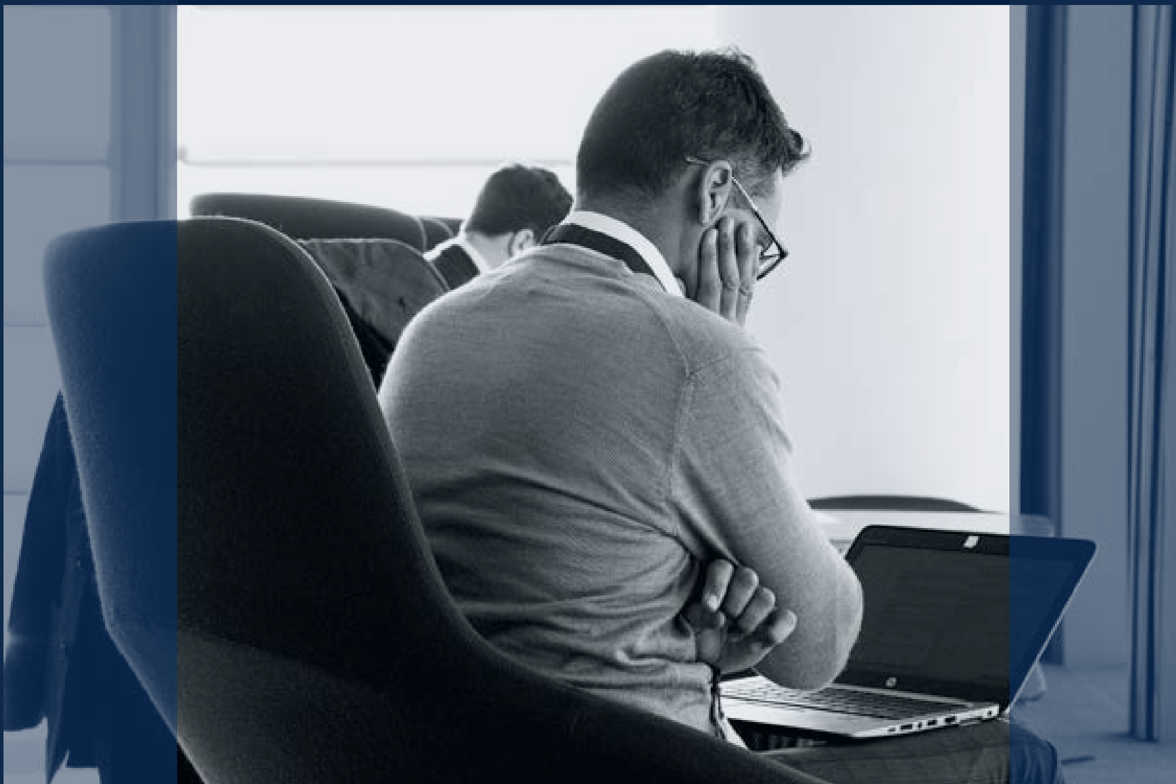
Our results

The Group continues to operate a financial model that is founded on investing in customer-centric businesses that offer attractive returns.



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Financial statements

Consolidated income statement

For the year ended 31 December

	Note	Group 2018 IFRS 9 £m	2017 IAS 39 £m
Revenue	1,2	**1,124.4**	1,196.3
Finance costs	3	**(91.7)**	(77.0)
Impairment charges	14	**(410.4)**	(476.1)
Administrative and operating costs		**(531.6)**	(766.2)
Total costs		**(1,033.7)**	(1,319.3)
Profit/(loss) before taxation	1,4	**90.7**	(123.0)
Profit before taxation, amortisation of acquisition intangibles and exceptional items	1,4	**153.5**	109.1
Amortisation of acquisition intangibles	11	**(7.5)**	(7.5)
Exceptional items	1	**(55.3)**	(224.6)
Tax charge	5	**(30.4)**	(11.4)
Profit/(loss) for the year attributable to equity shareholders		**60.3**	(134.4)

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Group 2018 IFRS 9 £m	2017 IAS 39 £m
Profit/(loss) for the year attributable to equity shareholders		**60.3**	(134.4)
Items that will not be reclassified subsequently to the income statement:			
> actuarial movements on retirement benefit asset	19	**(21.7)**	17.5
> tax on items that will not be reclassified subsequently to the income statement	5	**4.1**	(3.4)
> impact of change in UK tax rate on items that will not be reclassified subsequently to the income statement	5	**(0.5)**	0.4
Items that may be reclassified subsequently to the income statement:			
> fair value movement on investments	15	**2.2**	1.9
> fair value movements on cash flow hedges	17	**–**	0.2
> exchange differences on translation of foreign operations		**–**	(0.2)
> tax on items that may be reclassified subsequently to the income statement	5	**(0.5)**	(0.4)
> impact of change in UK tax rate on items that may be reclassified subsequently to the income statement	5	**(0.2)**	(0.1)
Other comprehensive (expense)/income for the year		**(16.6)**	15.9
Total comprehensive income/(expense) for the year		**43.7**	(118.5)

Earnings/(loss) per share

For the year ended 31 December

	Note	Group 2018 IFRS 9 pence	2017 IAS 39 restated pence
Basic	6	**25.2**	(66.4)
Diluted	6	**25.1**	(66.4)

Dividends per share

For the year ended 31 December

	Note	Group 2018 pence	2017 pence
Proposed final dividend	7	**10.0**	–
Total dividend for the year	7	**10.0**	–
Paid in the year*	7	**–**	91.4

* The total cost of dividends paid in the year was £nil (2017: £133.4m).

Balance sheets

As at 31 December

	Note	Group 2018 IFRS 9 £m	Group 2017 IAS 39 £m	Company 2018 £m	Company 2017 £m
ASSETS					
Non-current assets					
Goodwill	10	**71.2**	71.2	**–**	–
Other intangible assets	11	**55.0**	79.4	**–**	–
Property, plant and equipment	12	**24.6**	30.9	**4.5**	4.6
Investment in subsidiaries	13	**–**	–	**469.7**	482.3
Financial assets:					
> amounts receivable from customers	14	**349.6**	328.2	**–**	–
> trade and other receivables	18	**–**	–	**–**	76.9
Retirement benefit asset	19	**83.9**	102.3	**83.9**	102.3
Deferred tax asset	20	**38.3**	–	**–**	–
		622.6	612.0	**558.1**	666.1
Current assets					
Financial assets:					
> investments held at fair value through income statement	15	**47.8**	45.8	**–**	–
> amounts receivable from customers	14	**1,813.3**	1,981.2	**–**	–
> cash and cash equivalents	21	**387.9**	282.9	**1.0**	35.6
> trade and other receivables	18	**49.6**	44.0	**823.6**	744.4
Current tax asset		**–**	–	**1.8**	–
		2,298.6	2,353.9	**826.4**	780.0
Total assets	1	**2,921.2**	2,965.9	**1,384.5**	1,446.1
LIABILITIES					
Current liabilities					
Financial liabilities:					
> retail deposits	22	**(339.3)**	(350.8)	**–**	–
> bank and other borrowings	22	**(49.8)**	(38.1)	**(47.1)**	(35.3)
Total borrowings	22	**(389.1)**	(388.9)	**(47.1)**	(35.3)
> derivative financial instruments	17	**–**	(0.1)	**–**	–
> trade and other payables	23	**(91.8)**	(96.9)	**(86.6)**	(97.0)
Current tax liabilities		**(24.6)**	(15.9)	**–**	(0.4)
Provisions	24	**(53.2)**	(104.6)	**–**	–
		(558.7)	(606.4)	**(133.7)**	(132.7)
Non-current liabilities					
Financial liabilities:					
> retail deposits	22	**(1,092.4)**	(950.2)	**–**	–
> bank and other borrowings	22	**(574.0)**	(853.9)	**(574.0)**	(853.9)
Total borrowings	22	**(1,666.4)**	(1,804.1)	**(574.0)**	(853.9)
Deferred tax liabilities	20	**–**	(20.3)	**(13.3)**	(15.9)
		(1,666.4)	(1,824.4)	**(587.3)**	(869.8)
Total liabilities	1	**(2,225.1)**	(2,430.8)	**(721.0)**	(1,002.5)
NET ASSETS	1	**696.1**	535.1	**663.5**	443.6
SHAREHOLDERS' EQUITY					
Share capital	25	**52.5**	30.7	**52.5**	30.7
Share premium		**273.2**	273.0	**273.2**	273.0
Other reserves	27	**292.1**	13.4	**290.4**	51.1
Retained earnings		**78.3**	218.0	**47.4**	88.8
TOTAL EQUITY		**696.1**	535.1	**663.5**	443.6

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement or statement of other comprehensive income. The retained loss for the financial year reported in the financial statements of the Company was £62.2m (2017: £556.0m).

The financial statements on pages 168 to 224 were approved and authorised for issue by the Board of directors on 13 March 2019 and signed on its behalf by:

Malcolm Le May
Chief Executive Officer

Simon Thomas
Chief Financial Officer

Company Number – 668987

Financial statements *continued*

Statements of changes in shareholders' equity

Group	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2017		30.6	272.7	24.3	462.5	790.1
Loss for the year		–	–	–	(134.4)	(134.4)
Other comprehensive income/(expense):						
> actuarial movements on retirement benefit asset	19	–	–	–	17.5	17.5
> fair value movement on investments	15	–	–	1.9	–	1.9
> fair value movements on cash flow hedges	17	–	–	0.2	–	0.2
> exchange differences on translation of foreign operations		–	–	–	(0.2)	(0.2)
> tax on items taken directly to other comprehensive income	5	–	–	(0.4)	(3.4)	(3.8)
> impact of change in UK tax rate	5	–	–	(0.1)	0.4	0.3
Other comprehensive income for the year		–	–	1.6	14.3	15.9
Total comprehensive income/(expense) for the year		–	–	1.6	(120.1)	(118.5)
Transactions with owners:						
> issue of share capital	25	0.1	0.3	–	–	0.4
> purchase of own shares		–	–	(0.1)	–	(0.1)
> transfer of own shares on vesting of share awards		–	–	1.1	(1.1)	–
> share-based payment credit	26	–	–	(3.4)	–	(3.4)
> transfer of share-based payment reserve on vesting of share awards		–	–	(10.1)	10.1	–
> dividends	7	–	–	–	(133.4)	(133.4)
At 31 December 2017		30.7	273.0	13.4	218.0	535.1
Impact of adoption of IFRS 9 'Financial Instruments' (note 32)		**–**	**–**	**–**	**(184.0)**	**(184.0)**
At 1 January 2018		**30.7**	**273.0**	**13.4**	**34.0**	**351.1**
Profit for the year		**–**	**–**	**–**	**60.3**	**60.3**
Other comprehensive income/(expense):						
> actuarial movements on retirement benefit asset	19	**–**	**–**	**–**	**(21.7)**	**(21.7)**
> fair value movement on investments	15	**–**	**–**	**2.2**	**–**	**2.2**
> tax on items taken directly to other comprehensive income	5	**–**	**–**	**(0.5)**	**4.1**	**3.6**
> impact of change in UK tax rate	5	**–**	**–**	**(0.2)**	**(0.5)**	**(0.7)**
Other comprehensive income/(expense) for the year		**–**	**–**	**1.5**	**(18.1)**	**(16.6)**
Total comprehensive income for the year		**–**	**–**	**1.5**	**42.2**	**43.7**
Transactions with owners:						
> proceeds from rights issue	25	**21.8**	**–**	**278.2**	**–**	**300.0**
> issue of share capital	25	**–**	**0.2**	**–**	**–**	**0.2**
> share-based payment charge	26	**–**	**–**	**1.1**	**–**	**1.1**
> transfer of share-based payment reserve on vesting of share awards		**–**	**–**	**(2.1)**	**2.1**	**–**
At 31 December 2018		**52.5**	**273.2**	**292.1**	**78.3**	**696.1**

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

The rights issue in April 2018 was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. The resulting merger reserve of £278.2m is included within other reserves, of which £228.2m is distributable as the capital was retained for the purposes of the Company with the remaining £50.0m not distributable as it was used to inject capital into Vanquis Bank. Other reserves are further analysed in note 27.

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2017		30.6	272.7	634.9	188.5	1,126.7
Loss for the year		–	–	–	(556.0)	(556.0)
Other comprehensive income/(expense):						
> actuarial movements on retirement benefit asset	19	–	–	–	17.5	17.5
> fair value movements on cash flow hedges	17	–	–	0.1	–	0.1
> tax on items taken directly to other comprehensive income		–	–	–	(3.4)	(3.4)
> impact of change in UK tax rate		–	–	–	0.4	0.4
Other comprehensive income for the year		–	–	0.1	14.5	14.6
Total comprehensive income/(expense) for the year		–	–	0.1	(541.5)	(541.4)
Transactions with owners:						
> issue of share capital	25	0.1	0.3	–	–	0.4
> purchase of own shares		–	–	(0.1)	–	(0.1)
> transfer of own shares on vesting of share awards		–	–	1.1	(1.1)	–
> share-based payment credit	26	–	–	(2.2)	–	(2.2)
> transfer of share-based payment reserve on vesting of share awards		–	–	(5.0)	5.0	–
> share-based payment movement in investment in subsidiaries		–	–	(6.4)	–	(6.4)
> dividends	7	–	–	–	(133.4)	(133.4)
> transfer of non-distributable reserve following write downs of investment and loans to subsidiaries	13	–	–	(571.3)	571.3	–
At 31 December 2017		30.7	273.0	51.1	88.8	443.6
At 1 January 2018		**30.7**	**273.0**	**51.1**	**88.8**	**443.6**
Loss for the year		**–**	**–**	**–**	**(62.2)**	**(62.2)**
Other comprehensive income/(expense):						
> actuarial movements on retirement benefit asset	19	**–**	**–**	**–**	**(21.7)**	**(21.7)**
> tax on items taken directly to other comprehensive income		**–**	**–**	**–**	**4.1**	**4.1**
> impact of change in UK tax rate		**–**	**–**	**–**	**(0.5)**	**(0.5)**
Other comprehensive expense for the year		**–**	**–**	**–**	**(18.1)**	**(18.1)**
Total comprehensive expense for the year		**–**	**–**	**–**	**(80.3)**	**(80.3)**
Transactions with owners:						
> proceeds from rights issue	25	**21.8**	**–**	**278.2**	**–**	**300.0**
> issue of share capital	25	**–**	**0.2**	**–**	**–**	**0.2**
> share-based payment charge	26	**–**	**–**	**0.4**	**–**	**0.4**
> transfer of share-based payment reserve on vesting of share awards		**–**	**–**	**(1.0)**	**1.0**	**–**
> share-based payment movement in investment in subsidiaries		**–**	**–**	**(0.4)**	**–**	**(0.4)**
> transfer of non-distributable reserve following write down of investment in subsidiary	13	**–**	**–**	**(37.9)**	**37.9**	**–**
At 31 December 2018		**52.5**	**273.2**	**290.4**	**47.4**	**663.5**

Other reserves are further analysed in note 27.

