Provident Financial plc

Interim results for the six months ended 30 June, 2022

Provident Financial plc ('PFG' or 'the Group'), a leading specialist banking group focused on underserved markets, today publishes its interim results for the six months ended 30 June 2022, unless otherwise stated.

Malcolm Le May, Chief Executive Officer, commented:

"I am delighted with the Group's first half performance. We have delivered growth and returns in line with market expectations and, reflecting the Board's confidence and our robust financial position, we are recommending an interim dividend of 5.0p per share.

We have successfully repositioned PFG as a specialist banking group focused on the mid-cost and near-prime sectors, increasing the size of our addressable market to some 14m people in the UK. We are investing in our IT infrastructure to deliver future efficiency savings and broadening our service proposition with Vanquis Personal Loans. CCD is in the final stages of being wound down and the PRA have confirmed that they will review the Group's capital requirements during the second half of the year. The FCA has also decided not to proceed with their investigation into historic lending at CCD. We are all acutely aware of the potential challenges that the macroeconomic environment might present. However, we are confident that our increased focus on lower risk customer segments together with our capital strength position us well to withstand the challenges ahead, support our customers and deliver sustainable growth and returns to our shareholders."

Key financial results

	Six months ended 30 June	
	2022	2021
Continuing operations:	£m	£m
Adjusted profit before tax:		
– Credit cards	75.8	57.0
– Vehicle finance	20.2	15.5
– Personal loans	(10.7)	0.1
– Central costs[1]	(31.0)	(9.1)
Adjusted continuing profit before tax[2]	**54.3**	**63.5**
Amortisation of acquisition intangibles	(3.7)	(3.7)
Exceptional items – continuing operations	(3.7)	(2.1)
Statutory continuing profit before tax	**46.9**	**57.7**
Loss for discontinued operations	(9.6)	(101.9)
Statutory profit/(loss) before tax	**37.3**	**(44.2)**
Adjusted basic EPS from continuing operations[3] (p)	15.4	26.7
Basic EPS from continuing operations[3] (p)	12.7	24.8
Annualised RORE[4]	18.0%	30.9%

Highlights

Well positioned to support customers and deliver sustainable returns despite the challenging macro backdrop

- Group adjusted continuing profit before tax (PBT) of £54.3m (H1'21 PBT: £63.5m) reflects growth in the receivables book year-on-year and new customer bookings partly offset by the planned increase in central costs.
- Group statutory PBT of £37.3m (H1'21 LBT: £44.2m) includes £3.7m of exceptional costs related to corporate costs incurred centrally and £9.6m of discontinued items related to the continued wind-down of the Consumer Credit Division (CCD).
- At the end of June, the Group held Common Equity Tier 1 of approximately £460m (H1'21: £585m), which equated to a CET1 ratio of 27.3% (H1'21: 32.5%) and total capital of approximately £660m (H1'21: £585m) equating to a Total Capital Ratio (TCR) of 39.2% (H1'21: 32.5%). The increase in total capital year-on-year reflects the statutory performance of the Group and the issuance of a Tier 2 bond in H2'21, partly offset by the unwind of the IFRS 9 transition on 1 January 2022.
- Total Group liquidity at the end of June stood at approximately £520m (H1'21: £510m) including approximately £430m (H1'21: £280m) held by Vanquis Bank, of which £145m is surplus non-bank funds placed on deposit with the Bank.
- The Board is proposing an interim dividend of 5.0p with respect to H1'22 (H1'21: £nil), consistent with its capital management framework of aiming to provide attractive and sustainable returns to its shareholders.
- In July, the Group was notified by the regulator that it has decided not to proceed with its planned investigation into CCD's historic lending between February 2020 and February 2021. This has resulted in a £4.1m provision being released as an exceptional credit through discontinued operations in the H1'22 results.
- Following the continued wind-down of CCD, the Group now focuses exclusively on the mid-cost and near-prime segments of the credit market. This is expected to have a positive impact on the impairment and cost profile of the Group. Combined with its strong balance sheet, this is expected to enable the Group to deliver focussed and sustainable growth whilst also delivering attractive returns to shareholders.

The credit card business delivered growth in receivables and customers year-on-year with stable delinquency trends

- The Group's credit card business reported a profit before tax for the first six months of the year of £75.8m (H1'21: £57.0m), driven by receivables growth and active customer spend levels being maintained year-on-year.
- New customer bookings for the period were 105k (H1'21: 93k) notwithstanding the ongoing prudent approach to risk management amidst an uncertain macroeconomic environment.
- Credit card spend per active customer during the period was consistent with pre-pandemic levels. However, utilisation rates are still lower at approximately 48% (H1'21: 50%).
- Customer receivables ended the period at £1,035m (H1'21: £978m) representing growth year-on-year driven by new customer bookings and active customer spend trends improving year-on-year.
- During the first six months of the year, delinquency trends remained stable and, as a result, the annualised impairment rate remained below trend at 3.5% (H1'21: 5.8%). This also represents the work that has been done over the last two years to refocus the credit card business towards lower risk customers on average. This trend can also be seen on the balance sheet, where the coverage ratio decreased by 0.6% to 24.4% during H1'22.

The vehicle finance business delivered meaningful growth in PBT year-on-year

- The Group's vehicle finance business delivered a PBT for the period of £20.2m (H1'21: £15.5m) driven by higher revenue year-on-year, as a result of the growth in the average receivables book, and lower interest and impairment costs.
- Credit issued during the period increased to approximately £155m (H1'21: £150m) driven by new business volumes and a buoyant pricing market for used vehicles.
- Customer receivables were £598m at the end of June (H1'21: £602m), which is broadly consistent with the level reported at the end of December 2021 as new customer bookings were offset by early customer settlements.
- The annualised impairment rate improved to 6.0% during the period (H1'21: 6.8%) which also reflects the move towards a lower risk customer base on average since the start of the pandemic.

Personal loans pilot phases concluded at the end of June with good receivables and customer growth

- The Vanquis Bank Open Market Loans pilot significantly exceeded internal expectations and saw consistently strong demand from its target customer segment with good new business volumes. The Sunflower Loans pilot phase also exceeded internal expectations but the Open Banking trial ended its pilot phase below commercial expectations despite high brand and customer approval scores.
- As a result, the personal loans business will focus on developing its core offering around Vanquis Bank Loans (VBL) at sub-50% APR. This offering will be supported by the Group's new IT platform, 'Gateway', and work will commence to transition VBL in H2'22.
- At the end of June, the personal loans business had receivables of £42m (H1'21: £16m) and total customer numbers of 24k (H1'21: 16k).

Provident Financial plc has appointed Shore Capital as joint corporate broker with immediate effect, working alongside Barclays Bank plc and Numis Securities.

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[1] *Central costs increased during the period to £31.0m (H1'21: £9.1m), owing to an increased level of cost being recognised centrally, including the centralisation of certain costs from the businesses, certain residual CCD costs and investment in the Group's transformation capabilities towards its target operating model. These investments are expected to drive significant improvements in cost efficiency in the future.*

[2] *Adjusted continuing profit before tax is stated before amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014; exceptional items and any losses incurred relating to CCD.*

[3] *Adjusted basic EPS from continuing operations is defined as profit after tax stated before amortisation of acquisition intangibles; exceptional items and any losses incurred relating to CCD. Basic EPS from continuing operations is defined as profit after tax before any losses incurred relating to CCD.*

[4] *Return on average required regulatory capital (RORE) reflects adjusted 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 PFG. All statements other than statements of historical fact included in this document may be forward looking statements. Forward looking statements also often use words such as "believe", "expect", "estimate", "intend", "anticipate" and words of a similar meaning. By their nature, forward looking statements involve risk and uncertainty that could cause actual results to differ from those suggested by them. Much of the risk and uncertainty relates to factors that are beyond 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. 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 announcement is intended as a profit forecast or estimate for any period. No statement in this announcement should be interpreted to indicate a particular level of profit and, as a consequence, it should not be possible to derive a profit figure for any future period from this report.

INTERIM REPORT

Chief Executive Officer's review

Introduction

The Group continued to execute well against its strategy during the first six months of the year, despite the challenging macroeconomic backdrop and is now fully repositioned in the lower risk mid-cost and near-prime segments of the credit market. It is focused on delivering sustainable growth and returns to shareholders. The lower risk profile of the customer base in the mid-cost segment is expected to result in lower impairment and delinquency trends over the medium-term and the Group's disciplined approach to costs will increase our capacity to invest in our core capabilities to support growth as market conditions improve. Our clear strategy continues to be underpinned by strong capital and liquidity positions and our capital management framework.

During H1'22, credit card spend per active customer was maintained at pre-pandemic levels, however, utilisation rates are yet to recover fully. Within the vehicle finance business, the near-prime product continued to see strong customer demand, exceeding management's expectations. The pilot phase for the personal loans business offering concluded at the end of June. Vanquis Bank Loans exceeded expectations throughout its open market pilot phase and received strong demand from customers. Sunflower Loans performed less consistently and experienced lower engagement from customers on the Open Banking journey. Consistent with the strategic repositioning of the Group, the personal loans business will focus on the loans offering with APRs below 50% under the single brand of Vanquis Bank.

Group financials

For the first six months of the year, the Group reported an adjusted continuing profit before tax of £54.3m (H1'21 PBT: £63.5m) driven by year-on-year receivables growth and lower impairment trends partially offset by higher central costs. The Group reported a statutory profit of £37.3m for the period (H1'21 loss before tax: £44.2m).

Central costs increased during the period to £31.0m (H1'21: £9.1m), owing to an increased level of cost being recognised centrally, including the centralisation of certain costs from the businesses, certain residual CCD costs and investment in the Group's transformation capabilities to its target operating model. These investments are expected to drive significant improvements in cost efficiency in the future.

Group receivables ended the period at £1,675m (H1'21: £1,637m) split between credit cards of £1,035m (H1'21: £978m), vehicle finance of £598m (H1'21: £602m) and unsecured personal loans of £42m (H1'21: £16m). CCD receivables stood at £nil (H1'21: £42m) at the end of June following its wind-down.

The Group's balance sheet remains well capitalised to execute the Group's strategy. At the end of June, the Group held total regulatory capital of approximately £660m (H1'21: £585m), had a total capital ratio of 39.2% (H1'21: 32.5%) and a surplus above the minimum regulatory requirement of approximately £310m (H1'21: £210m).

Governance changes

In January, PFG announced the next phase of its strategy to reinforce its position as a leading specialist bank with a focus on underserved markets. PFG took the decision to restructure the Board of Vanquis Bank to substantially align its membership with the Board of PFG. This is an important step in the execution of the Group's specialist banking group strategy, which includes the wider use of retail deposit funding across the Group, subject to PRA approval. PFG believes that streamlining the Boards of the two legal entities will create a simpler, more efficient Group governance structure, whilst enhancing both PFG and Vanquis Bank's corporate governance.

Product and Customer Strategy

For the remainder of 2022 and beyond, the Group will continue to work on a number of initiatives designed to grow the loan book, provide additional services for customers and to diversify and strengthen its product offering. The Group's customer insights continue to improve, allowing PFG to tailor products and services more closely. This will also enable PFG to target its marketing spend more effectively, to launch tailored new products and help customers to build a better financial future.

From a product perspective, the credit card business has already introduced new APR price points and limit options for customers. This is designed to ensure that customers can be offered the most appropriate rate for them whilst also serving to make the business more competitive on price. It has also launched an updated Balance Transfer offering. As the credit market re-establishes itself, and recovers post-Covid, the business will look to optimise how it funnels new business and drive 'front of wallet' behaviour for its customers.

