deferred Bonus Plan 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.

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

	Six months ended 30 June					
	2021			2020		
	Earnings	Weighted average number of shares	Per share amount	Earnings (restated)[1]	Weighted average number of shares	Per share amount
	£m	m	pence	£m	m	pence
Basic loss per share	(49.6)	253.6	(19.6)	(23.2)	253.5	(9.2)
Dilutive effect of share options and awards	-	-	-	-	-	-
Diluted loss per share	(49.6)	253.6	(19.6)	(23.2)	253.5	(9.2)

An adjusted loss 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 per share generated by the Group's underlying operations. A reconciliation of basic and diluted loss per share to adjusted basic and diluted loss per share is as follows:

	Six months ended 30 June					
	2021			2020		
	Earnings	Weighted average number of shares	Per share amount	Earnings (restated)[1]	Weighted average number of shares	Per share amount
	£m	m	pence	£m	m	pence
Basic loss per share	(49.6)	253.6	(19.6)	(23.2)	253.5	(9.2)
Amortisation of acquisition intangibles, net of tax	3.0	-	1.2	3.6	-	1.5
Exceptional items, net of tax	38.8	-	15.3	(6.1)	-	(2.4)
Adjusted basic loss per share	(7.8)	253.6	(3.1)	(25.7)	253.5	(10.1)
Diluted loss per share	(49.6)	253.6	(19.6)	(23.2)	253.5	(9.2)
Amortisation of acquisition intangibles, net of tax	3.0	-	1.2	3.6	-	1.5
Exceptional items, net of tax	38.8	-	15.3	(6.1)	-	(2.4)
Adjusted diluted loss per share	(7.8)	253.6	(3.1)	(25.7)	253.5	(10.1)

[1] Refer to note 2 for details of restatement.

7. Dividends

There have been no dividends paid or declared by the Company in the six months ended 30 June 2021 or 30 June 2020.

The directors have not declared an interim dividend in respect of the six months ended 30 June 2021 (2020: £nil).

8. Amounts receivable from customers

	30 June 2021 £m	31 December 2020 £m	30 June 2020 (restated)[1] £m
Vanquis Bank	993.5	1,094.2	1,202.1
Moneybarn	601.6	566.6	516.3
CCD	42.1	139.0	146.9
Total Group	1,637.2	1,799.8	1,865.3

Vanquis Bank receivables comprise £977.5m (31 December 2020: £1,075.1m, 30 June 2020: £1,174.1m) in respect of credit cards and £16.0m (31 December 2020: £19.1m, 30 June 2020: £28.0m) in respect of loans.

CCD receivables comprise £39.9m in respect of the home credit business (31 December 2020: £135.3m, 30 June 2020: £130.5m), £2.2m in respect of Satsuma (31 December 2020: £3.7m, 30 June 2020: £16.4m).

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

	30 June 2021			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Vanquis Bank	913.0	221.1	315.3	1,449.4
Moneybarn	485.4	106.1	195.4	786.9
CCD	20.7	11.9	318.6	351.2
Total Group	1,419.1	339.1	829.3	2,587.5
Allowance account				
Vanquis Bank	(158.9)	(97.2)	(199.8)	(455.9)
Moneybarn	(21.7)	(18.8)	(144.8)	(185.3)
CCD	(3.1)	(5.0)	(301.0)	(309.1)
Total Group	(183.7)	(121.0)	(645.6)	(950.3)
Net receivables				
Vanquis Bank	754.1	123.9	115.5	993.5
Moneybarn	463.7	87.3	50.6	601.6
CCD	17.6	6.9	17.6	42.1
Total Group	1,235.4	218.1	183.7	1,637.2

8. Amounts receivable from customers (continued)

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

	30 June 2020 (restated) [1]			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross receivables				
Vanquis Bank	1,139.0	165.2	350.6	1,654.8
Moneybarn	372.2	114.7	164.8	651.7
CCD	68.2	22.9	425.3	516.4
Total Group	1,579.4	302.8	940.7	2,822.9
Allowance account				
Vanquis Bank	(153.8)	(86.4)	(212.5)	(452.7)
Moneybarn	(10.0)	(24.9)	(100.5)	(135.4)
CCD	(3.4)	(5.2)	(360.9)	(369.5)
Total Group	(167.2)	(116.5)	(673.9)	(957.6)
Net receivables				
Vanquis Bank	985.2	78.8	138.1	1,202.1
Moneybarn	362.2	89.8	64.3	516.3
CCD	64.8	17.7	64.4	146.9
Total Group	1,412.2	186.3	266.8	1,865.3