Financial statements *continued*

Statements of cash flows

For the year ended 31 December

		Group		Company	
	Note	2018 £m	2017 £m	2018 £m	2017 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	31	**67.2**	72.0	**(81.5)**	(76.1)
Finance costs paid		**(66.1)**	(73.7)	**(44.5)**	(49.9)
Premium paid on early redemption of senior bonds	1	**(18.5)**	–	**(18.5)**	–
Finance income received		**–**	–	**51.4**	76.1
Tax paid		**(22.3)**	(55.0)	**–**	(5.1)
Net cash used in operating activities		**(39.7)**	(56.7)	**(93.1)**	(55.0)
Cash flows from investing activities					
Purchase of shares in subsidiary	13	**–**	–	**(50.0)**	–
Purchase of intangible assets	11	**(7.6)**	(20.5)	**–**	–
Purchase of property, plant and equipment	12	**(5.3)**	(12.2)	**(1.7)**	(0.3)
Proceeds from disposal of property, plant and equipment	12	**1.5**	1.7	**0.2**	0.7
Purchase of government gilts held as an investment	15	**0.2**	(35.9)	**–**	–
Long-term loans repaid by subsidiaries		**–**	–	**76.9**	156.6
Dividends received from subsidiaries		**–**	–	**–**	70.2
Net cash (used in)/generated from investing activities		**(11.2)**	(66.9)	**25.4**	227.2
Cash flows from financing activities					
Proceeds from bank and other borrowings		**737.1**	650.0	**247.7**	106.0
Repayment of bank and other borrowings		**(885.3)**	(332.1)	**(518.7)**	(138.5)
Dividends paid to Company shareholders	7	**–**	(133.4)	**–**	(133.4)
Net proceeds from rights issue		**300.0**	–	**300.0**	–
Proceeds from issue of share capital	25	**0.2**	0.4	**0.2**	0.4
Purchase of own shares	27	**–**	(0.1)	**–**	(0.1)
Net cash generated from/(used in) financing activities		**152.0**	184.8	**29.2**	(165.6)
Net increase/(decrease) in cash, cash equivalents and overdrafts		**101.1**	61.2	**(38.5)**	6.6
Cash, cash equivalents and overdrafts at beginning of year		**279.8**	218.6	**35.3**	28.7
Cash, cash equivalents and overdrafts at end of year		**380.9**	279.8	**(3.2)**	35.3
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	21	**387.9**	282.9	**1.0**	35.6
Overdrafts (held in bank and other borrowings)	22	**(7.0)**	(3.1)	**(4.2)**	(0.3)
Total cash, cash equivalents and overdrafts		**380.9**	279.8	**(3.2)**	35.3

Cash at bank and in hand includes £384.9m (2017: £227.5m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. As at 31 December 2018, £106.5m (2017: £22.3m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

Statement of accounting policies

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, England, BD1 2SU. The Company is listed on the London Stock Exchange.

Basis of preparation

The financial statements of the Group and Company are prepared in accordance with IFRS adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments and investments held at fair value through other comprehensive income. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the Group and Company's accounting policies.

The Group and Company's principal accounting policies under IFRS, which have been consistently applied to all the years presented unless otherwise stated, are set out below:

(a) New and amended standards adopted by the Group and Company:

IFRS 9 has been adopted by the Group and Company from the mandatory adoption date of 1 January 2018. Full details of the impact of adoption can be found in note 32.

IFRS 15 has been adopted from 1 January 2018. The standard establishes the principles to determine the nature, amount and timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Interest income in both Vanquis Bank and the Consumer Credit Division (CCD) is accounted for in accordance with IFRS 9. Interest income generated from Moneybarn's conditional sales agreements continues to be accounted for in accordance IAS 17 'Leases'.

Non-interest income generated by Vanquis Bank is now accounted for in accordance with IFRS 15. However, there has been no change in the recognition of revenue to the approach adopted previously under IAS 39.

There has been no other new or amended standards adopted in the financial year beginning 1 January 2018 which had a material impact on the Group or Company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted:

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors and is effective from 1 January 2019.

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

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The classification of cash flows will be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as operating and financing cash flows respectively.

Interest income generated from Moneybarn's conditional sales agreements will be accounted for in accordance IFRS 16. However, there will be no impact on the amounts recognised.

The adoption of IFRS 16 into the Group's opening balance sheet on 1 January 2019 results in an increase in assets of £82m and liabilities of £89m, which net of deferred tax of £1m, results in a reduction in net assets of £6m.

Disclosure reclassification

Historically, interest accruals on borrowings and retail deposits have been presented within trade and other payables in the balance sheet. They have now been disclosed as part of the principal balances to which they relate within borrowings, replicating the presentation of interest recognised on customer receivables. Prior year comparatives have also been reclassified.

The impact on the financial statements is presentational only and there is no impact on the income statement or the statement of cash flows.

Basis of consolidation

The consolidated income statement, consolidated statement of comprehensive income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and notes to the financial statements include the financial statements of the Company and all of its subsidiary undertakings drawn up from the date control passes to the Group until the date control ceases.

Control is achieved when the Group:

- Has the power over the investee;
- Is exposed, or has rights, to variable return from its involvement with the investee; and
- Has the ability to use its power to affect returns.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

The accounting policies of subsidiaries are consistent with the accounting policies of the Group.

Revenue

Revenue comprises interest and fee income earned by Vanquis Bank and Moneybarn and interest income earned by CCD.

Group revenue excludes value added tax and intra-group transactions.

Company revenue includes intra-group transactions and dividends received.

Within Vanquis Bank, interest is calculated on credit card advances to customers using the effective interest rate on the daily balance outstanding. Annual fees charged to customers' credit card accounts are recognised as part of the effective interest rate. Penalty charges and other fees are recognised at the time the charges are made to customers on the basis that performance is complete.

Within CCD and Moneybarn, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows. For CCD this reflects estimated cash flows, being contractual payments adjusted for the impact of customers who either repay early, to term or beyond term, but do not trigger the IFRS 9 default arrears stage during the full life of the loan. Directly attributable incremental issue costs are also taken into

Statement of accounting policies *continued*

account in calculating the effective interest rate. Interest income continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value until revenue equal to the loan's original service charge has been fully recognised.

Revenue for Vanquis Bank and CCD is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2 and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition purposes at the Group's interim or year end balance sheet date.

Finance costs

Finance costs principally comprise the interest on retail deposits, bank and other borrowings and, for the Company, on intra-group loan arrangements, and are recognised on an effective interest rate basis. Finance costs also include any fair value movement on those derivative financial instruments held for hedging purposes which do not qualify for hedge accounting under IAS 39.

Dividend income

Dividend income is recognised in the income statement when the Company's right to receive payment is established.

Goodwill

All acquisitions are accounted for using the purchase method of accounting.

Goodwill is an intangible asset and is measured as the excess of the fair value of the consideration over the fair value of the acquired identifiable assets, liabilities and contingent liabilities at the date of acquisition. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units which are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment is tested by comparing the carrying value of the asset to the discounted expected future cash flows from the relevant cash-generating unit. Expected future cash flows are derived from the Company's latest budget projections and the discount rate is based on the Company's risk adjusted cost of capital at the balance sheet date.

Goodwill arising on acquisitions prior to 1 January 1998 was eliminated against shareholders' funds under UK GAAP and was not reinstated on transition to IFRS. On disposal of a business, any such goodwill relating to the business will not be taken into account in determining the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Impairment is calculated by comparing the carrying value of the investment with the higher of the net asset value of the relevant subsidiary and its discounted expected future cash flows.

Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group and Company are solely operating leases. Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Other intangible assets

Other intangible assets include acquisition intangibles in respect of the broker relationships at Moneybarn, stand-alone computer software and development costs of intangible assets across the Group.

The fair value of Moneybarn's broker relationships on acquisition was estimated by discounting the expected future cash flows from Moneybarn's core broker relationships over their estimated useful economic life which was deemed to be 10 years. The asset is being amortised on a straight-line basis over its estimated useful life.

Computer software and computer software development assets represent the costs incurred to acquire or develop software and bring it into use. Directly attributable costs incurred in the development of software are capitalised as an intangible asset if the software will generate future economic benefits. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software and computer software development costs are amortised on a straight-line basis over their estimated useful economic life which is generally estimated to be between three and 10 years. The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Other intangible assets are valued at cost less subsequent amortisation. Amortisation is charged to the income statement as part of administrative and operating costs.

Foreign currency translation

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The Group's subsidiaries primarily operate in the UK and Republic of Ireland. The consolidated and the Company financial statements are presented in sterling, which is the Company's functional and presentational currency.

Transactions that are not denominated in the Group's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the income statement, except when deferred in equity as effective cash flow hedges.

If a foreign operation were to be disposed of, the cumulative amount of the differences arising on translation recognised in other comprehensive income would be recognised in the income statement when the gain or loss on disposal is recognised.

Amounts receivable from customers

Customer receivables are initially recorded at the amount advanced to the customer plus directly attributable issue costs. Subsequently, receivables are increased by revenue and reduced by cash collections and deduction for impairment. Impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the loss arising on default (LGD).

On initial recognition, all accounts are recognised in IFRS 9 stage 1. When an account is deemed to have suffered a significant increase in credit risk, such as missing a payment, but they have not defaulted, they move to stage 2. When accounts default, after missing further payments or moving to a payment arrangement, they move into stage 3.

Vanquis Bank

Vanquis Bank has developed PD/LGD models which focus on forecasting customer behaviour to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to the customer's application score used in underwriting the credit card. The LGD for Vanquis Bank card customers represents the current balance on the card plus future expected spend and interest. It does not include any credit line increases which a customer may become eligible for after the balance sheet date.

Lifetime losses are recognised when a significant increase in credit risk is evident, either from a missed monthly payment or an increase in credit score. Revenue continues to be recognised on the gross receivable until the customer defaults.

A customer is deemed to have defaulted when they become three minimum monthly payments in arrears, they enter a payment arrangement or if there is evidence of a further significant increase in credit score.

CCD

CCD has created a PD/LGD model for customers who are up to date or have missed one payment in the last 12 weeks to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months utilising historic repayment data excluding data from 2017 which is not deemed to be indicative of future performance given the operational disruption at that time within the home credit business.

Lifetime losses are then recognised using a discounted cash flow model when a significant increase in credit risk is evident from two missed weekly payments in the last 12 weeks.

A customer is deemed to have defaulted when the customer would typically no longer be eligible to be re-served with a subsequent loan which is considered to be five missed weekly payments in the last 12 weeks.

For certain loans the presumption of 30 days in respect of the definition of significant increase in credit risk and 90 days for the definition of default has been rebutted. This is supported by historical data which supports payment recency as a better indicator of the degree of impairment than overall days past due.

Moneybarn

Moneybarn has created a PD/LGD model to calculate an expected loss impairment provision in accordance with IFRS 9.

Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months. This is determined with reference to historical customer's data and outcomes.

Lifetime losses are then recognised when a significant increase in credit risk is evident from a missed monthly payment.

A customer is deemed to have defaulted when they are no longer able to sustain payments under their agreement and the agreement is subsequently terminated.

Customers are moved to IFRS 9 stage 3 and lifetime losses are recognised for all divisions where forbearance is provided to the customer and alternative payment arrangements are established. Customers under payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows under that payment arrangement, discounted at the original effective interest rate.

Separate macro-economic provisions are created to reflect the expected impact of future economic events on a customers ability to make payments on their accounts. For Vanquis Bank, downturns in unemployment rates and for Moneybarn deterioration in both unemployment and the used car market are used to calculate separate provisions which are held in addition to the core provisions for accounts in stages 1 to 3. Within CCD, there is no separate macro-economic provision applied as its customers are not reflective of the wider economy as they are less indebted and are therefore not impacted by the same macro-economic factors.

Property, plant and equipment

Property, plant and equipment is shown at cost less accumulated depreciation and impairment, except for land, which is shown at cost less impairment.

Cost represents invoiced cost plus any other costs that are directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated to write down assets to their estimated realisable values over their useful economic lives.

The following principal bases are used:

	%	Method
Land	Nil	–
Short leasehold buildings	Over the lease period	Straight line
Equipment (including computer hardware)	10 to 33 ⅓	Straight line
Motor vehicles	25	Reducing balance

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date. All items of property, plant and equipment, other than land, are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Land is subject to an annual impairment test. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use and its fair value less costs to sell. Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying value of the asset and are recognised within administrative costs in the income statement.

Depreciation is charged to the income statement as part of administrative and operating costs.