The vehicle finance business will continue to seek new partnership agreements in the UK, which should have the potential to drive meaningful new business levels over time. It will continue to assess new asset classes and product extensions and to improve overall customer retention efforts.
The personal loans business, which is still in its relative infancy, will continue to broaden its 'Open Market' proposition and distribution reach through its brand new IT platform, 'Gateway' and target growth of lending share with existing customers.

Environmental, Social and Governance (ESG)

PFG continued to support its communities and invest in their development during the period. It initiated a new strategy that will aim to support children and young people from low income backgrounds by providing them with access to education, social and financial inclusion and economic development opportunities. This will involve the ongoing support for its UK-wide partnerships, e.g. National Numeracy, the National Literacy Trust and School-Home Support, to help children and young people in disadvantaged communities to develop literacy, numeracy and employability skills. In the areas of the country where PFG has its largest presence and colleagues, namely in Bradford, Chatham, London and Petersfield, it continued to support local organisation to address a range of social and financial inclusions issues at a local level. In June 2022, PFG established two new partnerships to provide funding and support to families who need financial assistance with the cost of school uniforms. In addition, PFG has worked with an existing partner – IncomeMax – to develop a digital self-guided tool which signposts customers to money advice and support.

Outlook

The macroeconomic outlook for the UK remains challenging, with the impact on growth and household finances uncertain. However, we expect that PFG's strong focus on risk and credit quality management, together with its robust capital position, will enable it to deliver focussed and sustainable loan book growth in growing addressable markets with product-based initiatives.

For the second half of 2022, we expect consistent impairment trends reflecting the repositioning of our loan books towards lower risk customers and anticipate an ongoing reduction in expected credit loss provisions. The Group will continue to invest in its platform and its people to create greater operating leverage, and to further improve the customer experience, with total costs in the second half of the year expected to remain flat versus the first six months of 2022. For 2023, we expect our total cost base to reduce, reflecting investments made to date. In addition, one-off investments in Group capabilities will continue during 2023, albeit at a lower level than 2022, before reducing significantly consistent with our target cost to income ratio target of 40% from the end of 2024 onwards.

In addition, the Group is in discussions with regulators regarding its future capital requirements following the wind-down of the higher-risk CCD business. This capital clarity will further support the Group's capital management framework which includes organic and selective inorganic growth opportunities and shareholder distributions. As the macroeconomic environment stabilises, and when PFG has greater clarity as to its future capital requirements, the Group intends to hold a Capital Markets Day to update the market on its financial targets, customer vision and growth strategy.

Malcolm Le May
Chief Executive Officer
26 July 2022

Financial Review

Group performance

The Group's 2022 interim results can be summarised as follows:

	Six months ended 30 June	
	2022	2021
Continuing operations:	£m	£m
Adjusted profit before tax:		
– Credit cards	75.8	57.0
– Vehicle finance	20.2	15.5
– Personal loans	(10.7)	0.1
– Central costs[1]	(31.0)	(9.1)
Adjusted continuing profit before tax[2]	**54.3**	**63.5**
Amortisation of acquisition intangibles	(3.7)	(3.7)
Exceptional items – continuing operations	(3.7)	(2.1)
Statutory continuing profit before tax	**46.9**	**57.7**
Loss for discontinued operations	(9.6)	(101.9)
Statutory profit/(loss) before tax	**37.3**	**(44.2)**
Adjusted basic EPS from continuing operations[3] (p)	15.4	26.7
Basic EPS from continuing operations[3] (p)	12.7	24.8
Annualised RORE[4]	18.0%	30.9%

1 *Central costs increased during the period to £31.0m (H1'21: £9.1m), owing to an increased level of cost being recognised centrally, including the centralisation of certain costs from the businesses, certain residual CCD costs and investment in the Group's transformation capabilities towards its target operating model. These investments are expected to drive significant improvements in cost efficiency in the future.*

2 *Adjusted continuing profit before tax is stated before amortisation of acquisition intangibles; exceptional items and any losses incurred relating to CCD.*

3 *Adjusted basic EPS from continuing operations is defined as profit after tax stated before amortisation of acquisition intangibles; exceptional items and any losses incurred relating to CCD. Basic EPS from continuing operations is defined as profit after tax before any losses incurred relating to CCD.*

4 *Return on average required regulatory capital (RORE) reflects adjusted 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 continuing PBT of £54.3m for the period. Including exceptional items and discontinued operations relating to CCD, the Group reported a statutory profit before tax of £37.3m (H1'21 LBT: (£44.2m) for the first six months of the year. The improvement year-on-year is driven by receivables growth year-on-year, lower impairment and lower discontinued and exceptional items.

The Group's credit card business reported a PBT for the period of £75.8m (H1'21: £57.0m) and receivables ended the period at £1,035m (H1'21: £978m).

The Group's vehicle finance business generated an PBT of £20.2m (H1'21: £15.5m) and receivables ended the period at £598m (H1'21 : £602m).

The Group's personal loan business reported a loss before tax of £10.7m (H1'21 PBT: £0.1m) as the business continues to grow quickly as it establishes itself and as it continues to invest in its IT capabilities.

The Group reported basic earnings per share of 8.6p for the period vs. a basic loss per share of (19.6p) in H1'21. This reflects the profitable position of the Group on a statutory basis. On an adjusted basis, the Group reported an earnings per share of 10.0p vs. a loss per share of (3.1p) in H1'21.

Impairment provisioning

The Group is a leading specialist banking group focused on underserved markets. 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 offering similar products.

The Group's coverage ratio has increased marginally in the period from 26.8% to 27.3%:

	June-22	December-21	Change
Credit cards	24.4%	25.0%	0.6%
Vehicle finance	32.6%	30.4%	(2.2%)
Personal loans	13.1%	16.8%	3.7%
Group	**27.3%**	**26.8%**	**(0.5%)**

The coverage ratio for credit cards has decreased by 0.6% from December 2021 to 24.4%, reflecting the continued release of provisions recognised at the onset of Covid-19 that are no longer required, and the continued application of more stringent credit lending criteria in light of the current macro-economic outlook.

The vehicle finance coverage ratio increased by 2.2% to 32.6% reflecting increased Stage 3 provisions due to an absence of debt sale activity. This is expected to fall when debt sales resume.

Personal loans coverage ratio has reduced from 16.8% to 13.1% due to stronger new business volumes in open market lending, which is more weighted to lower risk customers and hence requires a lower level of provision.

Macroeconomic environment

Macroeconomic provisions are recognised to reflect an increased probability of default (PD) based on future macroeconomic scenarios.

These provisions reflect the potential for future changes in hazard rate, defined as the number of people who were employed last month but who are unemployed the following month (derived from unemployment rates), and the debt to income ratio.

The provision reflects the potential for future changes under a range of forecasts, as analysis has evidenced strong correlation between hazard rates, debt to income ratios, and credit losses incurred.

The scenario five year peak and average unemployment assumptions are set out on page 21.

There is a risk that the UK economy enters into a period of stagflation, where the UK unemployment rate increases to a level which is much higher than current forecasts, and, at the same time, the UK Inflation Rate remains elevated. Previous analysis of the influence of macroeconomic indicators on credit performance has shown that inflation alone, whilst having some effect on credit performance, is unlikely to trigger significant increases in default. This is borne out by data from previous economic cycles, where the correlation between inflation and increasing default rates has been relatively low.

At year end a provision of £7.8m was recognised in credit cards for cost of living (note 9) in light of rising inflation and higher energy costs potentially impacting customers' ability to make repayments. The outlook remains uncertain, with high inflation driven through volatile energy prices exacerbated by the war in Ukraine yet unemployment levels remaining low and stable. The impact on customers of the increased cost of living is being monitored closely and currently there are no early warning indicators suggesting any deterioration in credit risk. However, based on the current economic situation, and reflecting the Group's proactive approach to risk management and is appropriately supported by modelling analytics, management has determined the cost of living provision be increased to £10m in credit cards and £0.5m in vehicle finance. This will be closely monitored through the second half of the year.

Credit cards

	Six months ended 30 June		
	2022 £m	2021 £m	*Change*
Customer numbers ('000)	1,541	1,537	0.2%
Period-end receivables	1,035	978	5.9%
Average receivables[1]	1,028	987	4.1%
Revenue	**190.4**	**192.4**	**(1.0%)**
Interest	(9.1)	(14.0)	35.0%
Net interest margin	**181.3**	**178.4**	**1.6%**
Impairment	**(18.1)**	(29.0)	37.6%
Risk-adjusted net interest margin	**163.2**	**149.4**	**9.2%**
Costs	(87.4)	(92.4)	5.4%
Profit before tax	**75.8**	**57.0**	**33.0%**
Annualised revenue yield[2]	37.1%	39.0%	(1.9%)
Annualised impairment rate[3]	(3.5%)	(5.8%)	2.3%
Annualised return on equity[4]	29.2%	29.0%	0.2%

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 *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 is a leading specialist in the large and established credit card market in the UK. The business reported a PBT of £75.8m in H1'22, up from £57.0m in H1'21. This reflects a continuation of a more favourable impairment performance, as seen throughout 2021, new customer bookings, and spend per active customer levels staying in-line with 2019 levels. Receivables at the end of the first half stood at £1,035m (H1'21: £978m), with the increase being driven by new customer bookings and spend levels being maintained year-on-year.

New account bookings for the first half were 105k, an increase of 12% from 93k in H1'21. The increase in new customer bookings year-on-year does not reflect any loosening of underwriting standards. In fact, underwriting standards have been progressively tightened throughout 2021 and higher risk scorebands were switched off. The increase in new customer bookings reflects strong underlying demand in the near-prime segment, the highly successful 'Walk Tall' branding campaign and distribution channel initiatives. Customer numbers ended the period at 1,541k (H1'21: 1,537k) reflecting the previously mentioned better performance in new customer bookings and lower charge-off activity.

Net receivables ended the period at £1,035m (H1'21: £978m), with the year-on-year increase being driven by higher customer acquisition volumes, card expenditure increasing slightly year-on-year and the Credit Line Increase programme. Card spend per active customer remained in-line with pre-pandemic levels throughout the first six months of the year. However, overall credit card spend levels are below pre-pandemic levels owing to lower customer numbers.

Revenue of £190.4m in the first half was marginally lower year-on-year (H1'21: £192.4m) driven by higher average receivables year-on-year offset by a reduction in the revenue yield to 37.1% (H1'21: 39.0%). The annualised revenue yield reflected the ongoing reduction in non-interest income associated with the cessation of ROP and changes to default charges.

The impairment charge for the period was £18.1m, an improvement compared to H1'21 of £29.0m, which reflects the ongoing release of provisions. Delinquency rates remained broadly stable during the period, despite the uncertain backdrop, reflecting the focus on lower risk customers in recent years. The lower impairment charge equates to an annualised impairment rate at the end of June of 3.5% vs. 5.8% for H1'21.

The risk-adjusted net interest margin increased to 31.8% in June 2022 vs. 30.3% in June 2021 reflecting the materially lower impairment charge during the period and broadly stable revenue.

First half costs reduced by £5.0m to £87.4m (H1'21: £92.4m), reflecting lower salary costs, run-rate cost saves and other cost challenge initiatives. Interest costs showed a year-on-year reduction to £9.1m (H1'21: £14.0m) during H1'22 driven by the inclusion of TFSME (as defined later in the document) funding for the first time. The net funding rate for Vanquis fell from 2.8% in H1'21 to 1.8% in H1'22, despite the BOE interest rate rises.