8. Amounts receivable from customers (continued)

Macro-economic provision

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

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

For Moneybarn, changes in unemployment is used to calculate a separate macroeconomic provision. Used car sales prices were also considered at 31 December 2021. However, given the favourable trends on used car sales prices through 2021, a macro-economic overlay has not been recognised for used vehicle resale values which would normally estimate recoveries from the sale of repossessed vehicles at auction.

CCD customers often have unpredictable levels of disposable income as they are often not in salaried roles. They are therefore not considered to be reflective of the wider economy. They are typically less indebted and are therefore not impacted by the same macroeconomic factors or to the same degree. Consequently, there is no evidence of any meaningful correlation between the impairment charge and any macro employment statistics. A separate macroeconomic provision is therefore not held. The assumptions are reviewed at each balance sheet date.

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

	Six months ended 30 June	
	2021	2020 (restated)[1]
	£m	£m
Vanquis Bank	30.8	149.9
Moneybarn	20.0	35.6
CCD	38.5	52.9
Total Group	89.3	238.4

[1] Refer to note 2 for details of restatement.

9. Retirement benefit asset

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

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

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

The group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid. As a result, the Group recognises surplus assets under IAS 19.

9. Retirement benefit asset (continued)

The Group is exposed to a number of risks, the most significant of which are as follows:

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

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

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

	30 June 2021 £m	31 December 2020 £m	30 June 2020 £m
Fair value of scheme assets	870.6	933.0	933.1
Present value of defined benefit obligation	(777.9)	(853.3)	(814.7)
Net retirement benefit asset recognised in the balance sheet	92.7	79.7	118.4

The amounts recognised in the income statement were as follows:

	Six months ended 30 June	
	2021 £m	2020 £m
Current service cost	(1.1)	(0.8)
Interest on scheme liabilities	(5.5)	(7.6)
Interest on scheme assets	6.0	8.4
Net cost recognised in the income statement before exceptional curtailment credit	(0.6)	-
Exceptional curtailment credit (note 4)	0.8	-
Net credit recognised in the income statement	0.2	-

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

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

	Six months ended 30 June	
	2021 £m	2020 £m
Fair value of scheme assets at 1 January	933.0	842.6
Interest on scheme assets	6.0	8.4
Actuarial movements on scheme assets	(59.3)	95.9
Contributions by the Group	2.1	2.1
Net benefits paid out	(11.2)	(15.9)
Fair value of scheme assets at 30 June	870.6	933.1

9. Retirement benefit asset (continued)

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

	Six months ended 30 June 2021 £m	2020 £m
Present value of defined benefit obligation at 1 January	(853.3)	(764.6)
Current service cost	(1.1)	(0.8)
Interest on scheme liabilities	(5.5)	(7.6)
Past service costs - curtailment	0.8	-
Actuarial movements on scheme liabilities	70.0	(57.6)
Net benefits paid out	11.2	15.9
Present value of defined benefit obligation at 30 June	(777.9)	(814.7)

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

	30 June 2021 %	31 December 2020 %	30 June 2020 %
Price inflation – RPI	3.15	2.85	2.80
Price inflation – CPI	2.70	2.25	1.90
Rate of increase to pensions in payment	2.95	2.70	2.60
Inflationary increases to pensions in deferment	2.55	2.20	2.00
Discount rate	1.85	1.30	1.50

A 0.5% change in the discount rate would change the present value of the defined benefit obligation by approximately £70.3m (31 December 2020: £79m, 30 June 2020 (0.1% change): £15m). A 0.1% change in the inflation rate would change the present value of the defined benefit obligation by approximately £6.2m (31 December 2020: £7m, 30 June 2020: £7m) respectively.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 2 tables (31 December 2020: series 2 tables, 30 June 2020: series 2 tables), with multipliers of 96% (31 December 2020: 96%, 30 June 2020: 96%) and 101% (31 December 2020: 101%, 30 June 2020: 101%) respectively for males and females. The 4% downwards (31 December 2020: 4% downwards, 30 June 2020: 4% downwards) adjustment to mortality rates for males and a 1% upwards (31 December 2020: 1% upwards, 30 June 2020: 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 1.00% per annum.