Investments

Investments held at fair value through other comprehensive income (OCI)

Visa Inc. shares classed as equity investment holdings are measured at fair value in the balance sheet as a reliable estimate of the fair value can be determined.

Fair value changes including any impairment losses and foreign exchange gains or losses are recognised directly in equity through other comprehensive income. The fair value of monetary assets denominated in foreign currency are determined through translation at the spot rate at the balance sheet date.

Dividends on equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

The cumulative gain or loss that is recognised in equity is recycled to the income statement on disposal of the equity holding.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand which includes amounts invested in the Bank of England account held in accordance with the Prudential Regulation Authority's (PRA) liquidity regime. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Statement of accounting policies *continued*

Derivative financial instruments

The Group and the Company use derivative financial instruments, principally interest rate swaps and forward contracts, to manage the interest rate and foreign exchange rate risk arising from the Group's operations in the UK and Republic of Ireland. No transactions of a speculative nature are undertaken.

All derivative financial instruments continue to be assessed against the hedge accounting criteria set out in IAS 39, 'Financial instruments: Recognition and measurement' as permitted under IAS 39. Derivative financial instruments that meet the hedge accounting requirements of IAS 39 are designated as either: hedges of the fair value of recognised assets, liabilities or firm commitments (fair value hedges); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operations.

The relationship between hedging instruments and hedged items is documented at the inception of a transaction, as well as the risk management objectives and strategy for undertaking various hedging transactions. The assessment of whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items is documented, both at the hedge inception and on an ongoing basis.

Derivative financial instruments are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date to their fair value. Where derivative financial instruments do not qualify for hedge accounting, movements in the fair value are recognised immediately within the income statement. Where hedge accounting criteria have been met, the resultant gain or loss on the derivative financial instrument is recognised as follows:

Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as part of finance costs. Amounts deferred in equity are recognised in the income statement when the income or expense on the hedged item is recognised in the income statement.

Hedge accounting for cash flow hedges is discontinued when:

> It is evident from testing that a derivative financial instrument is not, or has ceased to be, highly effective as a hedge; or

> The derivative financial instrument expires, or is sold, terminated or exercised; or

> The underlying hedged item matures or is sold or repaid.

When a cash flow hedge expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss deferred in equity at that time is immediately transferred to the income statement.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 17. Movements on the hedging reserve in shareholders' equity are shown in note 27. The full fair value of a derivative financial instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months from the balance sheet date and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months from the balance sheet date.

Net investment hedges

The Group uses a combination of borrowings denominated in overseas currencies and foreign currency forward contracts as a hedge against the translation exposure on the Company's net investment in the Republic of Ireland. Where the hedge is fully effective at hedging the variability in the net assets of those operations and/or the Company's investment caused by changes in exchange rates, the changes in value of the borrowings and forward contracts are recognised in the statement of comprehensive income and accumulated in the hedging reserve. When a hedge is no longer deemed to be highly effective, the ineffective part of any change in value caused by changes in exchange rates is recognised in the income statement. Amounts recognised in equity are recycled to the income statement on disposal of the foreign operation.

Borrowings

Borrowings are recognised initially at fair value, being issue proceeds less any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds less transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate.

Borrowings are classified as current liabilities unless the Group or Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Dividends paid

Dividend distributions to the Company's shareholders are recognised in the Group and the Company's financial statements as follows:

> Final dividend: when approved by the Company's shareholders at the Annual General Meeting; and

> Interim dividend: when paid by the Company.

Retirement benefits

Defined benefit pension schemes

The charge in the income statement in respect of defined benefit pension schemes comprises the actuarially assessed current service cost of working employees, together with the interest on pension liabilities offset by the interest on pension scheme assets. All charges are recognised within administrative costs in the income statement.

The retirement benefit asset recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of the schemes' assets less the present value of the defined benefit obligation at the balance sheet date. A retirement benefit asset is recognised to the extent that the Group and Company have an unconditional right to a refund of the asset or if it will be recovered in future years as a result of reduced contributions to the pension scheme.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement.

Defined contribution pension schemes

Contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Merger reserve

The rights issue completed in April 2018 was transacted through a 'cash box' structure. The proceeds would ordinarily be recognised as share capital and share premium. However, as the proceeds were generated through a cash box structure, the proceeds are held as share capital and a merger reserve.

The share capital generated is in line with the 20 $^{8}/_{11}$ par value of the shares with the additional amounts credited to the merger reserve. All fees are recognised on an accruals basis and have been deducted from the merger reserve with the net credit being deemed distributable, subject to the capital injected into Vanquis Bank.

Share-based payments

Equity-settled schemes

The Company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)) and makes awards under the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS). All of these schemes are equity-settled.

The cost of providing options and awards to Group and Company employees is charged to the income statement of the entity over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity. The grant by the Company of options and awards over its equity instruments to the employees of subsidiary undertakings is treated as an investment in the Company's financial statements. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding adjustment to the share-based payment reserve within equity.

The cost of options and awards is based on their fair value. For PSP schemes, the performance conditions are based on earnings per share (EPS). Accordingly, the fair value of options and awards is determined using a binomial option pricing model which is a suitable model for valuing options with internal related targets such as EPS. A binomial model is also used for calculating the fair value of SAYE options which have no performance conditions attached. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting, with a corresponding adjustment to the share-based payment reserve.

For LTIS schemes, performance conditions are based on EPS, Total Shareholder Return (TSR) versus a peer group and risk metrics. Employees of Vanquis Bank, CCD and Moneybarn also have targets relating to profit before tax of their division. The fair value of awards is determined using a combination of the binomial and Monte Carlo option pricing models. The value of the charge is adjusted at each balance sheet date to reflect lapses and expected or actual levels of vesting. Where the Monte Carlo option pricing model is used to determine fair value of the TSR component, no adjustment is made to reflect expected or actual levels of vesting as the probability of the awards vesting is taken into account in the initial calculation of the fair value of the awards.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest or lapse. In respect of the SAYE options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the options are exercised.

Cash-settled schemes

The Company also grants awards under the Provident Financial Equity Plan (PFEP) to eligible employees based on a percentage of their salary. The cost of the awards is based on the performance conditions of either divisional profit before tax or EPS and TSR growth compared to a comparative group. The scheme is cash settled.

The cost of the award is charged to the income statement over the vesting period and a corresponding credit is made within liabilities. The value of the charge is adjusted at each balance sheet date to reflect expected levels of vesting.

Taxation

The tax charge represents the sum of current and deferred tax.

Current tax

Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Statement of accounting policies *continued*

Contingent liabilities

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but information about them is disclosed unless the possibility of any economic outflow in relation to settlement is remote.

Exceptional items

Exceptional items are items that are unusual because of their size, nature or incidence and which the directors consider should be disclosed separately to enable a full understanding of the Group's results.

Supplementary information

In order to assist users of the financial statements, supplementary commentary has been provided within the financial statements within highlighted boxes. This supplementary information does not form part of the statutory, audited financial statements.

Critical accounting assumptions and key sources of estimation uncertainty

In applying the accounting policies set out above, the Group and Company make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions that affect the reported amounts of assets and liabilities. The estimates and assumptions are based on historical experience, actual results may differ from these estimates.

Amounts receivable from customers (£2,162.9m)

Critical accounting assumptions:

The Group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The Group makes assumptions to determine whether there is objective evidence that credit risk has increased significantly which indicates that there has been an adverse effect on expected future cash flows.

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

Key sources of estimation uncertainty:

> The level of impairment in each of the Group's businesses is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage, and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment, product mix and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, a material adjustment to the carrying value of amounts receivable from customers may be required; and

> To the extent that the net present value of estimated future cash flows differs by +/– 1%, it is estimated that the amounts receivable from customers would be approximately £21m (2017: £23m) higher/lower. Given the trading performance of the home credit business since 2017, the suitability of the 1% sensitivity has been reviewed and considered appropriate given ongoing improvement in collections performance and the linear relationship of the impact.

Retirement benefit asset (£83.9m)

Key sources of estimation uncertainty:

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

> Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the Group's own expected experience. 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. Inflation assumptions reflect long-term market expectations for retail price inflation.

Sensitivity analysis of the Group's main assumptions are set out in note 19.

Provisions for customer redress (£53.2m)

Critical accounting assumptions:

Provisions for customer redress are established based on the following conditions being present: (i) a present obligation (legal or constructive) has arisen as a result of a past event; (ii) payment is probable (more likely than not); and (iii) the amount can be estimated reliably. Judgement is applied to determine whether the criteria for establishing and retaining a provision have been met, including obtaining legal advice from the Group's lawyers. Any provisions established are based on either: (i) the basis of any settlement agreed with the FCA; (ii) any future claims which may arise outside the settlement agreement reached with the FCA; and (iii) the expected costs of administering the redress programme. Judgement is applied to determine the quantum of such liabilities, particularly those relating to future claims volumes, including making assumptions regarding the number of future complaints that may be received and the extent to which they may be upheld, average redress payments and related administrative costs. Past experience is used as a predictor of future expectations with management applying overlays where necessary depending on the nature and circumstances of any restitution programme.

The total amount provided for redress represents the Group's best estimate of the likely future cost. However, a number of risks and uncertainties remain in particular with respect to future claim volumes outside of any settlement agreed with the FCA. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required.

Key sources of estimation uncertainty are:

> There is significant uncertainty around the impact of the proposed regulatory changes, FCA media campaign and claims management companies and customer activity; and

> Sensitivity analysis of the Group's main assumptions is set out in note 24.

Financial and capital risk management

Financial risk management

The Group's activities expose it to a variety of financial risks, which can be categorised as credit risk, liquidity risk, interest rate risk, foreign exchange rate risk and market risk. The objective of the Group's risk management framework is to identify and assess the risks facing the Group and to minimise the potential adverse effects of these risks on the Group's financial performance. Financial risk management is overseen by the Group Risk Committee.

Further details of the Group's risk management framework are described on pages 44 to 54.

(a) Credit risk

Credit risk is the risk that the Group will suffer loss in the event of a default by a customer, bank counterparty or the UK Government. A default occurs when the customer or bank fails to honour repayments as they fall due.

(i) Amounts receivable from customers

The Group's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2018 is the carrying value of amounts receivable from customers of £2,162.9m (2017: £2,309.4m).

Vanquis Bank

Credit risk within Vanquis Bank is managed by the Vanquis Bank credit committee which meets at least quarterly and is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy.

A customer's risk profile and the affordability of the credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historic payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income and employment and data from an external credit bureau. Potential new customers receive a welcome call from the contact centre to verify details and complete the underwriting process. Initial credit limits are low, typically between £250 and £500 and the maximum credit limit is £4,000.

For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' default risk with payment performance information with other lenders' data. Credit lines can increase or decrease according to this point-in-time risk assessment.

Arrears management is a combination of central letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing or appropriate forbearance arrangements are put in place.

CCD

Credit risk within CCD is managed by the CCD Credit Committee which meets at least 8 times per year and is responsible for reviewing credit risk, performance of the portfolio and approving model/scorecard changes. The Credit Committee makes recommendations on credit strategy to the CCD MD for approval.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, affordability assessment processes, and a home visit in the home credit business to make a decision on applications for credit.

The loans offered by the weekly home credit business are short term, typically a contractual period of around a year, with an average value of approximately £600. The loans are underwritten in the home by a Customer Experience Manager (CEM) based on consideration of any previous lending experience with the customer, affordability and the CEM's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the CEM typically visits the customer weekly, to collect payment. The CEM is well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the CEM has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This forbearance can be in the form of taking part-payments, allowing missed payments or other payment arrangements in order to support customers with their repayments.

Affordability is reassessed by the CEM each time an existing customer is re-served.

Arrears management within the home credit business is a combination of central letters, text messages, emails, central telephony, and field activity undertaken by field management. This will often involve a home visit to discuss the customer's reasons for non-payment and to agree a suitable resolution, based on an affordability assessment where required.

The loans offered by the Satsuma business are short-term, with a contractual period of between 3 and 12 months, or weekly equivalent, and an average value of around £450. The loans are underwritten using credit decisioning, enhanced with the use of external credit bureau data, and regularly refined as the business grows. An affordability assessment is performed on all lending decisions.

Satsuma collections processes are undertaken utilising the collections capabilities at Vanquis Bank. Contact Centre representatives are engaged at an early stage to optimise collections performance and work closely with customers, and for those customers whose circumstance have changed, representatives utilise their extensive range of forbearance measures, based on an affordability assessment where required.

Moneybarn

Credit risk within Moneybarn is managed by the Moneybarn credit committee which meets at least monthly and is responsible for approving underwriting parameters, decisioning strategy and credit control policy.

A customer's credit risk profile and ability to afford the proposed contract is initially evaluated both at the point of application, and subsequently should the customer fall into arrears. A scorecard based on historic payment patterns of customers is used to assess the applicant's potential default risk. The scorecard incorporates data from the applicant, such as income and employment, and data from an external credit bureau. The application assessment process involves verification of key aspects of the customer data. Certain policy rules including customer profile, proposed loan size and vehicle type are also assessed in the decisioning process, as well as affordability checks to ensure that, at the time of application, the loan repayments are affordable.

Financial and capital risk management *continued*

Arrears management is conducted by way of a combination of letters, inbound and outbound telephony, SMS, email and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and specific strategies are employed to support the customer in returning to a good standing and retaining use of the vehicle. These include appropriate forbearance arrangements, or where the contract has become unsustainable for the customer, then an appropriate exit strategy is implemented.

(ii) Bank and government counterparties

The Group's maximum exposure to credit risk on bank and government counterparties as at 31 December 2018 was £427.3m (2017: £301.7m).

Counterparty credit risk arises as a result of cash deposits placed with banks, central government and the use of derivative financial instruments with banks and other financial institutions which are used to hedge interest rate and foreign exchange rate risk.