During the first six months of the year, the credit card business launched: three new APR price points; new limit offers; and improved its Balance Transfer offering. For the remainder of 2022, the credit card business will continue to focus on its product and service offering to customers including the ongoing optimisation of its new business channels, a graduation of high-quality dormant and low utilised accounts to a prime offering and continuing to improve its Credit Line Increase programme.

Vehicle finance

	Six months ended 30 June		
	2022 £m	2021 £m	*Change*
Customer numbers ('000)	95	94	*1.1%*
Period-end receivables	598	602	*(0.5%)*
Average receivables[1]	593	588	*0.9%*
Revenue	**70.4**	**68.8**	***2.3%***
Interest	(11.6)	(14.1)	*17.7%*
Net interest margin	**58.8**	**54.7**	***7.5%***
Impairment	(17.8)	(20.0)	*11.0%*
Risk-adjusted net interest margin	**41.0**	**34.7**	***18.2%***
Costs	(20.8)	(19.2)	*(8.3%)*
Profit before tax	**20.2**	**15.5**	***30.3%***
Annualised revenue yield[2]	23.8%	23.4%	*0.4%*
Annualised impairment rate[3]	(6.0%)	(6.8%)	*0.8%*
Annualised return on assets[4]	8.7%	8.2%	*0.5%*

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 *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 is one of the leading suppliers of vehicle finance near-prime and mid-cost customers in the UK. For the first six months of the year, it generated a PBT of £20.2m (H1'21: £15.5m), with the increase driven by growth in average receivables, enabling higher revenue generation, and a reduction in impairment and interest costs year-on-year.

The vehicle finance business, consistent with the rest of the Group, continued to focus on lower risk customers during the period. In early 2021, it launched a near-prime product which now accounts for approximately 20% of new business volumes. The business ended the period with 95k customers (H1'21: 94k). At the end of June, receivables stood at £598m vs. £602m in H1'21 driven by new business volumes of 19k (H1'21: 20k) and credit issued of approximately £155m (H1'21: £150m) offset by early settlement activity.

As a result of the higher average receivables base, revenues during H1'22 increased by 2.3% to £70.4m (H1'21: £68.8m). The annualised revenue yield at the end of June was 23.8% vs. 23.4% in June 2021.

Impairment reduced by 11% during the period to £17.8m (H1'21: £20.0m) as favourable delinquency trends continued. As a result, the annualised impairment rate decreased from 6.8% in June 2021 to 6.0%. The marginally higher revenue yield seen during the period combined with the reduction in the impairment rate resulting in the risk-adjusted net interest margin increasing to 13.8% the end of June vs. 11.8% a year earlier.

Costs and expenses increased marginally to £20.8m, from £19.2m last year, reflecting continued investment in the business' platform and core capabilities. Interest costs were lower year-on-year at £11.6m (H1'21: £14.1m) reflecting lower funding costs being offset by higher average receivables.

The vehicle finance business will continue to seek new partnership agreements in the UK, which should have the potential to drive meaningful new business levels over time. It will continue to assess new asset classes and product extensions and to improve overall customer retention efforts.

Personal loans

	Six months ended 30 June		
	2022 £m	2021 £m	*Change*
Customer numbers ('000)	24	16	*50.0%*
Period-end receivables	42	16	*162.5%*
Average receivables[1]	34	17	*100.0%*
Revenue	**5.4**	**3.2**	***68.8%***
Interest	(0.5)	(0.2)	*(150.0%)*
Net interest margin	**4.9**	**3.0**	***63.3%***
Impairment	(2.6)	(1.8)	*(44.4%)*
Risk-adjusted net interest margin	**2.3**	**1.2**	***91.7%***
Costs	(13.0)	(1.1)	-
Profit before tax	**(10.7)**	**0.1**	**-**
Annualised revenue yield[2]	31.5%	38.0%	*(6.5%)*
Annualised impairment rate[3]	(15.2%)	(21.4%)	*6.2%*

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.

During 2021, PFG established a personal loans business, which included Vanquis Loans and Sunflower Loans, to diversify its product offering to new and existing customers. Its products are positioned within the near-prime and mid-cost credit segment of the market, and initially offered loans of between £1k - £5k over one to four years. In Q4'21, the business launched two pilot phases for its loan offerings which concluded at the end of June 2022.

The Vanquis Bank Open Market Loans pilot significantly exceeded internal expectations and saw consistently strong demand from its target customer segment with good conversion rates. The Sunflower Loans pilot phase using Open Banking ended its pilot phase below commercial expectations despite good brand recognition of nearly 60% among applicants. As a result, the personal loans business will focus on developing its core offering around Vanquis Bank Loans (VBL) at sub-50% APR using. This offering will be supported by the Group's new IT platform, 'Gateway', and work will commence to transition VBL in 2023.

New business volumes during H1'22 were 10k, versus 4k in H1'21, as the business continued with its push towards its Open Market pilot schemes. As a result of these new customer bookings, the personal loans businesses ended the period with 24k customers versus 16k at the end of H1'21. At the end of June, receivables stood at £42m versus £16m at the end of H1'21, driven by new business volumes increasing year-on-year.
The personal loans business generated revenue of £5.4m during H1'22 (H1'21: £3.2m) as a result of higher average receivables year-on-year. The revenue yield for the period was 31.5% versus 38.0% in H1'21 as the business focused its activities on lower APR products within Vanquis Bank Loans.

The impairment charge for H1'22 increased to £2.6m, from £1.8m in H1'21, reflecting the growth in customers and receivables year-on-year. This equated to an annualised impairment rate for the period of 15.2% (H1'21: 21.4%) and a risk-adjusted net interest margin of 13.4% versus 14.2% for H1'21.

Interest costs for the year were increased to £0.5m, versus £0.2m in H1’21, equating to an interest margin of 2.9% versus 2.4% in H1’21. Costs increased during the course of the period to £13.0m (H1’21: £1.1m) reflecting higher new business volumes and the continued investment in the new IT infrastructure.

For the remainder of 2022, the personal loans business will continue to broaden its Open Market offering, optimise existing customer lending, maintain its focus on growing lending to existing credit card customers and pursue opportunities to broaden the product offering.

Central costs

Central costs increased during the period to £31.0m (H1’21: £9.1m), owing to an increased level of cost being recognised centrally, including the centralisation of certain costs from the businesses, certain residual CCD costs and investment in the Group’s transformation capabilities towards its target operating model. These investments are expected to drive significant improvements in cost efficiency in the future.

Exceptional items

Exceptional costs in the first half of 2022 of £3.7m relate to corporate costs incurred centrally.

Exceptional costs in the first half of 2021 of £2.1m related to CCD closure costs including the curtailment credit of £0.8m on the pension scheme.

Exceptional costs for discontinued operations in the first half of 2022 relate to the release of the provision for the FCA investigation into CCD, resulting in a £4.1m credit. Exceptional costs in the first half of 2021 of £44.2m in relation to discontinued operations were in relation to closure activity of £34.2m including redundancy costs, costs in relation to the Scheme of arrangement (£5m) and cost in relation to the CCD enforcement where a provision of £5.0m was recognised.

Tax

The tax charge (2021: credit) for the period on profit before tax, amortisation of acquisition intangibles and exceptional items is £15.7m (2021: tax credit £4.2m). The tax charge (2021: credit) reflects:

- the adverse impact of the bank corporation tax surcharge of 8% which applies to Vanquis Bank’s profits in excess of £25m;
- in the current period, the adverse impact of revaluing deferred tax assets in Vanquis Bank at the combined mainstream corporation tax and bank surcharge rates of 28% (2021:33%) to the extent the underlying temporary differences are expected to reverse after 1 April 2023, following the changes to bank corporation tax surcharge enacted in Finance Act 2022;
- in 2021, the beneficial impact of measuring deferred tax balances at 25% (2020: 19%) and in the case of Vanquis Bank at 33% (2020: 27%) to the extent the underlying temporary differences were expected to reverse after 1 April 2023, 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;
- in 2021, the expected benefit of recognising the costs of the Scheme of Arrangement as part of continuing operations.

Dividends

The Board is proposing an interim dividend of 5.0p with respect to H1’22 (H1’21: £nil), consistent with its capital management framework of aiming to provide attractive and sustainable returns to its shareholders. Shareholders on the register as at 12 August 2022 will be eligible and it will be paid on the 22 September 2022.

Funding and Capital

The Group has strong capital and liquidity positions comprising:

- Total regulatory capital of approximately £660m, equating to a total capital ratio of 39.2% and a surplus above the minimum regulatory requirement of £310m.

- Headroom on committed facilities and surplus cash and liquid resources available to the non-bank Group amounting to approximately £230m (£145m of which has been placed on deposit with Vanquis Bank). Inclusive of the £145m deposit, Vanquis Bank is holding approximately £330m of liquid resources above Group Liquidity Coverage Ratio requirements and has ongoing access to the retail deposits market.

The Group has in place a Capital Principal Risk Policy, which sets out the framework in which the Group aims to maintain a secure funding and capital structure and establishes defined capital risk appetite. Adherence to the policy ensures that the Group maintains minimum capital levels and that the capital held at business division levels is adequate to support the businesses' underlying requirements and is sufficient to support growth in that business. Internal capital is allocated to business lines and risk categories, calibrated to maximise return on equity while remaining within the risk appetite. The distribution of dividends is aligned with the Group's growth targets, whilst continuing to meet the required capital levels in line with regulatory requirements and internal risk appetite.

At 30 June 2022, the Group's CET1 ratio was 27.3% (H1'21: 32.5%) and the Total Capital Ratio was 39.2% (H1'21: 32.5%). CET1 has decreased from £507m to £459m during 2022 and total capital decreased from £707m to £659m. The continuing operations of the Group are CET1 generative in 2022. The regulatory capital headroom above the minimum regulatory requirement of 20.8% was £309m at the end of the period. The decrease in headroom from £344m at 31 December 2021 (versus the minimum regulatory requirement) predominantly reflects the scheduled further unwind of the IFRS 9 transitional relief in regulatory capital (£54m). This was partly offset by (i) the underlying profit excluding discontinued operations; and (ii) smaller risk weighted exposures in respect of customer receivables.

As previously reported, the Group has elected to phase in the impact of adopting IFRS 9 over the five-year period ending 31 December 2022, by applying add back factors of 95%, 85%, 70%, 50% and 25% for years one to five, respectively, to the initial IFRS 9 transition adjustment. This is in addition to any subsequent increase in expected credit losses (ECL) in the non-credit-impaired book from transition to the end of the reporting period. The 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 (FY'20: 100%, 2021: 100%, 2022: 75%, 2023: 50%, 2024: 25%). The impact of the IFRS 9 transitional arrangements on CET1 as at 30 June 2022 was £54m.

In 2022, the Group has continued to deliver on a number of its funding objectives: (i) in line with the Group's strategy to reduce its reliance on Revolving Credit Facilities (RCF) as a source of funds the Group took the decision to repay the RCF early on 30 March 2022 (the Group does not require the funding and did not plan to renew the facility on maturity); (ii) the Group has applied for a Core UK Group waiver to allow the use of retail deposits held at Vanquis Bank to fund other parts of the Group and the PRA (Prudential Regulation Authority) has confirmed that it has no further questions and that the application has been submitted to their approval governance committee; (iii) the £70m loan from Vanquis Bank to Provident Financial plc has been repaid early on 30 June; (iv) Vanquis Bank has extended a £70m loan to Moneybarn under the existing Large Exposure Limit on 30 June (that is not waiver dependent); and (v) the Group has placed non-bank surplus funds on deposit with the Bank of England via Vanquis Bank.