9. Retirement benefit asset (continued)

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

	Male			Female		
	30 June 2021 Years	31 December 2020 Years	30 June 2020 Years	30 June 2021 Years	31 December 2020 Years	30 June 2020 years
Current pensioner aged 65	21.7	21.9	21.9	23.4	23.5	23.5
Current member aged 45 from age 65	22.7	23.2	23.2	24.6	25.0	25.0

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £35m (31 December 2020: £43m, 30 June 2020: £41m).

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

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m
Actuarial movements on scheme assets	(59.3)	95.9
Actuarial movements on scheme liabilities	70.0	(57.6)
Actuarial movements recognised in the statement of comprehensive income in the period	10.7	38.3

10. Investments

	30 June 2021 £m	31 December 2020 £m	30 June 2020 £m
Visa Inc. shares	9.7	9.2	18.0

Visa Inc. shares

The Visa Inc. shares represent preferred stock in Visa Inc. held by Vanquis Bank following completion of Visa Inc.'s acquisition of Visa Europe Limited on 21 June 2016. During 2020 there was a partial conversion event and 50% of the preferred stock was converted into class A shares which were then sold in December 2020. On disposal of the shares, the cumulative gain recognised in the fair value reserve was transferred to retained earnings (£7.4m) net of the tax arising on the disposal (£2.0m).

The fair value as at 30 June 2021 of £9.7m (31 December 2020: £9.2m, 30 June 2020: £18.0m) is held at fair value through OCI. The increase in the fair value of the investment during the six month period of £0.5m (2020: £1.4m) 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.

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

11. Fair value disclosures

The Group holds the following financial instruments at fair value:

	30 June 2021 £m	31 December 2020 £m	30 June 2020 £m
Financial assets			
Visa Inc. shares	9.7	9.2	18.0
	9.7	9.2	18.0
Financial liabilities			
Derivatives	(0.2)	(1.3)	(1.2)

Derivatives of £0.2m (31 December 2020 £1.3m, 30 June 2020: £1.2m) 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 2021 £m	31 December 2020 £m	30 June 2020 (Restated) £m	30 June 2021 £m	31 December 2020 £m	30 June 2020 (Restated)[1] £m
Financial assets						
Amounts receivable from customers	1,637.2	1,799.8	1,865.3	1,971.9	2,246.5	2,336.4
Financial liabilities						
Retail deposits	(1,062.8)	(1,683.2)	(1,917.3)	(1,066.5)	(1,689.2)	(1,921.9)
Bank and other borrowings	(567.2)	(520.0)	(476.3)	(576.6)	(635.5)	(463.4)
Total	(1,630.0)	(2,203.2)	(2,393.6)	(1,643.1)	(2,324.7)	(2,385.3)

[1] Refer to note 2 for details of restatement.

12. Provisions

	30 June 2021 £m	31 December 2020 £m	30 June 2020 £m
At 1 January	91.0	14.5	14.5
Created in the period	7.4	45.5	8.9
Created in the period (scheme)	5.0	65.0	-
Total created in the period	12.4	110.5	8.9
Reclassified in the period	-	17.6	8.6
Used during the period	(37.8)	(43.3)	(14.7)
Released in the period	-	(8.3)	(8.3)
At the period end	65.6	91.0	9.0

During 2020, the Group 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 was not evident. Therefore, the accruals have been reclassified to provisions.

Complaints of irresponsible lending in CCD and the scheme of arrangement

Significantly higher claims volumes were received by CCD in 2020 in respect of irresponsible lending of home credit loans. £23.4m was provided at 31 December 2020 for the claims received for irresponsible lending. This reflected the recent uphold rates and settlement values. The provision also assumed a settlement rate of customer claims to the date of the Practice Statement Letter (PSL) being issued of 15 March 2021, as part of the Scheme of Arrangement (the 'Scheme'). These amounts were fully utilised during H1 21.