Counterparty credit risk is managed by the Group's Treasury Committee and is governed by a Board-approved counterparty policy which ensures that the Group's cash deposits and derivative financial instruments are only made with high-quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, regardless of credit rating. This is linked to the Group's regulatory capital base in line with the Group's regulatory reporting requirements on large exposures to the PRA.

(b) Liquidity risk

Liquidity risk is the risk that the Group will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due.

Liquidity risk is managed by the Group's centralised treasury department through daily monitoring of expected cash flows in accordance with a Board-approved Group funding and liquidity policy. This process is monitored regularly by the Treasury Committee.

The Group's funding and liquidity policy is designed to ensure that the Group is able to continue to fund the growth of the business. The Group therefore maintains headroom on its committed borrowing facilities to fund growth within CCD and Moneybarn and contractual maturities on its bank, private placement and bond funding for at least the following 12 months. As at 31 December 2018, the Group's committed borrowing facilities including retail deposits, had a weighted average period to maturity of 2.3 years (2017: 2.3 years) and the headroom on these committed facilities amounted to £327.4m.

Vanquis Bank is a PRA regulated institution and is fully funded via retail deposits. It is required to maintain a liquid assets buffer, and other liquid resources, based upon daily stress tests, in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. It also maintains an operational buffer over such requirements in line with the Bank's risk appetite. As at 31 December 2018, the liquid assets buffer, including other liquid resources and the operational buffer, held by Vanquis Bank amounted to £420.6m (2017: £263.4m), comprising £384.9m (2017: £227.5m) held within cash and cash equivalents and £35.7m (2017: £35.9m) held as an investment.

Both the Group and Vanquis Bank are required to meet the liquidity coverage ratio (LCR). The LCR requires institutions to match net liquidity outflows during a 30-day period with a buffer of 'high-quality' liquid assets.

The Group and Vanquis Bank developed systems and controls to monitor and forecast the LCR and have been submitting regulatory reports on the ratio since 1 January 2014. The Group's LCR at 31 December 2018 amounted to 688% (2017: 189%). Both the Group and Vanquis Bank continue to meet the LCR requirements.

The Group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the Group's borrowings extend over a number of years. The Group's funding strategy is to maintain diversification in its funding and, as such, currently accesses three main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) market funding, including retail bonds, institutional bonds and private placements; and (iii) retail deposits which fully funds the ring-fenced Vanquis Bank. The Group will continue to explore further funding options as appropriate, including but not limited to the refinancing of the syndicated revolving bank facility and further private placements and institutional bond issuance.

A maturity analysis of the undiscounted contractual cash flows of the Group's bank and other borrowings, is shown overleaf.

This reflects both the interest payable and the repayment of the borrowing on maturity. Due to the seasonal nature of the home credit business, drawings under the Group's revolving bank facilities are typically drawn for only three months at any time despite having the ability to draw the borrowings for much longer under the committed borrowing facility. Retail deposits maturity within Vanquis Bank are also matched to the average life of a credit card customer. In the table overleaf, the cash flows of borrowings made under the Group's syndicated revolving bank facility are required to be shown as being due within one year, despite the Group having the ability to redraw these amounts until the contractual maturity of the underlying facility.

Financial risk management *continued*

Financial liabilities

2018 – Group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Retail deposits	–	347.0	390.6	766.9	–	1,504.5
Bank and other borrowings:						
> bank facilities	7.0	125.5	–	–	–	132.5
> senior public bonds	–	47.2	17.5	35.0	267.5	367.2
> private placement loan notes	–	17.9	26.4	25.4	–	69.7
> retail bonds	–	8.9	33.1	75.1	63.1	180.2
Total borrowings	7.0	546.5	467.6	902.4	330.6	2,254.1
Trade and other payables	–	91.8	–	–	–	91.8
Total	7.0	638.3	467.6	902.4	330.6	2,345.9

Financial assets

2018 – Group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Trade and other receivables	–	49.6	–	–	–	49.6
Total	–	49.6	–	–	–	49.6

Financial liabilities

2017 – Group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Retail deposits	–	363.6	288.8	712.0	–	1,364.4
Bank and other borrowings:						
> bank facilities	3.1	388.5	–	–	–	391.6
> senior public bonds	–	20.0	270.0	–	–	290.0
> private placement loan notes	–	38.7	17.9	52.1	–	108.7
> retail bonds	–	8.9	8.8	108.2	63.1	189.0
Total borrowings	3.1	819.7	585.5	872.3	63.1	2,343.7
Trade and other payables	–	96.9	–	–	–	96.9
Total	3.1	916.6	585.5	872.3	63.1	2,440.6

Financial assets

2017 – Group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Trade and other receivables	–	44.0	–	–	–	44.0
Total	–	44.0	–	–	–	44.0

Financial and capital risk management *continued*

Financial risk management *continued*

(c) Interest rate risk

Interest rate risk is the risk of a change in external interest rates which leads to an increase in the Group's cost of borrowing.

The Group's exposure to movements in interest rates is managed by the Treasury Committee and is governed by a Board-approved interest rate hedging policy which forms part of the Group's treasury policies.

The Group seeks to limit the net exposure to changes in interest rates. This is achieved through a combination of issuing fixed-rate debt and by the use of derivative financial instruments such as interest rate swaps.

A 2% movement in the interest rate applied to borrowings during 2018 and 2017 would not have had a material impact on the Group's profit before taxation or equity as the Group's interest rate risk was substantially hedged given that the Group's receivables can be re-priced over a relatively short timeframe.

(d) Foreign exchange rate risk

Foreign exchange rate risk is the risk of a change in foreign currency exchange rates leading to a reduction in profits or equity.

The Group's exposure to movements in foreign exchange rates during 2018 arose from the home credit operations in the Republic of Ireland which are generally hedged by matching euro-denominated net assets with euro-denominated borrowings or forward contracts as closely as practicable.

As at 31 December 2018, a 2% movement in the sterling to euro exchange rate would have led to a £0.8m (2017: £0.9m) movement in customer receivables with an opposite movement of £0.8m (2017: £0.9m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been a minimal impact on reported profits and equity.

As at 31 December 2018, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.2m (2017: £0.2m) movement in the investment held at fair value through other comprehensive income and a £0.2m impact on equity.

(e) Market risk

Market risk is 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.

(f) Brexit

The UK's EU referendum on 23 June 2016 resulted in a decision to leave the EU (Brexit). The Government has so far been unable to negotiate a withdrawal deal with the UK to the satisfaction of the UK Parliament and therefore the UK may leave the EU without a withdrawal agreement on 29 March 2019.

Brexit has led to a significant amount of instability in the UK economy and capital markets over the last 30 months, albeit unemployment levels have remained stable and there has not been any significant impact on the Group's businesses to date.

Despite any potential second order risks of Brexit, the Group has proven resilient during previous economic downturns due to the specialist business models deployed by its divisions which are tailored to serving non-standard customers. In addition, all four of the Group's businesses – Vanquis Bank, Moneybarn, Provident home credit and Satsuma – have tightened underwriting over the last two years in advance of a potential weakening in the UK economy.

The Group's only direct exposure to the EU is the home credit operation in the Republic of Ireland. This represents c.15% of the home credit business and is, therefore, relatively immaterial to the Group as a whole. The foreign exchange exposure to the Republic of Ireland operation is hedged through a net investment hedge.

The Group has current committed facilities to fund growth and contractual maturities until May 2020, when the current syndicated bank facility is due to mature, assuming ongoing access to retail deposits to fully fund Vanquis Bank. No effect is anticipated on Vanquis Bank's ability to access retail deposits, although it maintains a minimum operational buffer over its liquid requirements stipulated by the PRA to withstand any short term disruption. In line with the Group's treasury policy, the Group is in discussions with its lending banks with a view to refinancing the current syndicated revolving bank facility 12 months in advance of its maturity. The Group's lending banks are predominantly UK based, have supported the Group for many years and have broader relationships through ancillary business such as transactional banking. In the event of a pro-longed period of market disruption and the closure of debt capital markets, then the Group has the ability to manage receivables growth and/or dividend flows.

The Group maintains regulatory capital headroom in excess of £50m, in line with the Board's risk appetite. Despite the need to absorb the continued transitional arrangements of IFRS 9, this headroom, together with the regulatory prescribed buffers, should be sufficient to withstand a potential downturn in economic conditions caused by Brexit.

Capital risk management

To support the delivery of the Group's purpose, the Group operates a financial model that is founded on investing in customer-centric businesses offering attractive returns which aligns an appropriate capital structure with the Group's dividend policy and future growth plans.

The minimum amount of regulatory capital held by the Group and Vanquis Bank represents the higher of the PRA imposed requirement, being their respective Total Capital Requirement (TCR) together with the CRD IV stipulated buffers, and their respective internal assessments of minimum capital requirements based upon an assessment of risks facing the Group. The Internal Capital Adequacy Assessment Process (ICAAP) considers all risks facing the business, including credit, operational, counterparty, conduct, pension and market risks, and assesses the capital requirement for such risks in the event of downside stresses.

The Group and Vanquis Bank continually monitor and assess the internal assessment of minimum regulatory capital requirements. The minimum regulatory capital requirements of each of the Group and Vanquis Bank reflects the TCR, together with a fixed add-on for the Group in respect of pension risk, and are 25.5% and 24.9% of total risk weighted assets, respectively. These assessments include: (i) fully loaded CRD IV buffers of 3.5% of total risk weighted assets comprising the capital conservation buffer (2.5%) and counter cyclical buffer (1.0%) effective from 1 January 2019; (ii) the minimum Pillar 1 prescribed requirement of 8.0% of risk weighted assets; and, (iii) Pillar 2a regulatory capital requirements of 14.0% and 13.4% of total risk weighted assets for the Group and Vanquis Bank, respectively.

The Board expects to maintain a suitable level of headroom in excess of £50m against this requirement to provide mitigation against the ongoing recovery of the Group, the regulatory backdrop and to support ongoing access to funding from the bank and debt capital markets.

IFRS 9 'Financial instruments' was effective from 1 January 2018 resulting in a reduction in receivables of £238.1m at 31 December 2017, which net of deferred tax, resulted in a reduction in net assets of £184.0m. The regulatory capital impact of IFRS 9 will be phased in on a transitional basis over five years, as follows: 5% was taken at the start of 2018 (£9m), 15% taken on 1 January 2019 (£18m), 30% in 2020 (£28m), 50% in 2021 (£37m), 75% in 2022 (£46m) and 100% from the start of 2023 (£46m). The Group's future capital generation, together with the minimum dividend cover of at least 1.4 times as the home credit business recovers and moves into profitability, will be managed to absorb the transitional impact of IFRS 9.

A reconciliation of the Group's equity to regulatory capital and the CET 1 ratio is set out below:

Regulatory capital	2018 IFRS 9 £m	2017 IAS 39 £m
Net assets	696.1	535.1
IFRS 9 transition (95% addback)	174.8	–
Pension	(83.9)	(102.3)
Deferred tax on pension	14.3	17.4
Goodwill	(71.2)	(71.2)
Other intangible assets	(55.0)	(79.4)
Deferred tax on acquired intangible asset	7.2	8.5
Proposed dividend	(25.1)	–
Total regulatory capital (Common Equity Tier 1)	**657.2**	308.1
Risk weighted exposures	2,209.2	2,118.0
CET 1 ratio	**29.7%**	14.5%

The CET 1 ratio of 29.7% at the end of 2018 provides headroom of c.£95m against the group's TCR of 25.5%. A reconciliation of the movement in regulatory capital during 2018 and 2017 is as follows:

Regulatory capital	2018 IFRS 9 £m	2017 IAS 39 £m
At 31 December	308.1	457.8
IFRS 9 transition adjustment (5%)	(9.2)	–
At 1 January	**298.9**	457.8
Profit before tax, amortisation of acquisition intangibles and exceptional items	153.5	109.1
Exceptional items	(55.3)	(224.6)
Add back amortisation of intangible assets	24.5	11.7
Deduct intangible asset additions	(7.6)	(20.5)
Add back pension charge/(credit)	6.5	(1.7)
Deduct pension contributions	(9.8)	(10.7)
Add back share-based payment charge/(credit)	1.1	(3.4)
Tax and other	(29.7)	(9.4)
Regulatory capital generated/(absorbed) from operations	**83.2**	(149.5)
Shareholder capital movements:		
Shares issued	300.2	0.4
Purchase of treasury shares	–	(0.1)
Dividends accrued	(25.1)	–
Dividends paid exceed dividends accrued	–	(0.5)
At 31 December	**657.2**	308.1

The Treasury Committee is responsible for monitoring the level of regulatory capital. The level of surplus regulatory capital against the TCR is reported to the Board on a monthly basis in the Group's management accounts.

Notes to the financial statements

1 Segment reporting

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The Group's chief operating decision maker is deemed to be the ExCo whose primary responsibility is to support the CEO in managing the Group's day-to-day operations and analyse trading performance. The Group's segments comprise Vanquis Bank, CCD, Moneybarn and Central which are those segments reported in the Group's management accounts used by the ExCo as the primary means for analysing trading performance. The ExCo assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the Group financial statements.

	Revenue		Profit/(loss) before taxation	
Group	**2018 IFRS 9 £m**	2017 IAS 39 £m	**2018 IFRS 9 £m**	2017 IAS 39 £m
Vanquis Bank	**650.3**	638.8	**184.3**	206.6
CCD	**342.2**	451.2	**(38.7)**	(118.8)
Moneybarn	**131.9**	106.3	**28.1**	34.1
Central costs	**–**	–	**(20.2)**	(12.8)
Total Group before amortisation of acquisition intangibles and exceptional items	**1,124.4**	1,196.3	**153.5**	109.1
Amortisation of acquisition intangibles	**–**	–	**(7.5)**	(7.5)
Exceptional items	**–**	–	**(55.3)**	(224.6)
Total Group	**1,124.4**	1,196.3	**90.7**	(123.0)

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 2018 amounted to £7.5m (2017: £7.5m).