At 30 June 2022, Vanquis Bank had retail deposit funding of £0.9bn, down from £1.1bn a year earlier, reflecting a more normalised funding level relative to lending and access to alternative funding through Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME).

Headroom on committed facilities (£50m) and surplus cash and liquid resources (£180m) amounted to approximately £230m. Headroom on committed facilities consists of undrawn amounts on the warehouse facility (£50m). Of the surplus cash, £145m has been placed on callable deposit with Vanquis Bank. The Group has no contractual wholesale maturities until H2'23, representing a robust and diverse funding profile.

The Group continues to adopt a prudent approach to managing its funding and liquidity resources within risk appetite and will continue to optimise these resources when new opportunities become available to the Group.

The Group applies a Capital Management Policy that requires subsidiaries, including Vanquis Bank, to maintain sufficient capital to meet regulatory requirements, manage for 12 months growth and investment whilst maintaining a management buffer. Thereafter and where applicable Vanquis Bank is required to distribute a dividend to the Group. Vanquis Bank paid a dividend to the Group of £69m on 30 June 2022.

The PRA has confirmed that it will conduct a capital adequacy review (C-SREP) of the Group and Bank in H2'22.

Principal Risks and Uncertainties

Our principal risks are those which are most critical to the alignment of our Group Strategy. Principal risk categories and associated risk appetite statements are reviewed and approved by the Board on an annual basis.

Capital risk
This is defined as the risk that the Group is unable to maintain appropriate, minimum regulatory capital or an internal management buffer to cover risk exposures and withstand a severe stress as defined in its risk appetite and in the ICAAP. The Group and Bank operate within a defined capital risk appetite, with thresholds reported to and monitored by Group Boards. Additional metrics and thresholds have been developed for the Group and Vanquis Bank. All thresholds have been calibrated above the Recovery & Resolution Plan ("RRP") triggers in order to provide advance warning of threshold breaches.

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

Credit risk
This is defined as the risk of loss arising from lending to a borrower who is unwilling or unable to repay, in full and/or in accordance with agreed terms, the total amount payable for the loan. Credit Risk appetite has been refreshed with metrics and thresholds grouped by product lines to enable more focused monitoring and management action to remain within appetite on a timely basis. Regular reporting is in place which allows daily monitoring of new business quality, collections performance and concentration analysis. Extensive work has been undertaken to enhance credit worthiness and affordability procedures.

Strategic risk
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. In January 2022 the Group created an aligned board structure across PFG and Vanquis Bank designed to make it more efficient and provide better, more coordinated customer service. 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.

Legal and Governance Risk
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 legal and governance requirements as a result of ineffective arrangements, process and controls. The Group operates in a highly regulated environment and in a sector where its customers are more vulnerable and need careful management. At all levels, the Group has worked hard to build and maintain positive relationships with our key regulators. Any regulatory actions are managed and monitored closely to ensure these are delivered fully and within the spirit of any feedback received.

Operational Risk
This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The three lines of defence model throughout the Group ensures there are clear lines of accountability between management who own the risks, oversight by the risk function and independent assurance provided by Internal Audit.

Model risk
This is defined as the risk of loss as a consequence of decisions that are based on incorrect or misused model outputs and poor governance or errors in the development, implementation, or use of models. A Group model risk management framework and model risk policy is embedded with a model inventory in place to ensure periodic review and strict change control. Critical IFRS9 models across the Group have been independently validated by the Model Risk team within the Group Risk Function.

Financial Crime risk

This is defined as the risk that the Group's products and services are used to facilitate financial crime against the Group, customers or third parties. The Group operate a strong and risk-proportionate set of systems and controls to detect and prevent financial crime. The Group is committed to complying with applicable legislation for the management of Financial Crime Risk, with all Divisions ensuring that they meet the minimum requirements and expectations of the regulatory bodies and those set by legislation, relevant to that Division, for managing Financial Crime Risk effectively.

Market risk

This is defined as the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities. The Group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

Climate risk

This is defined as the physical risk of the impacts of climate change and the business risk posed to the Group and its counterparties related to non-compliance costs and financial loss associated with the process of adjusting to a low‑carbon economy. The Group continues to develop an approach to Climate risk management through the Climate Risk Committee and risk management activities to identify the physical and transition climate related risks that have implications for the Group's business model and stakeholders.

Conduct and Regulatory risk

Conduct Risk is defined as the risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could lead to unfair customer outcomes or regulatory censure. Regulatory Risk is defined as the risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with laws or regulations (including handbooks, codes of conduct, statutory and regulatory guidance). Conduct and Regulatory risk remains a key focus for the Group with detailed risk appetite statements, metrics and thresholds in place in relation to the fair treatment and management of our customers. Conduct Risk frameworks and governance have been enhanced which clearly identify intended customer outcomes and the associated monitoring, testing, data sources and management information required.

People Risk

This is defined as the failure to maintain a properly engaged and skilled workforce who are aligned to our purpose and Group culture. In managing our people risk, we ensure we have adequate controls across the whole colleague life cycle covering the onboarding, development and management of our colleagues. This extends to ensuring we have sufficient operational capacity and colleagues with the right skills in meeting our financial, customer and regulatory responsibilities.

Technology and Information Security Risk

This is defined as the risk arising from compromised or inadequate technology, security and data that could affect the confidentiality, integrity or availability of the Group's data or systems. This risk is managed in conjunction with Operational risk with additional and particular focus on cyber and technology infrastructure. Extensive work within Vanquis under the First Line Controls Review programme is on track and there is sufficient oversight in place to ensure early detection of further potential delay.

Related party transactions

During the period, Provident Financial plc received dividend payments from Vanquis Bank, via Provident Financial Holdings Limited, amounting to £69m (H1'21: £65m).

In August 2020 Vanquis Bank provided Provident Financial plc with a £70m intercompany loan facility to allow upstream funding. On the 30th June 2022 Provident Financial plc repaid the loan early and Vanquis Bank extended a £70m loan to Moneybarn.

Unaudited condensed interim financial statements

Consolidated income statement

	Note	Six months ended 30 June 2022 £m	2021 £m
Interest income		240.1	233.5
Fee income		26.1	30.9
Total revenue	4	266.2	264.4
Finance costs		(23.9)	(25.1)
Net interest margin		242.3	239.3
Impairment charges	9	(38.5)	(50.8)
Risk-adjusted net interest margin		203.8	188.5
Operating costs		(156.9)	(130.8)
Profit before tax from continuing operations	4	46.9	57.7
Profit before tax, amortisation of acquisition intangibles and exceptional items	4	54.3	63.5
Amortisation of acquisition intangibles	4	(3.7)	(3.7)
Exceptional items	4	(3.7)	(2.1)
Tax (charge)/credit	6	(15.0)	5.3
Profit for the period from continuing operations		31.9	63.0
Loss after tax for the period from discontinued operations	5	(10.4)	(112.6)
Profit/(loss) for the period attributable to equity shareholders		21.5	(49.6)

Consolidated statement of comprehensive income

	Note	Six months ended 30 June 2022 £m	2021 £m
Profit/(loss) for the period attributable to equity shareholders		21.5	(49.6)
Items that will not be reclassified subsequently to the income statement:			
– actuarial movements on retirement benefit asset	10	(32.7)	10.7
– fair value movement in investments	11	-	0.5
– tax on items taken directly to other comprehensive income		6.2	(2.7)
– impact of change in UK tax rate on items in other comprehensive income		2.0	(5.1)
Other comprehensive (expense)/income for the period		(24.5)	3.4
Total comprehensive expense for the period		(3.0)	(46.2)

Earnings/(loss) per share

	Note	Six months ended 30 June 2022 pence	2021 pence
Basic	7	8.6	(19.6)
Diluted	7	8.5	(19.6)

The above earnings/(loss) per share is on a Group basis including discontinued operations

Dividends per share

	Note	Six months ended 30 June 2022 pence	2021 pence
Interim dividend	8	5.0	-
Paid in the period[1]	8	12.0	-

[1] Dividends paid in the period were £30.1m (2021: £nil).

Consolidated balance sheet

	Note	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m
ASSETS				
Cash and cash equivalents		559.5	717.7	485.8
Amounts receivable from customers	9	1,667.4	1,677.7	1,637.2
Trade and other receivables		25.5	18.8	37.4
Current tax asset		-	-	3.5
Investments held at fair value through profit and loss	11	8.8	9.1	9.7
Property, plant and equipment		8.2	8.4	12.9
Right of use assets		43.9	47.9	52.0
Goodwill		71.2	71.2	71.2
Other intangible assets		53.2	52.3	40.8
Retirement benefit asset	10	81.8	112.2	92.7
Derivative financial instruments		7.7	3.1	-
Deferred tax assets		6.4	6.9	26.7
TOTAL ASSETS	4	2,533.6	2,725.3	2,469.9
LIABILITIES AND EQUITY				
Liabilities				
Trade and other payables		65.1	95.6	106.2
Current tax liabilities		3.0	3.8	-
Provisions	13	58.4	72.1	65.6
Lease liabilities		54.1	58.9	64.9
Retail deposits		926.9	1,018.5	1,062.8
Bank and other borrowings		824.8	845.2	567.2
Derivative financial instruments		-	-	0.2
Total liabilities		1,932.3	2,094.1	1,866.9
Equity attributable to owners of the parent				
Share capital		52.6	52.6	52.6
Share premium		273.5	273.3	273.2
Merger reserves		278.2	278.2	278.2
Other reserves		11.4	9.8	14.8
Retained (deficit)/earnings		(14.4)	17.3	(15.8)
Total equity	4	601.3	631.2	603.0
TOTAL LIABILITIES AND EQUITY		2,533.6	2,725.3	2,469.9

Consolidated statement of changes in shareholders' equity

	Share capital	Share premium	Merger reserve	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
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 10)	-	-	-	-	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 and 1 July 2021	52.6	273.2	278.2	14.8	(15.8)	603.0
Profit for the period	-	-	-	-	17.5	17.5
Other comprehensive (expense)/income:						
- fair value movement in investments	-	-	-	(0.5)	-	(0.5)
- actuarial movements on retirement benefit asset (note 10)	-	-	-	-	16.4	16.4
- Fair value movements transferred to income statement	-	-	-	(5.2)	-	(5.2)
- tax on items taken directly to OCI	-	-	-	1.5	(2.6)	(1.1)
- impact of change in UK tax rate	-	-	-	0.3	(1.6)	(1.3)
Other comprehensive (expense)/income for the period	-	-	-	(3.9)	12.2	8.3
Total comprehensive(expense)/income for the period	-	-	-	(3.9)	29.7	25.8
Issue of share capital	-	0.1	-	-	-	0.1
Share-based payment charge	-	-	-	2.3	-	2.3
Transfer of share-based payment reserve	-	-	-	3.4	3.4	-
At 31 December 2021	52.6	273.3	278.2	9.8	17.3	631.2
At 1 January 2022	52.6	273.3	278.2	9.8	17.3	631.2
Profit for the period	-	-	-	-	21.5	21.5
Other comprehensive (expense)/income:						
- actuarial movements on retirement benefit asset (note 10)	-	-	-	-	(32.7)	(32.7)
- tax on items taken directly to OCI	-	-	-	-	6.2	6.2
- impact of change in UK tax rate	-	-	-	-	2.0	2.0
Other comprehensive expense for the period	-	-	-	-	(24.5)	(24.5)
Total comprehensive expense for the period	-	-	-	-	(3.0)	(3.0)
Increase in share premium	-	0.2	-	-	-	0.2
Share-based payment charge	-	-	-	3.0	-	3.0
Transfer of share-based payment reserve	-	-	-	(1.4)	1.4	-
Dividends	-	-	-	-	(30.1)	(30.1)
At 30 June 2022	52.6	273.5	278.2	11.4	(14.4)	601.3