12. Provisions (continued)

The Scheme of Arrangement was sanctioned on 30 July 2021. The Scheme will now remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline in February 2022. The objective of the Scheme is to ensure:

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

The Group will fund legitimate Scheme claims with £50m and will cover further Scheme-related costs. These were estimated at approximately £15m at 31 December 2020 with an additional £5m being recognised in H1-21 for additional expected costs in supporting the delivery of the Scheme. At 30 June 2021, £14.2m of the provision for costs of the scheme has been utilised.

FCA investigation into CCD

CCD was informed in Q1 2021, that the FCA had opened an enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process, in the period between February 2020 and February 2021. Discussions continue with the FCA on this matter. Analysis of lending during the period of investigation has resulted in a provision of £5m being recognised at 30 June 2021 which reflects the current best estimate of the settlement.

Vanquis Bank

The remaining ROP provision of £2.4m (31 December 2020: £2.6m; 30 June 2020; £2.9m) principally reflects the estimated cost of the forward flow of ROP complaints more generally in respect of which compensation may need to be paid.

13. Contingent liabilities

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

Challenge to self-employed status of UK home credit agents

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

In July 2017, the Group changed its home credit operating model in the UK from a self-employed agent model to an employed workforce to take control of all aspects of the customer relationship.

The Group's discussions with HMRC, which are focusing on the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014 to the change of operating model in July 2017, remain in the initial fact-finding stages. The Group is working positively and collaboratively with HMRC and it is expected that the review could continue for at least another year. Were the Group to be unsuccessful in defending the historic self-employed position of agents, it may be required to pay additional taxes, in particular National Insurance contributions, on the approximate £80m per annum commission it paid to agents in the UK for the years concerned. As discussions with HMRC remain in the preliminary stages and the Group does not know the amounts of tax and National Insurance contributions paid by agents through self-assessment which are available for offset, it is difficult to calculate an accurate liability should the Group be unsuccessful in defending the position. HMRC has raised protective assessments which have 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 that would otherwise be excluded 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.

Other legal actions and regulatory matters

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

14. 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 2021 £m	31 December 2020 £m	30 June 2020 £m
Share capital	52.6	52.6	52.6
Share premium	273.2	273.2	273.2
Retained earnings and other reserves	277.2	321.9	422.1
Total equity	603.0	647.7	747.9
Retirement benefit asset (net of tax)	(69.5)	(64.6)	(95.9)
Goodwill	(71.2)	(71.2)	(71.2)
Intangible assets (net of tax)	(34.9)	(40.1)	(35.1)
Dynamic 1 and 2 adjustments	63.2	74.2	-
IFRS 9 transition adjustment	92.0	128.8	159.2
CET 1 capital before foreseeable dividend	582.6	674.8	704.9
Deduction of foreseeable dividend	-	-	-
Own funds	582.6	674.8	704.9

14. Capital (continued)

The capital resources shown in the table above include accrued losses for the periods to 30 June 2021, 31 December 2020 and 30 June 2020 which 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 30 June 2021, the impacts of these adjustments amounted to the following:

	30 June 2021 £m	31 December 2020 £m	30 June 2020 £m
Initial IFRS 9 transition adjustment	184.0	184.0	184.0
Increase in ECL in the non-credit impaired book from transition	22.7	22.7	22.7
	206.7	206.7	206.7
Percentage add back	50%	70%	70%
	103.4	144.7	144.7
Increase in ECL on the non-performing book during the 6 months ended 30 June 2021	51.8	58.3	14.5
Percentage add back	100%	100%	100%
	51.8	58.3	14.5
IFRS 9 transition adjustment	155.2	203.0	159.2

15. Reconciliation of Loss after tax to cash generated from operations

	Six months ended 30 June 2021 £m	2020 (restated) [1] £m
Loss after tax	(49.6)	(23.2)
Adjusted for:		
– tax charge	5.4	(4.9)
– finance costs	31.2	36.0
– share-based payment charge	1.5	0.3
– retirement benefit credit before exceptional curtailment credit (note 9)	0.6	-
– exceptional pension curtailment credit (note 9)	(0.8)	-
– amortisation of intangible assets	7.5	7.3
– depreciation of property, plant and equipment and right of use assets	6.6	8.0
– Exceptional amortisation and depreciation charge	5.6	-
– Loss on sale of property, plant and equipment	0.3	-
– Loss on sale of intangibles	2.5	-
Changes in operating assets and liabilities:		
– amounts receivable from customers	162.6	334.3
– trade and other receivables	(2.8)	(11.3)
– trade and other payables	41.3	(9.2)
– contributions into the retirement benefit scheme (note 9)	(2.1)	(2.1)
– derivative financial instruments	-	0.3
– provisions (note 12)	(25.4)	(5.5)
Cash generated from operations	184.4	330.0

[1] Refer to note 2 for details of restatement.