Exceptional items comprise:

	2018 £m	2017 £m
CCD costs in respect of the migration to the new home credit operating model	**29.9**	32.5
Premium and fees on redemption of senior bond (see note 3)	**18.5**	–
Pension charges in respect of GMP equalisation (see note 19)	**6.9**	–
Estimated costs of settlement of the FCA investigation into ROP at Vanquis Bank (see note 24)	**–**	172.1
Estimated costs of settlement of the FCA investigation at Moneybarn (see note 24)	**–**	20.0
Total exceptional items	**55.3**	224.6

Exceptional charges of £55.3m (2017: £224.6m) have been recognised in 2018 comprising: (i) £29.9m in respect of intangible and tangible asset write offs, redundancy and consultancy costs associated with the implementation of the home credit recovery plan following the poor execution of the migration to the new operating model in July 2017 (2017: £32.5m); (ii) £18.5m in respect of the 8% premium and fees paid on the redemption of 89% of the £250m senior bonds maturing in October 2019 (2017: £nil) and (iii) £6.9m of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018 (2017: £nil). 2017 exceptional costs also included £172.1m following the resolution of the FCA investigation into ROP in Vanquis Bank and £20.0m in respect of the FCA investigation into affordability, forbearance and termination options at Moneybarn.

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

	Segment assets		Segment liabilities		Net assets/(liabilites)	
Group	**2018 IFRS 9 £m**	2017 restated IAS 39 £m	**2018 IFRS 9 £m**	2017 restated IAS 39 £m	**2018 IFRS 9 £m**	2017 restated IAS 39 £m
Vanquis Bank	**1,958.7**	1,854.5	**(1,577.4)**	(1,559.1)	**381.3**	295.4
CCD	**342.6**	454.4	**(352.1)**	(341.8)	**(9.5)**	112.6
Moneybarn	**438.9**	393.5	**(421.9)**	(350.8)	**17.0**	42.7
Central	**368.7**	182.7	**(61.4)**	(98.3)	**307.3**	84.4
Total before intra-group elimination	**3,108.9**	2,885.1	**(2,412.8)**	(2,350.0)	**696.1**	535.1
Intra-group elimination	**(187.7)**	80.8	**187.7**	(80.8)	**–**	–
Total Group	**2,921.2**	2,965.9	**(2,225.1)**	(2,430.8)	**696.1**	535.1

Historically, segment net assets have reflected the statutory basis of the companies forming the Group's business segments adjusted to assume repayment of intra-group balances and rebasing of the borrowings of CCD to reflect the Group's target capital ratio. Due to the significant losses incurred by CCD in 2017, CCD's statutory net assets are now considerably lower than the Group's target capital ratio. As a result, the presentation of segment net assets has been adjusted to show 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 intra-group funding provided to the divisions and the external funding raised centrally. Comparatives have been restated onto a similar basis which has resulted in CCD's net assets at 31 December 2017 reducing from £180.1m to £112.6m and central net assets increasing from £16.9m to £84.4m.

Vanquis Bank segment net assets have increased due to profit generated in the year and a £50.0m increase in capital from the Company following the rights issue, partly offset by the adoption of iFRS 9 on net assets. CCD segment net assets have reduced due to the adoption of IFRS 9 and the loss generated in the year. Moneybarn segment net assets have decreased due to adoption of IFRS 9 partly offset by profit generated in the year. Central net assets have increased predominantly due to the net proceeds of the rights issue.

1 Segment reporting *continued*

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

	Capital expenditure		Depreciation		Amortisation	
Group	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Vanquis Bank	**3.7**	6.5	**1.2**	1.7	**2.7**	2.8
CCD	**6.1**	24.8	**5.6**	5.2	**8.3**	8.3
Moneybarn	**1.4**	1.0	**0.7**	0.6	**0.7**	0.6
Central	**1.7**	0.4	**1.6**	1.8	**7.5**	7.5
Total Group	**12.9**	32.7	**9.1**	9.3	**19.2**	19.2

Capital expenditure in 2018 comprises expenditure on intangible assets of £7.6m (2017: £20.5m) and property, plant and equipment of £5.3m (2017: £12.2m).

The acquired intangible asset in respect of Moneybarn's broker relationships is held on consolidation and, therefore, the amortisation charge has been allocated to central in the above analysis, consistent with the segment net asset analysis.

2 Revenue

Revenue is recognised by applying the effective interest rate (EIR) to the carrying value of a loan. The EIR is calculated at inception and represents the rate which exactly discounts the future contractual cash receipts from a loan to the amount of cash advanced under that loan, plus directly attributable issue costs (e.g. aggregator/broker fees). In addition, in Moneybarn the EIR takes account of customers repaying early and in CCD customers repaying early or beyond term, but who have not defaulted. Fee income is recognised at the time the charges are made to the customer on the basis the performance is complete. As a result, the introduction of IFRS 15, effective from 1 January 2018, has not had a material impact on the Group or Company.

	Group	
	2018 IFRS 9 £m	2017 IAS 39 £m
Interest income	**976.9**	1,047.5
Fee income	**147.5**	148.8
Total revenue	**1,124.4**	1,196.3

All fee income earned relates to Vanquis Bank and Moneybarn.

Interest income relates to the interest charges on Vanquis Bank credit cards and Moneybarn conditional sale agreements together with the service charge on home credit and Satsuma loans. Fee income relates to Vanquis Bank and Moneybarn and predominantly reflects default and over-limit fees as well as other ancillary income streams such as ROP fees within Vanquis Bank. Interchange income is also recognised within Vanquis Bank as part of fee income on an accruals basis. Fee income in 2018 represented 22% (2017: 23%) of Vanquis Bank revenue and 1% (2017: 1%) of Moneybarn revenue.

3 Finance costs

	Group	
Interest payable on:	**2018 £m**	2017 £m
Bank borrowings	**11.0**	10.7
Senior public and retail bonds	**29.1**	36.0
Private placement loan notes	**3.7**	5.0
Retail deposits	**29.4**	25.3
Exceptional premium and fees on redemption of senior bond (note 1)	**18.5**	–
Total finance costs	**91.7**	77.0

The Group's blended funding rate in 2018 was 4.4%, down from 4.5% in 2017. This primarily reflects a lower average blended rate on retail deposits and the increased mix of retail deposits. Retail deposits represent approximately 70% of the Group's funding at the end of 2018 compared with approximately 59% in 2017 as Vanquis Bank is now fully funded through retail deposits. The all-in blended cost of taking retail deposits in 2018, after the cost of holding a liquid assets buffer and other liquid resources in adherence with the PRA's liquidity regime, and an operation buffer, was 3.3% (2017: 2.9%).

Interest cover continues to be one of the Group's banking covenants. It is calculated as IAS 39 profit before tax and exceptional items, interest and amortisation divided by finance costs, and has a minimum requirement of 2.0 times. Interest cover, prior to exceptional items, in 2018 was 3.2 times compared with 2.6 times in 2017. The increase in this measure reflects the impact of the significant trading disruption within the home credit business during 2017.

Notes to the financial statements *continued*

4 Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging/(crediting):	Group 2018 IFRS 9 £m	2017 IAS 39 £m
Amortisation of other intangible assets:		
> computer software (note 11)	**11.7**	11.7
> acquisition intangibles (note 11)	**7.5**	7.5
Depreciation of property, plant and equipment (note 12)	**9.1**	9.3
Loss on disposal of property, plant and equipment (note 12)	**–**	0.6
Operating lease rentals:		
> property	**8.8**	14.1
Impairment of amounts receivable from customers (note 14)	**410.4**	511.2
Employment costs (prior to exceptional redundancy costs and curtailment credit) (note 9(b))	**234.4**	204.6
Exceptional items:		
Premium and fees on redemption of senior bond (note 22(e))	**18.5**	–
Pension charges in respect of GMP equalisation (note 19(a))	**6.9**	–
Exceptional curtailment credit (note 19(a))	**(0.6)**	(3.9)
Exceptional redundancy cost in CCD (note 9)	**4.8**	18.4
Exceptional intangible impairment charge (note 11)	**12.8**	–
Exceptional property, plant and equipment impairment charge (note 12)	**1.0**	–
Exceptional retention, training and consultancy costs in CCD	**11.9**	18.0
Exceptional release of impairment provision as part of balance reduction at Vanquis Bank (note 14)	**–**	(14.7)
Estimated costs of settlement of the investigation into ROP at Vanquis Bank (note 24)	**–**	186.8
Exceptional release of impairment provision as part of balance reduction at Moneybarn (note 14)	**–**	(20.4)
Estimated costs of settlement of the FCA investigation at Moneybarn (note 24)	**–**	40.4

Administrative and operating costs include costs incurred in running the business, the largest of which is employment costs (see note 9), marketing and customer acquisition costs.

Auditor's remuneration	Group 2018 £m	2017 £m
Fees payable to the Company's auditor for the audit of Company and consolidated financial statements	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services:		
> audit of Company's subsidiaries pursuant to legislation	**0.7**	0.9
> other non audit services	**0.1**	0.2
Total auditor's remuneration	**0.9**	1.2

An additional £0.6m (2017: £1.4m) was paid to the Company's auditor relating to work undertaken in respect of the rights issue in 2018. As these were directly attributable to the rights issue they were deducted from the proceeds within equity, they have therefore not been recognised in the income statement.

5 Tax charge

Tax charge in the income statement	Group 2018 IFRS 9 £m	2017 IAS 39 £m
Current tax		
UK	**(32.3)**	(5.1)
overseas	**0.3**	(0.2)
Total current tax	**(32.0)**	(5.3)
Deferred tax (note 20)	**2.2**	(6.7)
Impact of change in UK tax rate (note 20)	**(0.6)**	0.6
Total tax charge	**(30.4)**	(11.4)

The tax credit in respect of exceptional costs in 2018 amounts to £10.2m (2017: £3.8m) and represents: (i) tax relief of £5.5m in respect of the exceptional restructuring costs in CCD (2017: £6.2m); (ii) tax relief of £3.5m in respect of the premium and fees paid on redemption of £222.5m of the £250m senior bonds (2017: £nil); and (iii) tax relief of £1.2m in respect of the GMP equalisation charge in respect of the Group's defined benefit scheme (2017: £nil). The tax credit in 2017 comprised: (i) tax relief of £6.3m in respect of the estimated balance reductions and restitution payable to Moneybarn customers in respect of the FCA investigation and administration costs in respect of the FCA investigation into ROP in Vanquis Bank; and (ii) tax of £8.7m at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.25% on the 10% deemed taxable receipt on the settlements payable to customers as part of the settlement

5 Tax charge *continued*

of the FCA investigation into ROP in Vanquis Bank which are treated as bank compensation payments and the release of the related impairment provision.

The tax credit in respect of the amortisation of acquisition intangibles amounts to £1.3m (2017: £1.4m).

The effective tax rate for 2018, prior to the amortisation of acquisition intangibles and exceptional items, is 27.3% (2017: 15.1%). The increase in the rate principally reflects a tax credit in 2017 in respect of prior years, including a release of part of the provision for uncertain tax liabilities.

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015, changes were also enacted reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In 2016, a further change was enacted, which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2018 have been measured at 17% (2017: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2017: 25%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). In 2018, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.00% (2017: 19.25%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.00% (2017: 27.25%). A tax charge of £0.6m (2017: credit of £0.6m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.7m (2017: credit of £0.3m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

	Group	
Tax credit/(charge) on items taken directly to other comprehensive income	**2018 IFRS 9 £m**	2017 IAS 39 £m
Deferred tax charge on fair value movement in investment	**(0.5)**	(0.4)
Deferred tax credit/(charge) on actuarial movements on retirement benefit asset	**4.1**	(3.4)
Tax credit/(charge) on items taken directly to other comprehensive income prior to impact of change in UK tax rate	**3.6**	(3.8)
Impact of change in UK tax rate	**(0.7)**	0.3
Total tax credit/(charge) on items taken directly to other comprehensive income	**2.9**	(3.5)

The deferred tax charge of £0.5m (2017: £0.4m) on the fair value movements in investments represents the deferred tax at the combined mainstream corporation tax and bank corporation tax surcharge rates of 27.0% (2017: 27.25%) on the change in the valuation of the Visa Inc. preferred stock during the year.

The rate of tax charge on the profit (2017: loss) before taxation for the year is higher than (2017: higher than) the average rate of mainstream corporation tax in the UK of 19.00% (2017: 19.25%). This can be reconciled as follows:

	Group	
	2018 IFRS 9 £m	2017 IAS 39 £m
Profit/(loss) before taxation	**90.7**	(123.0)
Profit/(loss) before taxation multiplied by the average rate of mainstream corporation tax in the UK of 19.00% (2017: 19.25%)	**(17.2)**	23.7
Effects of:		
> impact of lower tax rates overseas	**(0.4)**	0.1
> adjustment in respect of prior years	**1.2**	22.5
> non-deductible general expenses	**(0.1)**	(0.2)
> impact of change in UK tax rate	**(0.6)**	0.6
> tax rate difference on tax losses carried back to prior years	**–**	0.6
> write off of deferred tax asset in relation to share-based payment reserve	**–**	(0.9)
> non-deductible bank compensation expenses	**–**	(35.3)
> additional 10% of bank compensation expenses	**–**	(3.5)
> non-deductible fines and expenses	**–**	(1.2)
> impact of bank corporation tax surcharge	**(13.3)**	(17.8)
Total tax charge	**(30.4)**	(11.4)

The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2017: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.00% (2017: 19.25%). In 2018, the home credit business in the Republic of Ireland made a loss (2017: profit) which can only be relieved against profits of the business in the Republic of Ireland at the 12.5% statutory tax rate rather than the 19.00% UK statutory tax rate. This gives rise to an adverse impact on the Group tax charge of £0.4m (2017: beneficial impact of £0.1m).