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 Limited 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 2022 £m	2021 £m
Cash flows from operating activities			
Cash generated from operations	16	38.4	184.4
Finance costs paid		(21.3)	(36.1)
Tax paid		(7.9)	-
Net cash generated from operating activities		9.2	148.3
Cash flows from investing activities			
Purchase of intangible assets		(10.7)	(0.9)
Purchase of property, plant and equipment		(1.2)	(8.2)
Net cash used in investing activities		(11.9)	(9.1)
Cash flows from financing activities			
Proceeds from bank and other borrowings		66.7	143.9
Repayment of bank and other borrowings		(186.3)	(712.5)
Payment of lease liabilities		(4.8)	(4.7)
Dividends paid to company shareholders		(30.1)	-
Proceeds from issue of share capital		0.2	-
Net cash used in financing activities		(154.3)	(573.3)
Net decrease in cash, cash equivalents and overdrafts		(157.0)	(434.1)
Cash, cash equivalents and overdrafts at beginning of period		714.1	918.3
Cash, cash equivalents and overdrafts at end of period		557.1	484.2
Cash, cash equivalents and overdrafts at end of period comprise:			
Cash at bank and in hand		559.5	485.8
Overdrafts (held in bank and other borrowings)		(2.4)	(1.6)
Total cash, cash equivalents and overdrafts		557.1	484.2

Cash at bank and in hand includes £430.4m (2021: £279.3m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. As at 30 June 2022, £63.5m (2021: £86.3m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

Notes to the unaudited condensed interim financial statements

1. General information

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

The unaudited condensed interim financial statements do not constitute the statutory financial statements of the Group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2021 were approved by the board of directors on 6 April 2022 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 2022 have been reviewed, not audited, and were approved by the board of directors on 26 July 2022.

2. Basis of preparation

The unaudited condensed interim financial statements for the six months ended 30 June 2022 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the UK. The unaudited condensed interim financial statements should be read in conjunction with the statutory financial statements for the year ended 31 December 2021.

The interim financial statements have been prepared on a going concern basis under the historical cost convention.

In assessing whether the Group is a going concern, the directors have reviewed the Group's corporate plan as approved in December 2021, which includes capital and liquidity forecasts from 2022 to 2026. The assessment included consideration of the Group's principal risks and uncertainties, with a focus on capital and liquidity.

The directors have also reviewed the Group's stress testing projections which are based on a severe but plausible scenarios in which unemployment peaks at 12%. This shows that the Group is able to maintain sufficient capital headroom above minimum requirements. The directors have reviewed the Group's reverse stress testing projections to the point of non-viability, which concluded that the Group's viability only comes into question under an unprecedented macroeconomic scenario.

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 2021.

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 2021.

<u>Amounts receivable from customers</u>
As disclosed in the 2021 annual report and financial statements, the valuation of amounts receivable from customers remains a significant accounting judgement. Personal loans customer receivable balances are not regarded a critical estimation uncertainty due to the current size of the balances, however, follow a similar impairment approach to the credit cards.

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 repayment performance.

3. Accounting policies (continued)

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 credit cards, vehicle finance and personal loans is when there has been a significant increase in behavioural PD when compared to origination PD or when the contractual monthly payment is over 30 DPD (days passed due) or when customers are identified as vulnerable.

The determination of the SICR thresholds used in the models for credit card, vehicle finance and personal loans required management judgement to optimise the performance and therefore effectiveness of the staging methodology. Assessments are made to determine whether there is objective evidence of a SICR which indicates there has been an adverse effect on PD.

Default
For the purpose of IFRS 9, default is assumed in credit cards and personal loans when three contractual repayments have been missed.

In vehicle finance, a customer is deemed to have defaulted when they are 90 DPD in arrears or enter a forbearance arrangement. Customer agreements which have been terminated, either voluntarily, by the customer settling their agreement early, or through the agreement being default terminated, are also included within stage 3.

The Group's impairment models are subject to periodic monitoring, validation and back testing performed on model components, including probability of default, exposure at default and loss given default, to ensure model outputs remain appropriate.

The level of impairment recognised 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. The models are regularly tested to ensure they retain sufficient accuracy.

Limitations in the Group's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management makes appropriate adjustments to the Group's allowance for impairment losses to ensure that the overall provision adequately reflects all material credit risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays. Those changes applied to model inputs and parameters are deemed to be in-model overlays; more qualitative changes that have a higher degree of management judgement are deemed to be post -model overlays. All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated.

During Covid-19 in an economic environment which differed significantly from the historical economic conditions upon which the impairment models had been built, there was a greater need for management judgement to be applied in determining appropriate post-model adjustments. Following refinements to the models during 2021, a number of the post-model adjustments are now included as part of the core model calculations. A breakdown of the in-model and post-model overlays is included within note 9.

Macroeconomic impairment provision adjustments are now recognised in the core model to reflect an increased PD, based on future macroeconomic scenarios.

These provisions reflect the potential for future changes in hazard rate, the number of people who were employed last month but who are unemployed the following month (derived from unemployment rates), and the debt to income ratio. The provision reflects the potential for future changes under a range of forecasts, as analysis has clearly evidenced strong correlation between hazard rates, debt to income ratios and credit losses incurred.

Management judgement was required to determine the appropriate macroeconomic indicators to be used in the model by assessing their correlation with credit losses incurred by the business. Unemployment is judged to be a key macroeconomic indicator as analysis has clearly evidenced correlation between changes in unemployment and credit losses incurred by the business. This will continue to be analysed to assess if there are any additional macroeconomic indicators which also correlate to credit losses.

3. Accounting policies (continued)

Key sources of estimation uncertainty:
The level of impairment recognised 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. The models are regularly tested to ensure they retain sufficient accuracy. Sensitivity analysis has been performed in note 9 which shows the impact of a 1% movement of gross exposure into stage 2 from stage 1 on the allowance accounts.

The unemployment data used in the macroeconomic provisions 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. These estimates are used to derive base case, upside, downside and severe scenarios.

The table below shows the scenario five-year peak and average unemployment assumptions adopted and the weightings applied to each. The weightings have remained consistent with 31 December 2021 and 30 June 21.

Scenario as at 30 June 2022	**Base**	**Upside**	**Downside**	**Severe**
Weighting	50%	10%	35%	5%
2022	4.0%	3.8%	4.2%	4.5%
2023	4.2%	3.6%	5.8%	7.5%
2024	4.3%	3.9%	6.1%	8.0%
2025	4.3%	4.0%	5.3%	6.5%
2026	4.3%	4.0%	4.8%	5.4%
Five year peak	4.7%	4.7%	6.3%	8.5%

Scenario as at 31 December 2021	**Base**	**Upside**	**Downside**	**Severe**
Weighting	50%	10%	35%	5%
2022	4.6%	4.2%	5.4%	6.3%
2023	4.3%	3.9%	6.4%	8.5%
2024	4.3%	4.1%	5.9%	7.5%
2025	4.3%	4.1%	5.3%	6.2%
2026	4.3%	4.1%	4.9%	5.4%
Five year peak	4.8%	4.7%	6.5%	8.6%

Sensitivity analysis has been performed on the weightings which show that changing the weightings for vehicle finance and personal loans would not have a material impact on the allowance account.

For credit cards and personal loans, increasing the downside weighting by 5%, from 35% to 40%, and a corresponding reduction in the base case would increase the allowance account by £1.4m for credit cards and personal loans. Increasing the upside weighting by 5%, from 10% to 15%, and a corresponding reduction in the base case would decrease the allowance account by £0.3m.

The impact on the allowance account for the credit cards and personal loans, if each of the macroeconomic scenarios were applied at 100% weighting, rather than the weightings set out above, is shown below:

	Base	Upside	Downside	Severe
	£m	£m	£m	£m
Credit cards and personal loans	(4.0)	(9.9)	5.9	18.6

Cost of living post model provisions are recognised in credit cards (£10m) and vehicle finance (£0.5m) which reflect management's view of potential credit losses in light of the current economic environment. This will continue to be closely monitored throughout the remainder of the year.

3. Accounting policies (continued)

Key sources of estimation uncertainty:

Retirement benefit asset
The valuation of the retirement benefit asset is dependent upon a series of assumptions, the key assumptions being mortality rates and the discount rate applied to liabilities. The most significant assumption which could lead to material adjustment is a change in discount rates.

Discount rates are based on the market yields of high-quality corporate bonds which have terms closely linked with the estimated term of the retirement benefit obligation. Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the Group's own expected experience.

Sensitivity analysis of the Group's main assumptions is set out in note 10.

The impact of new standards adopted by the Group from 1 January 2022
There are no new standards adopted by the Group from 1 January 2022.

The impact of new standards not yet effective and not adopted by the Group from 1 January 2022
There are no new standards not yet effective and not adopted by the Group from 1 January 2022 which are expected to have a material impact on the Group

4. Segment reporting

	Revenue Six months ended 30 June		Profit/(loss) before tax Six months ended 30 June	
	2022	2021	2022	2021
	£m	£m	£m	£m
Credit cards	190.4	192.4	75.8	57.0
Vehicle finance	70.4	68.8	20.2	15.5
Personal loans	5.4	3.2	(10.7)	0.1
Central costs	-	-	(31.0)	(9.1)
Total Group before amortisation of acquisition intangibles and exceptional items	266.2	264.4	54.3	63.5
Amortisation of acquisition intangibles	-	-	(3.7)	(3.7)
Exceptional items	-	-	(3.7)	(2.1)
Total Group – continuing operations	266.2	264.4	46.9	57.7
CCD – discontinued operations	-	52.3	(13.7)	(57.7)
CCD – discontinued operations exceptional items	-	-	4.1	(44.2)
Total Group	266.2	316.7	37.3	(44.2)

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 2022 amounted to £3.7m (2021: £3.7m).

Exceptional costs for continuing operations in the first half of 2022 of £3.7m relate to corporate costs incurred centrally. Exceptional costs for continuing operations in the first half of 2021 of £2.1m related to CCD closure costs including curtailment credit of £0.8m on the pension scheme.

Exceptional costs for discontinued operations in the first half of 2022 relate to the release of the provision for the FCA investigation into CCD, resulting in a £4.1m credit. Exceptional costs in the first half of 2021 of £44.2m in relation to discontinued operations were in relation to closure activity of £34.2m including redundancy costs, costs in relation to the Scheme of arrangement (£5m) and cost in relation to the CCD enforcement where a provision of £5.0m was recognised.

4. Segment reporting (continued)

	Segment assets			Net assets/(liabilities)		
	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m
Credit cards and personal loans	1,623.5	1,639.1	1,389.0	372.4	374.5	310.7
Vehicle finance	714.1	698.3	653.5	169.7	105.8	31.9
Central	480.0	546.5	659.4	454.6	446.0	591.0
Continuing operations before intra-group elimination	2,817.6	2,883.9	2,701.9	996.7	926.3	933.6
Discontinued operations	-	0.3	58.6	(395.4)	(295.1)	(330.6)
Intra-group elimination	(284.0)	(158.9)	(290.6)	-	-	-
Total Group	2,533.6	2,725.3	2,469.9	601.3	631.2	603.0

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 operated in the UK and Republic of Ireland. Following the closure of the ROI home credit business in 2021, it now operates solely in the UK.

5. Discontinued operations

The Group closed CCD comprising Home Credit and Satsuma during 2021 and in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' these businesses are presented as discontinued operations.