16. Post balance sheet events

In July 2021, the Group extended both its Moneybarn securitisation facility and its Revolving Credit Facility.

The previous Moneybarn securitisation warehouse provided £150m of committed funding to July 2021. The new facility will result in the committed amount increasing to £325m, of which £275m was initially drawn, over a new extended period of 24 months (plus any period of amortisation thereafter). The cost of the new facility is broadly unchanged from the previous warehouse and its advance rate is significantly higher, resulting in a reduction in the weighted average cost of funding for Moneybarn.

The Group also had a multi-currency RCF in place provided by several banks with a total facility size of approximately £140m as at 30 June 2020. In line with the Group's existing strategy of reducing the reliance on its RCF, a portion of the new securitisation funds were used to reduce the Group's RCF commitments, initially to £90m and funded by fewer banks, alongside an extension of the facility h to the second half of 2023.

In March, the Group announced that the Consumer Credit Division would seek to launch a Scheme of Arrangement in relation to potential redress claims arising from complaints based on historic home credit lending prior to 17 December 2020. In April, the High Court made an order enabling CCD to convene a meeting of Scheme creditors to consider the Scheme. The creditor meeting took place on 19 July 2021 and the Scheme was approved by its creditors with votes cast in favour of approximately 98% by both value and number. Following the sanction hearing on 30 July, the Scheme was sanctioned by the High Court on 4 August 2021.

Alternative Performance Measures (APMs)

APM	Method of calculation	Relevance
Net interest margin (NIM)	Revenue less funding costs, excluding exceptional items for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.	This measure shows the returns generated from customers to allow comparison to other banks and banking groups.
Risk-adjusted net interest margin	Net interest margin less impairment, excluding exceptional items for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June.	This measure shows the returns from customers after impairment charges.
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.	This is used to assess 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 month-end receivables for the 6 months ended 30 June	This is used to smooth the seasonality of receivables across the divisions in calculating performance KPIs.
Dividend cover	Adjusted basic earnings per share divided by dividend per share.	This shows the rate that the Company is paying its dividends out of earnings. The dividend policy will reflect the Board's risk appetite of maintaining a regulatory capital headroom in excess of £100m and the remaining transitional impact of IFRS 9.
Cost income ratio	Operating costs as a percentage of revenue for the period.	This ratio is a measure of the efficiency of the Group's cost base.
Adjusted return on assets (ROA)	Adjusted profit before interest after tax for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June	This measures the return a company generates from its assets prior to the impact of funding strategy for each division.
Adjusted return on equity (ROE)	Adjusted profit after tax for the period multiplied by 365/181 as a percentage of average equity for the 6 months ended 30 June. 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 (RORE)	Statutory profit after tax for the period, excluding CCD, multiplied by 365/181 divided by the average regulatory capital requirement for the period.	This demonstrates how well the Group's returns are reinvested and is an indicator of its growth potential.

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 plus cash held on deposit.

Income statement metrics have been reported by utilising the income or expense for the period multiplied by 365/181 as a percentage of average receivables for the 6 months ended 30 June. This better reflects performance in the period, as opposed to the historical annualised basis using a rolling 12 months of income or expense. This is particularly relevant in periods where profitability does not show a stable trend such as during the Covid-19 pandemic.

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 UK, 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 plc website: www.providentfinancial.com.There have been no changes in directors during the six months ended 30 June 2021.

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
11 August 2021

Neeraj Kapur – Chief Financial Officer

INDEPENDENT REVIEW REPORT TO PROVIDENT FINANCIAL PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises 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 half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial 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 will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial 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 set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 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
11 August 2021

Information for shareholders

The interim report will be posted to shareholders on 19 August 2021.