Notes to the financial statements *continued*

5 Tax charge *continued*

The £1.2m credit (2017: £22.5m credit) in respect of prior years represents the benefit of resolving historic tax liabilities, securing tax deductions for employee share awards which are higher than those originally anticipated and, in the case of 2017, the release of part of the provision for uncertain tax liabilities which is no longer required.

The £0.6m adverse impact (2017: £0.6m beneficial impact) on the tax charge due to the change in UK tax rate arises because movements in deferred tax balances during the year have been measured at the mainstream corporation tax rate for the year of 19.0% (2017: 19.25%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.0% (2017: 27.25%) whereas deferred tax balances at 31 December 2018 have been measured at 17% (2017: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2017: 25%).

In 2017, the £0.6m impact of the change in UK tax rate on tax losses carried back represents the benefit of carrying back 2017 tax losses in CCD to 2016 when the higher mainstream corporation tax rate of 20% applied.

Deferred tax assets are typically recognised on share-based payment charges on the basis that these represent a good estimate of the tax relief that will be available when the share awards vest. In 2017, the write off of the deferred tax asset of £0.9m (2018: £nil) represents the reduction in tax relief expected to arise because of the reduction in the share price, where such reduction in share price has not been reflected through the share-based payments charges.

The settlements payable to Vanquis Bank customers in 2017 following the resolution with the FCA are, in accordance with the bank compensation provisions which apply to banking companies, non-deductible in computing Vanquis Bank's profits for tax purposes. This gave rise to an adverse impact on the tax charge of £35.3m (2018: £nil). It also gives rise to an additional 10% deemed taxable receipt under the bank compensation provisions which is intended to equate to a disallowance of the administration costs associated with the compensation. This gives rise to a further adverse impact on the tax charge for 2017 of £3.5m (2018: £nil).

In 2017, the actual and estimated fines levied by the FCA and certain other expenses were not tax deductible for both Vanquis Bank and Moneybarn. This gave rise to an adverse impact on the 2017 tax charge of £1.2m (2018: £nil).

The adverse impact of the bank corporation tax surcharge amounts to £13.3m (2017: £17.8m) and represents tax at the bank corporation tax surcharge rate of 8% on Vanquis Bank's taxable profits in excess of £25m where taxable profits are calculated after adding back bank compensation payments, the 10% deemed taxable receipt, the FCA fine and other add backs.

6 Earnings/(loss) per share

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

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

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

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

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

Group	2018 IFRS 9 Earnings £m	Weighted average number of shares m	Per share amount pence	2017 restated IAS 39 Loss/(earnings) £m	Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	**60.3**	**239.5**	**25.2**	(134.4)	202.5	(66.4)
Dilutive effect of share options and awards	–	0.7	(0.1)	–	–	–
Diluted earnings/(loss) per share	**60.3**	**240.2**	**25.1**	(134.4)	202.5	(66.4)

Potential ordinary shares should be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share. As the Group has reported a basic loss per share in 2017, the dilutive effect of share options and awards has been removed.

6 Earnings/(loss) per share *continued*

The Directors have elected to show an adjusted earnings/(loss) per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 (see note 11) and prior to exceptional items (see note 1). This is presented to show the earnings per share generated by the Group's underlying operations. A reconciliation of basic and diluted earnings/(loss) per share to adjusted basic and diluted earnings per share is as follows:

			2018 IFRS 9			2017 restated IAS 39
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Loss/ (earnings) £m	Weighted average number of shares m	Per share amount pence
Basic earnings/(loss) per share	**60.3**	**239.5**	**25.2**	(134.4)	202.5	(66.4)
Amortisation of acquisition intangibles, net of tax	**6.2**	**–**	**2.6**	6.2	–	3.1
Exceptional items, net of tax	**45.1**	**–**	**18.8**	220.8	–	109.0
Adjusted basic earnings per share	**111.6**	**239.5**	**46.6**	92.6	202.5	45.7
Basic earnings/(loss) per share	**60.3**	**239.5**	**25.2**	(134.4)	202.5	(66.4)
Dilutive effect of share options and awards	**–**	**0.7**	**(0.1)**	–	0.9	0.3
Diluted earnings/(loss) per share	**60.3**	**240.2**	**25.1**	(134.4)	203.4	(66.1)
Amortisation of acquisition intangibles, net of tax	**6.2**	**–**	**2.6**	6.2	–	3.0
Exceptional items, net of tax	**45.1**	**–**	**18.8**	220.8	–	108.6
Adjusted diluted earnings per share	**111.6**	**240.2**	**46.5**	92.6	203.4	45.5

Adjusted basic EPS shown above has increased by 2.0% in 2018. This is not a like-for-like comparison as 2018 is presented on an IFRS 9 basis and 2017 is presented on an IAS 39 basis. Compared with unaudited pro forma IFRS 9 comparatives, adjusted basic EPS has increased by 26.6% from 36.8p to 46.6p, reflecting the increase in IFRS 9 profit before tax of 82.3% partly offset by the higher tax rate and the impact of the rights issue shares issued in April 2018.

7 Dividends

	Group and Company	
	2018 £m	2017 £m
2016 final – 91.4p per share	**–**	133.4
Dividends paid	**–**	133.4

The directors are recommending a final dividend in respect of the financial year ended 31 December 2018 of 10p per share (2017: nil) which will amount to an estimated dividend payment of £25.1m (2017: £nil). If approved by the shareholders at the Annual General Meeting on 21 May 2019, this dividend will be paid on 21 June 2019 to shareholders who are on the register of members at 24 May 2019. This dividend is not reflected in the balance sheet as at 31 December 2018 as it is subject to shareholder approval.

8 Directors' remuneration

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24, 'Related party disclosures'.

	Group and Company	
	2018 £m	2017 £m
Short-term employee benefits	**2.1**	2.0
Post-employment benefits	**–**	1.2
Share-based payment charge/(credit)	**0.2**	(1.6)
Total directors' remuneration	**2.3**	1.6

The directors' remuneration above reflects:

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year.

Post-employment benefits represent the sum of: (i) the increase in the transfer value of the accrued pension benefits (less directors' contributions) for those directors who are members of the Group's defined benefit pension scheme; (ii) Company contributions into personal pension arrangements for all other directors; and (iii) amounts accrued under the Unfunded, Unapproved Retirement Benefit Scheme (UURBS).

The share-based payment charge (2017: credit) reflects the expected vesting of the Group's share-based incentives.

No directors (2017: nil) accrued retirement benefits in the year under the cash balance section of the Provident Financial Staff Pension Scheme (the pension scheme). The pension scheme is a defined benefit scheme with cash balance benefits.

No directors (2017: nil) paid or had contributions paid on their behalf into the PFG Retirement Plan in the year. The PFG Retirement Plan is a Group Personal Pension Plan insured with Standard Life.

Notes to the financial statements *continued*

8 Directors' remuneration *continued*

The Company previously operated an Unfunded Unapproved Retirement Benefits Scheme (UURBS) to provide cash balance benefits to those employees affected by the Lifetime Allowance or the Reduced Annual Allowance. During 2017, the increase in the UURBS relating to Andrew Fisher and Peter Crook was £0.3m and the balance outstanding at 31 December 2017 was £nil for Andrew Fisher and £1.4m for Peter Crook. During 2018 their remaining balances were withdrawn from the UURBS.

Andrew Fisher elected to receive a cash supplement from June 2017. The balance outstanding at 31 December amounted to £nil (2017: £0.1m). Malcolm Le May received a cash supplement from February 2018 and Simon Thomas from December 2018. The balance outstanding at 31 December was £0.1m.

9 Employee information

(a) Average monthly number of persons employed by the Group:

	2018					2017				
	Vanquis Bank	**CCD**	**Moneybarn**	**Central**	**Group**	Vanquis Bank	CCD	Moneybarn	Central	Group
Full-time	**1,386**	**3,643**	**235**	**62**	**5,326**	1,307	2,906	196	57	4,466
Part-time	**161**	**327**	**25**	**10**	**523**	162	212	15	9	398
Total	**1,547**	**3,970**	**260**	**72**	**5,849**	1,469	3,118	211	66	4,864

Employees comprise all head office and branch employees within CCD, head office and contact centre employees within Vanquis Bank and Moneybarn. Central employees represent corporate office employees, executive and non executive directors employed by the Company. The 27% increase in CCD average employee numbers reflects the impact of the change in the UK operating model in July 2017 from self employed agents to an employed workforce partly offset by headcount reductions in 2018 due to the ongoing alignment of the cost base with customer numbers. Moneybarn's 23% increase in average headcount continues to reflect the resource required to support the growth of the business and strengthen the senior management team. The 9% increase in central is due to recruitment of new central functions including Group risk, IT and HR.

(b) Employment costs

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Aggregate gross wages and salaries paid to the group's employees	**205.6**	177.5	**10.4**	7.2
Employers' National Insurance contributions	**22.1**	19.0	**1.7**	1.1
Pension charge, prior to exceptional pension credit	**9.5**	10.5	**(8.6)**	(7.2)
Share-based payment (credit)/charge (note 26)	**(2.8)**	(2.4)	**0.4**	(2.5)
Total employment cost prior to exceptional costs	**234.4**	204.6	**3.9**	(1.4)
Exceptional redundancy cost	**4.8**	18.4	**–**	–
Exceptional pension curtailment credit (note 19)	**(0.6)**	(3.9)	**(0.6)**	(3.9)
Exceptional pension cost for GMP equalisation (note 19)	**6.9**	–	**6.9**	–
Total employment costs	**245.5**	219.1	**10.2**	(5.3)

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan, contributions to personal pension arrangements. The £8.6m (2017: £7.2m) credit in the Company for the pension charge represents contributions received from the subsidiaries in relation to the defined benefit schemes, partly offset by the charge in relation to the defined contribution schemes. The increase in the share-based payment credit from £2.4m in 2017 to £2.8m in 2018 primarily reflects the lower expected vesting levels across cash settled schemes in the Group. The share-based payment credit of £2.8m (2017: £2.4m) relates to equity settled schemes charges of £1.1m (2017: £3.4m credit) and a cash settled schemes credit of £3.9m (2017: £1.0m charge).

10 Goodwill

	Group	
	2018 £m	2017 £m
Cost		
At 1 January and 31 December	**73.3**	73.3
Accumulated impairment		
At 1 January and 31 December	**2.1**	2.1
Net book value at 1 January and 31 December	**71.2**	71.2

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. Management adopt pre-tax discount rates which reflect the time value of money and the risks specific to the Moneybarn business. The cash flow forecasts are based on the most recent financial budgets approved by the Group Board for the next five years and extrapolates cash flows for the following five years using a terminal growth rate of 1.5% (2017: 1.5%). The rate used to discount the forecast cash flows is 11% (2017: 11%), this represents the Company's risk adjusted cost of capital. No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented.

11 Other intangible assets

	2018			2017		
	Acquisition intangibles £m	**Computer software £m**	**Total £m**	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	**75.0**	**92.1**	**167.1**	75.0	72.4	147.4
Additions	**–**	**7.6**	**7.6**	–	20.5	20.5
Disposals	**–**	**(23.5)**	**(23.5)**	–	(0.8)	(0.8)
At 31 December	**75.0**	**76.2**	**151.2**	75.0	92.1	167.1
Accumulated amortisation and impairment						
At 1 January	**25.0**	**62.7**	**87.7**	17.5	51.8	69.3
Charged to the income statement	**7.5**	**11.7**	**19.2**	7.5	11.7	19.2
Exceptional impairment charge (note 1)	**–**	**12.8**	**12.8**	–	–	–
Disposals	**–**	**(23.5)**	**(23.5)**	–	(0.8)	(0.8)
At 31 December	**32.5**	**63.7**	**96.2**	25.0	62.7	87.7
Net book value at 31 December	**42.5**	**12.5**	**55.0**	50.0	29.4	79.4
Net book value at 1 January	**50.0**	**29.4**	**79.4**	57.5	20.6	78.1

Acquisition intangibles represents the fair value of the broker relationships arising on 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. Additions in the year of £7.6m (2017: £20.5m) comprise £2.5m (2017: £7.2m) of internally generated assets and £5.1m (2017: £13.3m) of externally purchased software.

The £7.6m (2017: £20.5m) of computer software expenditure principally relates to: (i) the development of systems and mobile app in Vanquis Bank; (ii) systems to support the development of Satsuma including a new mobile app; and (iii) software to support the ongoing recovery in home credit.

Notes to the financial statements *continued*

12 Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2018	**3.4**	**6.5**	**78.7**	**88.6**
Additions	**–**	**–**	**5.3**	**5.3**
Disposals	**–**	**–**	**(6.7)**	**(6.7)**
At 31 December 2018	**3.4**	**6.5**	**77.3**	**87.2**
Accumulated depreciation and impairment				
At 1 January 2018	**3.3**	**1.1**	**53.3**	**57.7**
Charged to the income statement	**–**	**–**	**9.1**	**9.1**
Exceptional impairment charge (see note 1)	**–**	**–**	**1.0**	**1.0**
Disposals	**–**	**–**	**(5.2)**	**(5.2)**
At 31 December 2018	**3.3**	**1.1**	**58.2**	**62.6**
Net book value at 31 December 2018	**0.1**	**5.4**	**19.1**	**24.6**
Net book value at 1 January 2018	**0.1**	**5.4**	**25.4**	**30.9**

The loss on disposal of property, plant and equipment in 2018 amounted to £nil (2017: £0.6m) and represented proceeds received of £1.5m (2017: £1.7m) less the net book value of disposals of £1.5m (2017: £1.1m).