The results from discontinued operations, which are included in the Group income statement, are set out below.

	30 June 2022 £m	30 June 2021 £m
Interest income	-	52.3
Finance costs	(6.2)	(6.1)
Net interest margin	(6.2)	46.2
Impairment	-	(38.5)
Risk-adjusted net interest margin	(6.2)	7.7
Operating costs:		
- other	(7.5)	(65.4)
- exceptional items	4.1	(44.2)
Loss before taxation	(9.6)	(101.9)
Tax charge	(0.8)	(10.7)
Loss from discontinued operations	(10.4)	(112.6)
Basic loss per share (p)	(4.1)	(44.4)
Diluted loss per share (p)	(4.1)	(44.4)

6. Tax charge

The tax charge (2021: charge) can be summarised as follows:

	Continuing operations				Discontinued operations		
	PBT	Exceptional items	Amortisation	Total	LBT	Exceptional items	Total
	£m	£m	£m	£m	£m	£m	£m
Six months ended 30 June 2022							
Profit/(loss) on ordinary activities before tax	54.3	(3.7)	(3.7)	46.9	(13.7)	4.1	(9.6)
Tax charge/(credit)	15.7	-	(0.7)	15.0	-	0.8	0.8
Six months ended 30 June 2021							
Profit/(loss) on ordinary activities before tax	63.5	(2.1)	(3.7)	57.7	(57.7)	(44.2)	(101.9)
Tax (credit)/charge	(4.2)	(0.4)	(0.7)	(5.3)	17.8	(7.1)	10.7

The tax charge on profit/(loss) before tax, amortisation of acquisition intangibles and exceptional items from continuing and discontinued operations 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;
- 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 (a) in 2021, 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 mainstream corporation tax rate from 1 April 2023 announced in the March 2021 Budget; and (b) in 2022, the revaluations of deferred tax balances in Vanquis Bank at 31 December 2021 due to the changes in the bank corporation tax surcharge introduced in Finance Act 2022 which are attributable to the first half of the financial year, and which with effect from 1 April 2023 (a) increase the surcharge threshold from £25m to £100m; and (b) decrease the rate of surcharge from 8% to 3%.

This gives a tax charge for the period on profit before tax, amortisation of acquisition intangibles and exceptional items from continuing operations of £15.7m (2021: tax credit £4.2m). The tax charge (2021: credit) reflects:

- the adverse impact of the bank corporation tax surcharge of 8% which applies to Vanquis Bank's profits in excess of £25m;
- in the current period, the adverse impact of revaluing deferred tax assets in Vanquis Bank at the combined mainstream corporation tax and bank surcharge rates of 28% (2021:33%) to the extent the underlying temporary differences are expected to reverse after 1 April 2023, following the changes to bank corporation tax surcharge enacted in Finance Act 2022;
- in 2021, the beneficial impact of measuring deferred tax balances at 25% (2020: 19%) and in the case of Vanquis Bank at 33% (2020: 27%) to the extent the underlying temporary differences were expected to reverse after 1 April 2023, 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;
- in 2021, the expected benefit of recognising the costs of the Scheme of Arrangement as part of continuing operations.

The H1-22 tax charge (2021: charge) on the loss (2021; loss) before tax and exceptional items from discontinued operations amounts to £nil (2021: £17.8m) and reflects:

- in the current period, the fact that the loss relates to costs incurred after discontinued operations have ceased to trade and may not therefore be tax deductible;
- in 2021, the adverse impact of the write off of deferred tax assets in CCD amounting to £14.8m in respect of losses carried forward and other temporary differences for which it was considered tax relief was unlikely to be available following the announcement of the closure of the business;

6. Tax charge (continued)

- in 2021, the adverse impact of losses of CCD's branch in the Republic of Ireland for which no tax relief was available; and
- in 2021, the expected adverse impact of the effective release of the complaints provision in CCD following the announcement of the Scheme of Arrangement.

The tax charge (2021: charge) reflects the recognition of deferred tax assets in respect of losses and other temporary differences to the extent the Group expects to have sufficient taxable profits available in the future to enable such deferred tax assets to be recovered.

The tax charge (2021: credit) in respect of exceptional items amounts to £0.8m (2021: tax credit £7.5m). The £0.8m tax charge in the current period represents tax on the exceptional release of provisions related to the discontinued operation; no tax relief has been assumed for the exceptional costs related to continuing operations as they may be considered capital and therefore non-deductible for tax purposes. In 2021, the tax credit represents tax at the mainstream corporation tax rate of 19% in respect of the exceptional costs apart from those costs which are attributable to CCD's Irish branch in respect of which tax relief will not be available and certain capital costs which it was considered may be non-deductible for tax purposes.

7. Earnings/(loss) per share

Basic earnings/(loss) per share (E/LPS) is calculated by dividing the profit/(loss) for the year attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year less the number of shares held by the Employee Benefit Trust which are used to satisfy the share awards such as DBP, PSP, LTIS, RSP and CSOP.

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

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

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

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

Reconciliations of basic and diluted E/LPS for continuing operations and the Group are set out below:

	Six months ended 30 June					
		2022			2021	
	Earnings	Weighted average number of shares	Per share amount	Earnings	Weighted average number of shares	Per share amount
Continuing operations	£m	m	pence	£m	m	pence
Basic earnings per share	31.9	250.9	12.7	63.0	253.6	24.8
Dilutive effect of share options and awards	-	1.8	(0.1)	-	0.5	-
Earnings per share	31.9	252.7	12.6	63.0	254.1	24.8

7. Earnings/(loss) per share (continued)

	Six months ended 30 June					
	2022			2021		
	Earnings	Weighted average number of shares	Per share amount	Loss	Weighted average number of shares	Per share amount
Group	£m	m	pence	£m	m	pence
Basic earnings/(loss) per share	21.5	250.9	8.6	(49.6)	253.6	(19.6)
Dilutive effect of share options and awards	-	1.8	(0.1)	-	-	-
Diluted earnings/(loss) per share	21.5	252.7	8.5	(49.6)	253.6	(19.6)

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

	Six months ended 30 June					
	2022			2021		
	Earnings	Weighted average number of shares	Per share amount	Earnings	Weighted average number of shares	Per share amount
Continuing operations	£m	m	pence	£m	m	pence
Basic earnings per share	31.9	250.9	12.7	63.0	253.6	24.8
Amortisation of acquisition intangibles, net of tax	3.0	-	1.2	3.0	-	1.2
Exceptional items, net of tax	3.7	-	1.5	1.7	-	0.7
Adjusted basic earnings per share	38.6	250.9	15.4	67.7	253.6	26.7
Diluted earnings per share	31.9	252.7	12.6	63.0	254.1	24.8
Amortisation of acquisition intangibles, net of tax	3.0	-	1.2	3.0	-	1.2
Exceptional items, net of tax	3.7	-	1.5	1.7	-	0.7
Adjusted diluted earnings per share	38.6	252.7	15.3	67.7	254.1	26.7

	2022			2021		
	Earnings	Weighted average number of shares	Per share amount	Loss	Weighted average number of shares	Per share amount
Group	£m	m	pence	£m	m	pence
Basic earnings/(loss) per share	21.5	250.9	8.6	(49.6)	253.6	(19.6)
Amortisation of acquisition intangibles, net of tax	3.0	-	1.2	3.0	-	1.2
Exceptional items, net of tax	0.4	-	0.2	38.8	-	15.3
Adjusted basic earnings/(loss) per share	24.9	250.9	10.0	(7.8)	253.6	(3.1)
Diluted earnings/(loss) per share	21.5	252.7	8.5	(49.6)	253.6	(19.6)
Amortisation of acquisition intangibles, net of tax	3.0	-	1.2	3.0	-	1.2
Exceptional items, net of tax	0.4	-	0.2	38.8	-	15.3
Adjusted diluted earnings/(loss) per share	24.9	252.7	9.9	(7.8)	253.6	(3.1)

8. Dividends

		Six months ended 30 June	
		2022	2021
		£m	£m
2021 interim	– 12p per share	30.1	-
Total dividends paid		30.1	-

The directors are recommending an interim dividend in respect of the financial year ended 31 December 2022 of 5.0p per share which will amount to an estimated dividend of £13m. This dividend will be paid on 22 September 2022 to shareholders who were on the register of members at 12 August 2022 with an ex-dividend date of 11 August 2022 .

9. Amounts receivable from customers

	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m
Credit cards and personal loans	1,076.6	1,091.5	993.5
Vehicle finance	598.4	586.2	601.6
Total – continuing operations	1,675.0	1,677.7	1,595.1
CCD – discontinued operations	-	-	42.1
Fair value adjustment for portfolio hedged risk	(7.6)	-	-
Total reported amounts receivable from customers	1,667.4	1,677.7	1,637.2

Vanquis Bank receivables comprise £1,034.7m (31 December 2021: £1,063.4m, 30 June 2021: £977.5m) in respect of credit cards and £41.9m (31 December 2021: £28.1m, 30 June 2021: £16.0m) in respect of loans.

Fair value adjustment for portfolio hedged risk relates to the hedged accounting adjustments recognised in relation to the balance guaranteed swap (see note 12).

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

	30 June 2022			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross receivables				
Credit cards and personal loans	873.2	334.4	208.8	1,416.4
Vehicle finance	334.3	139.8	413.8	887.9
Total Group	1,207.5	474.2	622.6	2,304.3
Allowance account				
Credit cards and personal loans	(89.1)	(103.0)	(147.7)	(339.8)
Vehicle finance	(14.8)	(21.2)	(253.5)	(289.5)
Total Group	(103.9)	(124.2)	(401.2)	(629.3)
Net receivables				
Credit cards and personal loans	784.1	231.4	61.1	1,076.6
Vehicle finance	319.5	118.6	160.3	598.4
Total Group	1,103.6	350.0	221.4	1,675.0

9. Amounts receivable from customers (continued)

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross receivables				
Credit cards and personal loans	913.7	342.7	194.5	1,450.9
Vehicle finance	350.2	112.9	378.6	841.7
Total Group	1,263.9	455.6	573.1	2,292.6
Allowance account				
Credit cards and personal loans	(103.2)	(102.9)	(153.3)	(359.4)
Vehicle finance	(14.3)	(15.8)	(225.4)	(255.5)
Total Group	(117.5)	(118.7)	(378.7)	(614.9)
Net receivables				
Credit cards and personal loans	810.5	239.8	41.2	1,091.5
Vehicle finance	335.9	97.1	153.2	586.2
Total Group	1,146.4	336.9	194.4	1,677.7

	30 June 2021 (restated)[1]			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Gross receivables				
Credit cards and personal loans	913.0	221.1	315.3	1,449.4
Vehicle finance	485.4	106.1	238.9	830.4
CCD – discontinued operations	20.7	11.9	318.6	351.2
Total Group	1,419.1	339.1	872.8	2,631.0
Allowance account				
Credit cards and personal loans	(158.9)	(97.2)	(199.8)	(455.9)
Vehicle finance	(21.9)	(16.4)	(190.5)	(228.8)
CCD – discontinued operations	(3.1)	(5.0)	(301.0)	(309.1)
Total Group	(183.9)	(118.6)	(691.3)	(993.8)
Net receivables				
Credit cards and personal loans	754.1	123.9	115.5	993.5
Vehicle finance	463.7	89.7	50.6	601.6
CCD – discontinued operations	17.6	6.9	17.6	42.1
Total Group	1,235.2	220.5	181.5	1,637.2

[1] *Gross loan receivables and provisions for expected credit losses were unintentionally reduced by equal amounts of £43.5m at 30 June 2021 to reflect the net revenue recognition for loans in stage 3. Comparatives included above have been restated to remove this adjustment as part of the vehicle finance implementation of new IFRS 9 models. This restatement has no impact on the Group's primary statements.*

9. Amounts receivable from customers (continued)

Credit cards and personal loans overlays

	30 June 2022 £m	31 December 2021 £m
Core Model	302.9	303.7
Overlays:		
Covid-19 overlay for credit cards (a)	10.2	27.9
Affordability (b)	5.0	5.0
Covid-19 overlay for personal loans (c)	1.4	1.7
Persistent debt (d)	2.9	5.8
Cost of living (e)	10.0	7.8
Recoveries (f)	7.4	7.4
Other	-	0.1
Total overlays	36.9	55.7
Total allowance account	339.8	359.4

(a) Covid-19 overlay for credit cards

The impact of Covid-19 has significantly influenced credit card ECL. The core IFRS 9 models utilise a scorecard approach to calculating a 12-month PD and the relationships between the established drivers of default risk found in the PD scorecards; the 12-month PD may be distorted during Covid-19. This potential distortion could be caused by external government support initiatives or the natural lag that is apparent when risk profiles change. Accordingly, a utilisation adjustment is made to the probability of default models:

- An adjustment was made to account for the impact of lower utilisation of credit cards due to Covid-19. The introduction of numerous lockdowns during 2020 and 2021, alongside travel bans, has meant that customer spending since March 2020 has put additional pressure on declining utilisation trends. The model is built using pre-Covid-19 data and utilisation is a key driver of the 12-month PD. Accordingly, reduced utilisation throughout Covid-19 has meant that the 12-month PD estimates produced by the existing models have reduced. However, the underlying risk profile of these customers has not fundamentally changed.

(b) Affordability

An additional IFRS 9 impairment provision has been created to cover the principal balance of those customers impacted by risk events which may need to be written off. These risk events arose from minor temporary data misalignment instances impacting a small number of accounts which have now been remediated.

(c) Covid-19 overlay for personal loans

In December 2020, a post-model adjustment for the payment holiday population and any future take-up of payment holidays expected in the personal loans portfolio was held, as these customers will exhibit greater losses than indicated based on the historical experience within the core model. However, this is no longer applicable for June 2022 as payment holidays have ceased. An increased PD for up-to-date accounts was applied as a result of more accounts being expected to fall into default after the removal of the government support scheme has been maintained for June 2022.

(d) Persistent debt

A post-model adjustment was calculated to refine ECL for those customers who have entered PD36. These customers have been split into two categories: those who have responded to communications and agreed to pay down their outstanding balance; and those who are making minimum payments but have not responded to communications. The core model does not consider this refinement and therefore a post-model overlay is required.

9. Amounts receivable from customers (continued)

(e) Cost of living

Consumer prices, as measured by the Consumer Prices Index (CPI) was 9.1% in May 2022, and the government has announced a range of measures to support households during the current economic environment. After accounting for these policies most lower income households are expected to be protected from the increase in inflation. But for many other households, inflation is still a looming risk and is expected to increase more quickly than post-tax and benefit incomes this year. The IFRS 9 macro-economic model does not consider inflation or CPI, as it there is no significant correlation between inflation and expected credit losses. However it is recognised that the increase in CPI may have some impact on the existing book and hence post model adjustments now exist for cost of living.

A portion of the Covid-19 provision was repurposed to create a cost of living overlay of £7.8m as at Dec-21. This has been increased to £10.0m. The underlying credit metrics of the receivables book remain stable and show no signs of significant increase in credit risk. The increase to £10.0m is based on management judgement in light of the current economic environment, reflecting the Group's proactive approach to risk management and is appropriately supported by modelling analytics.

(f) Recoveries

A post-model adjustment was created in 2021 and maintained throughout HY 2022 to account for an estimated reduction in recoveries for debt sold to debt collection agencies.

Vehicle finance overlays

	30 June 2022	31 December 2021
	£m	£m
Core Model	291.8	257.5
Overlays:		
Fraud (a)	(2.5)	(2.0)
Cost of living (b)	0.5	-
Depreciation (c)	(0.3)	-
Total overlays	(2.3)	(2.0)
Total allowance account	289.5	255.5

(a) Fraud

The fraud overlay represents the cohort of live accounts within the vehicle finance portfolio that have been identified as fraud customers.

(b) Cost of living

Refer to credit cards and personal loans cost of living overlays section for economic update.

The credit acquisition and affordability models were updated in early Q2 by a blended average of 8.75% reflecting the rise in inflation, energy prices and other bills compared to Income. Vehicle finance implemented a new IFRS 9 suite of models with revised behavioural PDs during late 2021 and therefore a significant number of variables indicating financial distress are already incorporated within this model.

However, considering the broader macro-economic environment and the observations made above, the management opinion is that a cost of living overlay of £0.5m should be maintained. This was derived by taking the cohort of up-to-date accounts in stage 2 and modelling a higher probability of default to replicate a situation reflective of these falling into arrears.

(c) Depreciation

Vehicle finance loans are secured against a vehicle, the repossession and sale of which can be a significant recovery which is currently used to offset any losses incurred as a result of defaulted contracts. Over the longer term, vehicles are typically considered depreciating assets as the vehicles value reduces due to mileage, wear and tear and supply and demand dynamics.

9. Amounts receivable from customers (continued)

The model currently considers the latest vehicle valuations each month. However, the depreciation curves are predicated on pre covid data which assumes a stable constant depreciation for future periods. The last 2 months have seen a significant downward shift in vehicle values, bringing the total movement in average vehicle values on our book to 6% in 2 months. Since the vehicle values have been adjusted in the model monthly, the subsequent application of depreciation curves means the underlying secured assets in some segments are undervalued. Based on this, management has applied a qualitative adjustment to depreciation rates generating a post model adjustment of £0.3m.

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

	Six months ended 30 June	
	2022	2021
	£m	£m
Credit cards	18.1	29.0
Vehicle finance	17.8	20.0
Personal loans	2.6	1.8
Total impairment charge – continuing operations	38.5	50.8
CCD – discontinued operations	-	38.5
Total impairment charge	38.5	89.3

10. Retirement benefit asset

The Group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme is of the funded, defined benefit type. It is now also closed to future accrual.

The scheme provides pension benefits which were accrued on a final salary and, more recently, on a cash balance basis. With effect from 1 August 2021 it was fully closed to future accrual and benefits are no longer linked to final salary, although accrued benefits are subject to statutory inflationary increases.

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 2021 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee Benefits' has been based on the results of the 2021 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.

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

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

- Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match liabilities.
- Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.
- Inflation risk – some of the liabilities are linked to inflation. If inflation increases then liabilities will increase, although this will be partly offset by an increase in assets. As part of a long-term de-risking strategy, the scheme has increased its portfolio in inflation matched assets.
- Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

10. Retirement benefit asset (continued)

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

	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m
Fair value of scheme assets	653.6	898.8	870.6
Present value of defined benefit obligation	(571.8)	(786.6)	(777.9)
Net retirement benefit asset recognised in the balance sheet	81.8	112.2	92.7

The amounts recognised in the income statement were as follows:

	Six months ended 30 June 2022 £m	2021 £m
Current service cost	(0.5)	(1.1)
Interest on scheme liabilities	(7.2)	(5.5)
Interest on scheme assets	8.3	6.0
Net cost recognised in the income statement before exceptional curtailment credit	0.6	(0.6)
Exceptional curtailment credit (note 4)	-	0.8
Net credit recognised in the income statement	0.6	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 2022 £m	2021 £m
Fair value of scheme assets at 1 January	898.8	933.0
Interest on scheme assets	8.3	6.0
Actuarial movements on scheme assets	(242.2)	(59.3)
Contributions by the Group	1.7	2.1
Net benefits paid out	(13.0)	(11.2)
Fair value of scheme assets at 30 June	653.6	870.6

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

	Six months ended 30 June 2022 £m	2021 £m
Present value of defined benefit obligation at 1 January	(786.6)	(853.3)
Current service cost	(0.5)	(1.1)
Interest on scheme liabilities	(7.2)	(5.5)
Exceptional service costs - curtailment	-	0.8
Actuarial movements on scheme liabilities	209.5	70.0
Net benefits paid out	13.0	11.2
Present value of defined benefit obligation at 30 June	(571.8)	(777.9)

10. Retirement benefit asset (continued)

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

	30 June 2022 %	31 December 2021 %	30 June 2021 %
Price inflation – RPI	3.25	3.40	3.15
Price inflation – CPI	2.80	3.00	2.70
Rate of increase to pensions in payment	2.95	3.00	2.95
Inflationary increases to pensions in deferment	2.85	3.00	2.55
Discount rate	3.70	1.85	1.85

A 0.5% change in the discount rate would change the present value of the defined benefit obligation by approximately £43m (31 December 2021: £64m, 30 June 2021: £70.3m). A 0.1% change in the inflation rate would change the present value of the defined benefit obligation by approximately £4m (31 December 2021: £6m, 30 June 2021: £6.2m) respectively.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 3 mid tables (31 December 2021: series 2 tables, 30 June 2021: series 2 tables), with multipliers of 99% (31 December 2021: 96%, 30 June 2021: 96%) and 102% (31 December 2021: 101%, 30 June 2021: 101%) respectively for males and females. The 3% upwards (31 December 2021: 4% downwards, 30 June 2021: 4% downwards) adjustment to mortality rates for males and a 1% upwards (31 December 2021: 1% upwards, 30 June 2021: 1% upwards) adjustment for females reflect higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2021 model with a long-term improvement trend of 1.00% per annum.

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

	Male			Female		
	30 June 2022 Years	31 December 2021 Years	30 June 2021 Years	30 June 2022 Years	31 December 2021 Years	30 June 2021 years
Current pensioner aged 65	21.8	21.7	21.7	23.4	23.4	23.4
Current member aged 45 from age 65	21.8	22.7	22.7	24.4	24.6	24.6

If assumed life expectancies were one year greater, the net retirement benefit asset would have been reduced by approximately £26m (31 December 2021: £38m, 30 June 2021: £35m).

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

	Six months ended 30 June	
	2022 £m	2021 £m
Actuarial movements on scheme assets	(242.2)	(59.3)
Actuarial movements on scheme liabilities	209.5	70.0
Actuarial movements recognised in the statement of comprehensive income in the period	(32.7)	10.7

11. Investments

	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m
Visa Inc. shares	8.8	9.1	9.7

Visa Inc. shares

The Visa Inc shares represent preferred stock in Visa Inc held by Vanquis Bank Limited following completion of Visa Inc's acquisition of Visa Europe Limited on 21 June 2016. In consideration for Vanquis Bank Limited's interest in Visa Europe Limited, Vanquis Bank Limited received cash consideration of €15.9m (£12.2m) on completion, preferred stock with an approximate value of €10.7m and deferred cash consideration of €1.4m which was received in 2019.

During 2021 the Visa Inc shares previously classified as fair value through OCI were reclassified as fair value through income statement. This resulted in an increase in profit before tax of £5.2m and an increase in the tax charge of £1.4m. The cumulative fair value movements of £5.2m at 31 December 2021 and all future fair value movements are now presented within operating costs in the income statement.

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.