Additions in 2018 principally comprises expenditure in respect of the routine replacement of IT equipment in CCD, Vanquis Bank and Moneybarn and motor vehicles for field employees within CCD.

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2017	4.0	6.1	71.5	81.6
Additions	–	0.4	11.8	12.2
Disposals	(0.6)	–	(4.6)	(5.2)
At 31 December 2017	3.4	6.5	78.7	88.6
Accumulated depreciation				
At 1 January 2017	3.3	1.1	46.9	51.3
Charged to the income statement	–	–	9.3	9.3
Disposals	–	–	(2.9)	(2.9)
At 31 December 2017	3.3	1.1	53.3	57.7
Net book value at 31 December 2017	0.1	5.4	25.4	30.9
Net book value at 1 January 2017	0.7	5.0	24.6	30.3

12 Property, plant and equipment *continued*

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2018	3.4	0.2	13.0	16.6
Additions	–	–	1.7	1.7
Disposals	–	–	(0.4)	(0.4)
At 31 December 2018	3.4	0.2	14.3	17.9
Accumulated depreciation				
At 1 January 2018	3.3	0.1	8.6	12.0
Charged to the income statement	–	–	1.6	1.6
Disposals	–	–	(0.2)	(0.2)
At 31 December 2018	3.3	0.1	10.0	13.4
Net book value at 31 December 2018	0.1	0.1	4.3	4.5
Net book value at 1 January 2018	0.1	0.1	4.4	4.6

The loss on disposal of property, plant and equipment in 2018 amounted to £nil (2017: £0.1m) and represented proceeds received of £0.2m (2017: £0.7m) less the net book value of disposals of £0.2m (2017: £0.8m).

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2017	4.0	0.2	13.1	17.3
Additions	–	–	0.3	0.3
Disposals	(0.6)	–	(0.4)	(1.0)
At 31 December 2017	3.4	0.2	13.0	16.6
Accumulated depreciation				
At 1 January 2017	3.3	0.1	7.1	10.5
Charged to the income statement	–	–	1.7	1.7
Disposals	–	–	(0.2)	(0.2)
At 31 December 2017	3.3	0.1	8.6	12.0
Net book value at 31 December 2017	0.1	0.1	4.4	4.6
Net book value at 1 January 2017	0.7	0.1	6.0	6.8

Notes to the financial statements *continued*

13 Investment in subsidiaries

	Company	
	2018 £m	2017 £m
Cost		
At 1 January	**773.8**	529.0
Additions	**50.0**	251.2
Disposals	**(6.9)**	(6.4)
At 31 December	**816.9**	773.8
Accumulated impairment losses		
At 1 January	**291.5**	31.5
Exceptional charge to the income statement	**62.2**	258.0
Charge to the income statement	**–**	2.0
Disposal	**(6.5)**	–
At 31 December	**347.2**	291.5
Net book value at 31 December	**469.7**	482.3
Net book value at 1 January	**482.3**	497.5

The directors consider the value of investments to be supported by their underlying assets and cash flow forecasts.

Additions in 2018 of £50.0m represent capital injected into Vanquis Bank following receipt of the rights issue proceeds of £300.0m in April 2018.

Following the significant losses incurred in CCD during 2017, a full review was undertaken of the Company's £258.0m investment in Provident Financial Management Services Limited (PFMSL) (the holding company within CCD) and the loans of £438.0m provided to PFMSL in 2004 and £200.0m provided to Provident Personal Credit Limited in 2012. As a result of this review:

> The investment in PFMSL of £258.0m was fully impaired in the Company's income statement.

> The Company released PFMSL from its obligations under the £438.0m loan and released Provident Personal Credit Limited from its obligations under the £200.0m loan.

> As a result of the intercompany loan releases, an amount of £386.8m was booked as an impairment to the Company's income statement and the remaining balance of the intercompany loans of £251.2m was capitalised as an investment in PFMSL. The investment value in PFMSL was supported by the forecast future cash flows from CCD.

> The total exceptional impairment charges taken to the Company's income statement in 2017 was £644.8m.

> A reserve transfer of £571.3m was made from the non-distributable reserve to retained earnings to offset the impact of the above impairment charges. The non-distributable reserve was created on the sale of Provident Personal Credit Limited by the Company to PFMSL in 2000 (see note 27). £73.5m of the impairment charges was not matched with a transfer from the non-distributable reserve as this amount represented the Company's original cost of investment in Provident Personal Credit Limited.

During 2018, a further review of the investment carrying value in PFMSL was performed and an exposure of intercompany loans. Based on a valuation of the CCD business on a consistent basis as 2017, using forecast future cash flows, this has resulted in an additional impairment of £62.2m to be recognised. Of this £37.9m has been reflected against the residual non distributable reserve and the remaining £24.3m against retained earnings.

The disposals in 2018 relates to: (i) the elimination of dormant companies of £6.5m (2017: £nil) and the associated provision of £6.5m (2017: £nil); and, (ii) £0.4m (2017: £6.4m) relating to the IFRIC 11 adjustment relating to share options/awards provided to subsidiary employees. Under IFRIC 11, the fair value of the options/awards issued is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/award that have vested.

The impairment charge to the income statement in 2017 of £2.0m represented the impairment of investments in various dormant and non trading companies following dormant company rationalisations.

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the Group or are a guaranteeing subsidiary of the Group's syndicated bank facility and certain other borrowings. A full list of subsidiary undertakings will be annexed to the next annual return of the Company to be filed with the Registrar of Companies (see note 33). All subsidiaries are consolidated and held directly by the Company except for those noted below, which are held by wholly owned intermediate companies.

Company		Activity	Country of incorporation	Class of capital	% holding
Vanquis Bank	Vanquis Bank Limited	Financial services	England	Ordinary	100
CCD	Provident Financial Management Services Limited	Management services	England	Ordinary	100
	Provident Personal Credit Limited	Financial services	England	Ordinary	100*
	Greenwood Personal Credit Limited	Financial services	England	Ordinary	100*
Moneybarn	Duncton Group Limited	Financial services	England	Ordinary	100
	Moneybarn Group Limited	Financial services	England	Ordinary	100*
	Moneybarn No. 1 Limited	Financial services	England	Ordinary	100*
Central	Provident Investments Limited (formerly Provident Investments plc)	Financial intermediary	England	Ordinary	100

* Shares held by wholly owned intermediate companies.

The above companies operate principally in their country of incorporation.

14 Amounts receivable from customers

IFRS 9: 'Financial Instruments' was adopted from 1 January 2018. Under IFRS 9, all receivables are recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk either through a missed payment or an adverse change in behavioural score. Stage 3 represents a customer in default. Revenue recognition is recognised on the gross receivable in stage 1 and 2 and on the net receivable in stage 3. A customer can only move to stage 3 for revenue recognition purposes at the Group's interim or year end.

Impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the typical loss arising on default (LGD):

> Stage 1 – Accounts at initial recognition. The expected loss is based on a 12 month PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.

> Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.

> Stage 3 – Accounts which have defaulted. The expected loss is based on a lifetime PD, based on historic experience. Revenue is recognised on the net receivable after impairment provision. This stage is effectively the previous IAS 39 treatment for impairment.

Impairment provisions under IFRS 9 are calculated based on an unbiased probability-weighted outcome which takes into account historic performance and considers the outlook for macro-economic conditions. Further details can be found on pages 174 and 175.

			2018 IFRS 9			2017 IAS 39
Group	**Due within one year £m**	**Due in more than one year £m**	**Total £m**	Due within one year £m	Due in more than one year £m	Total £m
Vanquis Bank	**1,459.7**	**14.1**	**1,473.8**	1,540.2	14.5	1,554.7
CCD	**263.1**	**29.4**	**292.5**	339.2	51.4	390.6
Moneybarn	**90.5**	**306.1**	**396.6**	101.8	262.3	364.1
Total reported amounts receivable from customers	**1,813.3**	**349.6**	**2,162.9**	1,981.2	328.2	2,309.4

Vanquis Bank receivables comprise £1,447.8m (2017: £1,538.9m) in respect of credit cards and £26.0m (2017: £15.8m) in respect of loans. The balance at 31 December 2018 is stated net of an estimated balance reduction of £3.7m (2017: £75.4m) in respect of the resolution of the FCA investigation into ROP on 27 February 2018. The balance reduction provision of £75.4m created at the end of 2017 comprised a gross balance reduction of £90.1m less release of impairment provisions of £14.7m.

CCD receivables comprise £251.9m in respect of the home credit business (2017: £352.2m), £39.5m in respect of Satsuma (2017: £35.8m) and £1.1m in respect of the collect-out of glo (2017: £2.6m).

Moneybarn receivables are stated net of an estimated balance reduction of £1.8m (2017: £12.1m) in respect of the FCA investigation into affordability, forbearance and termination options. The balance reduction provision of £12.1m created at the end of 2017 comprised a gross balance reduction of £32.5m less release of impairment provisions of £20.4m.

The gross amounts receivable from customers and allowance account which form the net amounts receivable from customers is as follows:

				2018 IFRS 9				2017 IAS 39
Group	**Vanquis Bank £m**	**CCD £m**	**Moneybarn £m**	**Group £m**	Vanquis Bank £m	CCD £m	Moneybarn £m	Group* £m
Gross amounts receivable from customers	**1,976.5**	**725.6**	**534.5**	**3,236.6**	1,843.6	–	408.5	2,252.1
Allowance account	**(502.7)**	**(433.1)**	**(137.9)**	**(1,073.7)**	(288.9)	–	(44.4)	(333.3)
Reported amounts receivable from customers	**1,473.8**	**292.5**	**396.6**	**2,162.9**	1,554.7	390.6	364.1	2,309.4

* Excludes gross receivable and allowance account for CCD as impairment was deducted directly from amounts receivable from customers without the use of an allowance account under IAS 39.

Notes to the financial statements *continued*

14 Amounts receivable from customers *continued*

Amounts receivable from customers for Vanquis Bank can be reconciled as follows:

				2018 IFRS 9	2017 IAS 39
Vanquis Bank	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Total £m
Gross carrying amount					
At 1 January	1,388.8	94.5	360.3	1,843.6	
New financial assets originated and new drawdowns	2,279.6	82.0	4.8	2,366.4	
Net transfers and changes in credit risk	(395.1)	11.4	383.7	–	
Write offs	–	–	(193.3)	(193.3)	
Recoveries	(2,533.3)	(62.2)	(95.0)	(2,690.5)	
Revenue	548.4	47.1	54.8	650.3	
At 31 December	1,288.4	172.8	515.3	1,976.5	1,843.6
Allowance account					
At 1 January (IAS 39)				288.9	261.4
Impact of IFRS 9 adoption				149.5	
At 1 January (IFRS 9)	136.2	50.4	251.8	438.4	261.4
Movements through income statement:					
> Drawdowns and net transfers and changes in credit risk	43.9	5.6	192.1	241.6	
> Other movements	–	–	–	–	186.6
> Exceptional release of impairment provisions (see note 1)	–	–	–	–	(14.7)
Total movements through income statement	43.9	5.6	192.1	241.6	171.9
Other movements:					
> Write offs	–	–	(193.3)	(193.3)	(176.0)
> Amounts recovered	6.9	2.7	6.4	16.0	31.6
Allowance account at 31 December	187.0	58.7	257.0	502.7	288.9
Reported amounts receivable from customers at 31 December	1,101.4	114.1	258.3	1,473.8	1,554.7
Reported amounts receivable from customers at 1 January	1,252.6	44.1	108.5	1,405.2	1,424.7

Amounts receivable from customers for CCD can be reconciled as follows:

				2018 IFRS 9
CCD	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount				
At 1 January	221.2	60.9	443.1	725.2
New financial assets originated	404.4	6.7	–	411.1
Net transfers and changes in credit risk	(145.1)	10.6	134.5	–
Write offs	(2.2)	(3.0)	(60.0)	(65.2)
Recoveries	(506.5)	(78.4)	(99.7)	(684.6)
Revenue	211.6	51.6	76.8	340.0
Other movements	0.2	–	(1.1)	(0.9)
At 31 December	183.6	48.4	493.6	725.6
Allowance account				
At 1 January	20.4	15.1	342.3	377.8
Movements through income statement:				
> New financial assets originated	38.6	1.1	–	39.7
> Net transfers and changes in credit risk	(44.8)	(0.3)	126.2	81.1
Total movements through income statement	(6.2)	0.8	126.2	120.8
Other movements:				
> Write offs	(2.2)	(3.0)	(60.0)	(65.2)
> Other movements	–	–	(0.3)	(0.3)
Allowance account at 31 December	12.0	12.9	408.2	433.1
Reported amounts receivable from customers at 31 December	171.6	35.5	85.4	292.5
Reported amounts receivable from customers at 1 January	200.8	45.8	100.8	347.4

14 Amounts receivable from customers *continued*

Amounts receivable from customers for Moneybarn can be reconciled as follows:

Moneybarn	2018 IFRS 9 Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	2017 IAS 39 Total £m
Gross carrying amount					
At 1 January	244.7	95.1	71.9	411.7	
New financial assets originated	234.6	–	–	234.6	
Net transfers and changes in credit risk	(155.7)	40.8	114.9	–	
Write offs	(0.4)	(0.2)	(2.5)	(3.1)	
Recoveries	(101.3)	(42.0)	(94.7)	(238.0)	
Revenue	61.8	32.6	37.5	131.9	
Other changes	(1.6)	(0.4)	(0.6)	(2.6)	
At 31 December	282.1	125.9	126.5	534.5	408.5
Allowance account					
At 1 January (IAS 39)				44.4	34.1
Impact of IFRS 9 adoption				45.4	
Reclassification				3.2	
At 1 January (IFRS 9)	8.6	29.7	54.7	93.0	34.1
Movements through income statement:					
> New financial assets originated	8.3	–	–	8.3	
> Net transfers and changes in credit risk	(7.3)	(1.1)	48.1	39.7	
> Other movements	–	–	–	–	31.1
> Exceptional release of impairment provisions (see note 1)	–	–	–	–	(20.4)
Total movements through income statement	1.0	(1.1)	48.1	48.0	10.7
Other movements:					
> Write offs	(0.4)	(0.2)	(2.5)	(3.1)	(0.4)
Allowance account at 31 December	9.2	28.4	100.3	137.9	44.4
Reported amounts receivable from customers at 31 December	272.9	97.5	26.2	396.6	364.1
Reported amounts receivable from customers at 1 January	236.1	65.4	17.2	318.7	297.3

The reclassification represents movements between gross receivables and provision on adoption of IFRS 9 with no impact on net receivables.