12. Fair value disclosures

The Group holds the following financial instruments at fair value:

	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m
Financial assets			
Derivatives	7.7	3.1	-
Visa Inc. shares	8.8	9.1	9.7
	16.5	12.2	9.7
Financial liabilities			
Derivatives	-	-	(0.2)

Derivatives of £7.7m (31 December 2021 (asset) £3.1m, 30 June 2021 (liability): £0.2m) relate to the balance guaranteed swap entered into as part of the vehicle finance securitisation in January 2020 in order to manage the market risk associated with movements in interest rates.

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 2022 £m	31 December 2021 £m	30 June 2021 £m	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m
Financial assets						
Amounts receivable from customers	1,675.0	1,677.7	1,637.2	2,174.4	2,063.8	1,971.9
Financial liabilities						
Retail deposits	(926.9)	(1,018.5)	(1,062.8)	(916.2)	(1,026.4)	(1,066.5)
Bank and other borrowings	(824.8)	(845.2)	(567.2)	(828.1)	(878.1)	(576.6)
Total	(1,751.7)	(1,863.7)	(1,630.0)	(1,744.3)	(1,904.5)	(1,643.1)

13. Provisions

	30 June 2022			31 December 2021			30 June 2021		
	Scheme £m	Others £m	Total £m	Scheme £m	Others £m	Total £m	Scheme £m	Others £m	Total £m
Opening balance	53.5	18.6	72.1	65.0	26.0	91.0	65.0	26.0	91.0
Created in the period	-	0.5	0.5	5.0	17.4	22.4	5.0	7.4	12.4
Reclassified in the period	-	1.7	1.7	-	-	-	-	-	-
Utilised during the period	(3.0)	(8.1)	(11.1)	(16.5)	(24.8)	(41.3)	(14.2)	(23.6)	(37.8)
Released during the period	-	(4.8)	(4.8)	-	-	-	-	-	-
Closing balance	50.5	7.9	58.4	53.5	18.6	72.1	55.8	9.8	65.6

The Scheme of Arrangement (the Scheme) £50.5m (Dec 21 £53.5m, June 21: £55.8m)
The Scheme of Arrangement was sanctioned on 30 July 2021 and will remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline of February 2022. The objective of the Scheme was to ensure: all customers with redress claims are treated fairly; and outstanding claims are treated consistently for 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 2021 for additional expected costs in supporting the delivery of the Scheme.

Customer settlements in relation to the Scheme of Arrangement have commenced in H2 22 and the entire provision is expected to be fully utilised.

Other provisions include:

FCA investigation into CCD £nil (Dec 21 £4.1m, June 21: £5m)
CCD was informed in Q1'21, 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. Analysis of lending during the period of investigation resulted in a provision of £5m being recognised in H1 2021 which reflected the current best estimate of the settlement; £0.9m of this was utilised in the second half of 2021. On 7th July, the Group received notification from the FCA that their investigation has closed and that no further action will be taken. Consequently this provision was released during H1'22.

ROP Provision: £2.0m (Dec 21 £2.1m, June 21: £2.4m)
The remaining repayment option plan (ROP) provisions principally reflects the estimated cost of the forward flow of ROP complaints more generally which may be received and in respect of which compensation may need to be paid.

Customer compliance: £4.9m (Dec 21 £3.4m, June 21 £2.4m)
The customer compliance provision relates to general customer compliance matters.

Discontinued operations: £1.0m (Dec 21 £9.0m, June 21 £nil)
A number of smaller provisions have been recognised in relation to the closure of the CCD business. These have been calculated based on estimated costs at each period end.

14. Contingent liabilities

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 and 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 advisors, 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 for 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 or cash flows.

15. Regulatory capital and liquidity disclosures

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 2022 £m	31 December 2021 £m	30 June 2021 £m
Share capital	52.6	52.6	52.6
Share premium	273.5	273.3	273.2
Retained earnings and other reserves	275.2	305.3	277.2
Total equity	601.3	631.2	603.0
Retirement benefit asset (net of tax)	(61.4)	(84.2)	(69.5)
Goodwill	(71.2)	(71.2)	(71.2)
Intangible assets (net of tax)	(48.2)	(47.3)	(34.9)
Dynamic 1 and 2 adjustments	8.2	16.4	63.2
IFRS 9 transition adjustment	46.0	92.0	92.0
CET 1 capital before deduction of unverified profits and foreseeable dividends	474.7	536.9	582.6
Deduction of foreseeable dividend	(15.4)	(30.4)	-
CET 1	459.3	506.5	582.6
Tier 2 Capital	200.0	200.0	-
Total regulatory capital (accrued)	659.3	706.5	582.6

The capital resources shown in the table above include accrued profits of £21.5m (offset by a foreseeable dividend of £15.4m) for the period to 30 June 2022. Accrued losses are included in the periods ending 31 December 2021 and 30 June 2021, which are automatically deducted from own funds. On a verified basis following the deduction of unverified profits and reversing the associated foreseeable dividend, capital resources are £653.2m

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 2022, the impacts of these adjustments amounted to the following:

15. Regulatory capital and liquidity disclosures (continued)

	30 June 2022 £m	31 December 2021 £m	30 June 2021 £m
Initial IFRS 9 transition adjustment	184.0	184.0	184.0
Increase in ECL in the non-credit impaired book from transition	32.7	32.7	22.7
	216.7	216.7	206.7
Percentage add back	25%	70%	50%
	54.2	108.4	103.4
Increase in ECL on the non-performing book from 1 January 2020 to the period end	-	-	51.8
Percentage add back	75%	100%	100%
	-	-	51.8
IFRS 9 transition adjustment	54.2	108.4	155.2

The Group makes the following disclosures for the first time in accordance with the PRA rulebook (implementing UK Capital Requirement Regulation 2). In line with the instructions for disclosure, the disclosure of data for previous periods is not required when such data has not previously been disclosed. As such, no 30 June 2021 comparative is disclosed. 31 December 2021 comparatives were set out in the Group's Pillar 3 document. This is a PRA fixed format template, therefore cells not required have been left blank. Figures are stated on a verified basis, as reported under the COREP regime.

UK KM1 – Key metrics template		30 June 2022 £m	31 December 2021 £m
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	453.2	506.5
2	Tier 1 capital	453.2	506.5
3	Total capital	653.2	706.5
Risk-weighted exposures			
4	Total risk-weighted exposure amount	1,681.7	1,740.6
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	26.9	29.1
6	Tier 1 ratio (%)	26.9	29.1
7	Total capital ratio (%)	38.8	40.6
Additional own funds requirement based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	5.8	5.8
UK 7b	Additional AT1 SREP requirements (%)	1.9	1.9
UK 7c	Additional T2 SREP requirements (%)	2.6	2.6
UK 7d	Total SREP own funds requirements	**18.3**	**18.3**
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.5	2.5
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-
9	Institution specific countercyclical capital buffer (%)	-	-
UK 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-
UK 10a	Other Systemically Important Institution buffer (%)	-	-
11	Combined buffer requirement (%)	**2.5**	**2.5**
UK 11a	Overall capital requirement (%)	**20.8**	**20.8**
12	CET1 available after meeting the total SREP own funds requirements (%)	8.6	10.8

15. Regulatory capital and liquidity disclosures (continued)

Leverage ratio			
13	Total exposure measure excluding claims on central banks	2,130.0	
14	Leverage ratio excluding claims on central banks (%)	21.3	
Additional level ratio disclosure requirements[1]			
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)		
14b	Leverage ratio including claims on central banks (%)		
14c	Average leverage ratio excluding claims on central banks (%)		
14d	Average leverage ratio including claims on central banks (%)		
14e	Countercyclical leverage ratio buffer (%)		
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value – average)	430.4	
UK 16a	Cash outflows – total weighted value	133.6	
UK 16b	Cash inflows – total weighted value	34.5	
16	Total net cash outflows (adjusted value)	99.1	
17	Liquidity Coverage Ratio (%)	434	2,073
Net Stable Funding Ratio			
18	Total available stable funding		
19	Total required stable funding		

[1] In line with the UK KM1 template instructions only LREQ firms shall disclose values in rows 14a to 14e.
[2] In line with PS17/21 'Implementation of Basel standards' the first disclosures of the Net Stable Funding Ratio (NSFR) are not required until after 1 January 2023.

16. Reconciliation of profit/(loss) after tax to cash generated from operations

	Six months ended 30 June 2022 £m	2021 £m
Profit/(loss) after tax	21.5	(49.6)
Adjusted for:		
– tax charge	15.8	5.4
– finance costs	30.1	31.2
– share-based payment charge	3.0	1.5
– retirement benefit credit before exceptional curtailment credit (note 10)	(0.6)	0.6
– exceptional pension curtailment credit (note 10)	-	(0.8)
– amortisation of intangible assets	7.8	7.5
– depreciation of property, plant and equipment and right of use assets	5.4	6.6
– Exceptional amortisation and depreciation charge	-	5.6
– Loss on sale of property, plant and equipment	-	0.3
– Loss on sale of intangibles	2.0	2.5
Changes in operating assets and liabilities:		
– amounts receivable from customers	10.3	162.6
– trade and other receivables	(3.2)	(2.8)
– trade and other payables	(28.8)	41.3
– contributions into the retirement benefit scheme (note 10)	(1.7)	(2.1)
– provisions (note 13)	(15.3)	(25.4)
– fair value movement on Visa shares	0.3	-
– derivative financial instrument	(8.2)	-
Cash generated from operations	38.4	184.4

17. Post balance sheet events

CCD was informed in Q1'21, 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. Analysis of lending during the period of investigation resulted in a provision of £5m being recognised in H1 2021 which reflected the current best estimate of the settlement; £0.9m of this was utilised in the second half of 2021.

On 7th July 2022, the Group received notification from the FCA that their investigation has closed and that no further action will be taken. Consequently the remaining provision of £4.1m was released during H1'22 and the effects of which have been recognised in the financial statements for the half year ended 30 June 2022.

Alternative Performance Measures (APMs)

APM	Method of calculation	Relevance
Net interest margin (NIM) [1]	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[1]	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[1]	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.
Cost income ratio[1]	Operating costs as a percentage of net interest margin for the period.	This ratio is a measure of the efficiency of the Group's cost base.
Adjusted return on assets (ROA) [1]	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) [1]	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, net of deferred tax.	ROE shows the return being generated from the shareholders' equity retained in the business.
Return on required equity (RORE) [1]	Adjusted profit after tax for the period, excluding CCD, multiplied by 365/181 divided by the average PRA regulatory capital requirement including PRA buffers 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 CRR.	The CET1 Ratio is a key measure of whether a firm has adequate CET1 to cover the risks associated with its assets.
Funding headroom	Committed bank and debt facilities less borrowings on those facilities,	This represents the difference between the total amount of

	plus available cash and liquid resources.	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.

[1] APM's related to continuing operations.

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. All directors were present throughout the six months ended 30 June 2022 other than those set out below:

- Robert East resigned from the Company on 13 January 2022.

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

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

By order of the board

Malcolm Le May – Chief Executive Officer
26 July 2022

Neeraj Kapur – Chief Financial Officer

INDEPENDENT REVIEW REPORT TO PROVIDENT FINANCIAL PLC

Conclusion

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 2022 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 17.

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 2022 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.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 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.

As disclosed in note 2, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted international accounting 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".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of 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.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

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

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
26 July 2022

Information for shareholders

1. The interim report will be posted to shareholders on 4 August 2022 or as soon as possible thereafter.
2. The shares will be marked ex-dividend on 11 August 2022.
3. The interim dividend will be paid on 22 September 2022 to shareholders on the register at the close of business on 12 August 2022. Dividend warrants/vouchers will be posted on 20 September 2022.
4. The last date for elections to participate in the PFG Dividend Re-investment Plan for the interim dividend is 1 September 2022.