Vehicles are held as collateral against a Moneybarn conditional sale agreement until it is repaid in full. The impact of holding the collateral of £286.3m on the allowance account as at 31 December 2018 was £65.1m.

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

Impairment charge on amounts receivable from customers	Group 2018 IFRS 9 £m	2017 IAS 39 £m
Vanquis Bank	241.6	186.6
Exceptional release of impairment provision as part of balance reduction (see note 1)	–	(14.7)
Total Vanquis Bank	241.6	171.9
CCD	120.8	293.5
Moneybarn	48.0	31.1
Exceptional release of impairment provision as part of balance reduction (see note 1)	–	(20.4)
Total Moneybarn	48.0	10.7
Total Group	410.4	476.1

The average effective interest rate for the year ended 31 December 2018 was 28% for Vanquis Bank (2017: 28%), 119% for CCD (2017: 111%) and 34% for Moneybarn (2017: 30%).

Notes to the financial statements *continued*

14 Amounts receivable from customers *continued*

The average period to maturity of the amounts receivable from customers within CCD is 6 months (2017: 7 months) and within Moneybarn is 39 months (2017: 40 months). Within Vanquis Bank, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the greater of 2.3% of the amount owed plus any fees and interest charges in the month and £5.

The currency profile of amounts receivable from customers is as follows:

Group	Group 2018 IFRS 9 £m	2017 IAS 39 £m
Sterling	**2,124.0**	2,263.0
Euro	**38.9**	46.4
Reported amounts receivable from customers	**2,162.9**	2,309.4

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 13% of CCD's receivables (2017: 12%).

15 Investments

Group	Group 2018 £m	2017 £m
Government gilts	**35.7**	35.9
Visa shares	**12.1**	9.9
Total investments	**47.8**	45.8

(a) Government gilts

Government gilts comprise UK government gilts which form part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime. The gilts have a maturity on origination in excess of three months and are therefore disclosed as an investment held at fair value through the income statement. Vanquis Bank's total liquid assets buffer and other liquid resources, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £420.6m (2017: £263.4m). This includes £384.9m (2017: £227.5m) held in cash and cash equivalents.

(b) Visa shares

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

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 31 December 2018 of £12.1m (2017: £9.9m) is held at fair value through the OCI and the fair value of the deferred cash consideration of £1.2m (2017: £1.2m) is included within debtors. The increase in the fair value of the investment during the year of £2.2m (2017: £1.9m) in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates has been recognised in the statement of comprehensive income.

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

16 Financial instruments

(a) Classification and measurement

The following table sets out the carrying value of the Group's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

				2018 IFRS 9
Group	Investment held at fair value through OCI £m	Amortised cost £m	Non-financial assets/liabilities £m	Total £m
Assets				
Investments	47.8	–	–	47.8
Cash and cash equivalents	–	387.9	–	387.9
Amounts receivable from customers	–	2,162.9	–	2,162.9
Trade and other receivables	1.3	10.0	38.3	49.6
Deferred tax asset	–	–	38.3	38.3
Retirement benefit asset	–	–	83.9	83.9
Property, plant and equipment	–	–	24.6	24.6
Goodwill	–	–	71.2	71.2
Other intangible assets	–	–	55.0	55.0
Total assets	49.1	2,560.8	311.3	2,921.2
Liabilities				
Retail deposits	–	(1,431.7)	–	(1,431.7)
Bank and other borrowings	–	(623.8)	–	(623.8)
Trade and other payables	–	(91.8)		(91.8)
Current tax liabilities	–	–	(24.6)	(24.6)
Provisions	–	–	(53.2)	(53.2)
Total liabilities	–	(2,147.3)	(77.8)	(2,225.1)

Following adoption of IFRS 9, investments previously held as available for sale which included Visa Inc shares and gilts held as part of the Vanquis Bank liquid assets buffer have been reclassified as fair value through other comprehensive income. There was no change in the measurement basis following reclassification on transition to IFRS 9 for these financial assets.

Financial assets that were previously classified as loans and receivable under IAS 39 have been included within amortised cost under IFRS 9. However, these assets were previously measured at amortised cost therefore there has been no change in the measurement basis following adoption of IFRS 9.

The carrying value for all financial assets represents the maximum exposure to credit risk.

Notes to the financial statements *continued*

16 Financial instruments *continued*

Assets and liabilities were classified under IAS 39 in 2017. These classifications have not been restated.

Group	Loans and receivables £m	Available for sale £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	2017 IAS 39 Total £m
Assets						
Available for sale investments	–	45.8	–	–	–	45.8
Cash and cash equivalents	282.9	–	–	–	–	282.9
Amounts receivable from customers	2,309.4	–	–	–	–	2,309.4
Trade and other receivables	42.8	1.2	–	–	–	44.0
Retirement benefit asset	–	–	–	–	102.3	102.3
Property, plant and equipment	–	–	–	–	30.9	30.9
Goodwill	–	–	–	–	71.2	71.2
Other intangible assets	–	–	–	–	79.4	79.4
Total assets	2,635.1	47.0	–	–	283.8	2,965.9
Liabilities						
Retail deposits	–	–	(1,301.0)	–	–	(1,301.0)
Bank and other borrowings	–	–	(892.0)	–	–	(892.0)
Derivative financial instruments	–	–	–	(0.1)	–	(0.1)
Trade and other payables	–	–	(96.9)	–	–	(96.9)
Current tax liabilities	–	–	–	–	(15.9)	(15.9)
Deferred tax liabilities	–	–	–	–	(20.3)	(20.3)
Provisions	–	–	–	–	(104.6)	(104.6)
Total liabilities	–	–	(2,289.9)	(0.1)	(140.8)	(2,430.8)

The following table sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9. Financial assets that were previously classified as loans and receivable under IAS 39 have been included within amortised cost under IFRS 9. However, these assets were previously measured at amortised cost therefore there has been no change in the measurement basis following adoption of IFRS 9.

Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

Company	Amortised cost £m	Non-financial assets/liabilities £m	2018 IFRS 9 Total £m
Assets			
Cash and cash equivalents	**1.0**	**–**	**1.0**
Investment in subsidiaries	**–**	**469.7**	**469.7**
Trade and other receivables	**821.0**	**2.6**	**823.6**
Retirement benefit asset	**–**	**83.9**	**83.9**
Current tax asset	**–**	**1.8**	**1.8**
Property, plant and equipment	**–**	**4.5**	**4.5**
Total assets	**822.0**	**562.5**	**1,384.5**
Liabilities			
Bank and other borrowings	**(621.1)**	**–**	**(621.1)**
Trade and other payables	**(86.6)**	**–**	**(86.6)**
Deferred tax liabilities	**–**	**(13.3)**	**(13.3)**
Total liabilities	**(707.7)**	**(13.3)**	**(721.0)**

16 Financial instruments *continued*

In 2017, assets and liabilities were classified under IAS 39. These classifications have not been restated.

Company	Loans and receivables £m	Amortised cost £m	Non-financial assets/liabilities £m	2017 IAS 39 Total £m
Assets				
Cash and cash equivalents	35.6	–	–	35.6
Investment in subsidiaries	–	–	482.3	482.3
Trade and other receivables	821.3	–	–	821.3
Retirement benefit asset	–	–	102.3	102.3
Property, plant and equipment	–	–	4.6	4.6
Total assets	856.9	–	589.2	1,446.1
Liabilities				
Bank and other borrowings	–	(889.2)	–	(889.2)
Trade and other payables	–	(97.0)	–	(97.0)
Current tax liabilities	–	–	(0.4)	(0.4)
Deferred tax liabilities	–	–	(15.9)	(15.9)
Total liabilities	–	(986.2)	(16.3)	(1,002.5)

(b) Fair values of financial assets and liabilities held at fair value

The Group holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy on the degree to which the fair value is observable.

The following financial assets and liabilities are held at fair value:

			2018			2017
Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	Level 1 £m	Level 2 £m	Level 3 £m
Assets						
Investments held at fair value through other comprehensive income: Government gilts	**35.7**	**–**	**–**	35.9	–	–
Investments held at fair value through other comprehensive income: Visa Inc. shares	**–**	**–**	**12.1**	–	–	9.9
Total assets	**35.7**	**–**	**12.1**	35.9	–	9.9
Liabilities						
Derivatives	**–**	**–**	**–**	–	(0.1)	–
Total liabilities	**–**	**–**	**–**	–	(0.1)	–

Level 1 fair value measurements are those derived from quoted market prices in active markets for identical assets and liabilities. The Group holds Government gilts within level 1 as they are valued using available market prices.

Level 2 fair value measurements are those derived from inputs other than quoted market prices included in level 1 that are observable for the asset or liability either directly or indirectly. The fair value of derivatives are calculated by discounting contractual future cash flows using relative market rate yield curves and foreign exchange rates prevailing at the balance sheet date. They are discounted using appropriate market rates and yield curves which are deemed to be observable.

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group holds Visa shares in level 3. The valuation has been determined using a combination of observable and non-observable inputs. As the common stock share price of Visa Inc. is readily available, this input is deemed to be observable. However, certain assumptions have been made in respect of the illiquidity adjustment to the share price and the likelihood of future litigation costs. These inputs are therefore deemed to be a significant unobservable input.
The following table sets out their movement during the year:

	Group **2018 £m**	2017 £m
At 1 January	**9.9**	8.0
Gains or losses recognised in other comprehensive income	**2.2**	1.9
At 31 December	**12.1**	9.9

The illiquidity adjustment has been estimated at around 6% and the expected future litigation costs have been estimated around 15% of the Visa Inc. share price.

Notes to the financial statements *continued*

16 Financial instruments *continued*

The higher the illiquidity and future litigation costs the lower the fair value. The sensitivity to the unobservable inputs, in isolation, is set out in the table below:

	Group	
	2018 £m	2017 £m
Illiquidity +/- 1%	**0.2**	0.2
Future litigation costs +/- 1%	**0.2**	0.2

Transfers between the different levels of the fair value hierarchy would be made when the inputs used to measure the fair value no longer satisfy the conditions required to be classified in a certain level within the hierarchy. There have been no transfers between levels in the current or prior year.

(c) Fair values of financial assets and liabilities not held at fair value

The table below shows the fair value of financial assets and liabilities not presented at fair value in the balance sheet:

	2018 £m		2017 £m	
Group	**Fair value**	**Book value**	Fair value	Book value
Assets				
Cash and cash equivalents	**387.9**	**387.9**	282.9	282.9
Amounts receivable from customers	**3,329.2**	**2,162.9**	3,600.0	2,309.4
Trade and other receivables	**49.6**	**49.6**	44.0	44.0
Total assets	**3,766.7**	**2,600.4**	3,926.9	2,636.3
Liabilities				
Retail deposits	**(1,441.0)**	**(1,431.7)**	(1,311.8)	(1,301.0)
Bank and other borrowings	**(658.8)**	**(623.8)**	(882.3)	(892.0)
Trade and other payables	**(91.8)**	**(91.8)**	(96.9)	(96.9)
Total liabilities	**(2,191.6)**	**(2,147.3)**	(2,291.0)	(2,289.9)

	2018 £m		2017 £m	
Company	**Fair value**	**Book value**	Fair value	Book value
Assets				
Cash and cash equivalents	**1.0**	**1.0**	35.6	35.6
Trade and other receivables	**823.6**	**823.6**	821.3	821.3
Total assets	**824.6**	**824.6**	856.9	856.9
Liabilities				
Bank and other borrowings	**(656.1)**	**(621.1)**	(860.6)	(889.2)
Trade and other payables	**(86.6)**	**(86.6)**	(97.0)	(97.0)
Total liabilities	**(742.7)**	**(707.7)**	(957.6)	(986.2)

Key considerations in the calculation of fair values of those financial assets and liabilities not presented at fair value in the balance sheet are set out below. Where there is no significant difference between carrying value and fair value no additional information has been presented.

Fair value of amounts receivable from customers has been derived by discounting expected future cash flows (net of collection costs) at the credit risk adjusted discount rate at the balance sheet date. They are categorised within Level 3 as the expected future cash flows and discount rate are deemed to significant unobservable inputs.

The fair value of retail deposits have been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date and are categorised within Level 3 of the fair value hierarchy as the expected future cash flows are deemed to be significant unobservable inputs.

Within bank and other borrowings, the senior public bonds and retail bonds are classed as Level 1 as they are valued within quoted market prices. The private placement loan notes are classed as Level 2 as their fair value has been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date.

17 Derivative financial instruments

The derivative financial instruments previously held by the Group were interest rate swaps used to fix the interest rates paid on the Group's borrowings and foreign exchange contracts used to manage the foreign exchange risk arising on CCD's operations in the Republic of Ireland.

The contractual/notional amounts and the fair values of derivative financial instruments are set out below:

	2018			2017		
Group	**Contractual/ notional amount £m**	**Assets £m**	**Liabilities £m**	Contractual/ notional amount £m	Assets £m	Liabilities £m
Interest rate swaps	–	–	–	20.0	–	–
Foreign exchange contracts	–	–	–	3.2	–	(0.1)
Total Group – due within one year	–	–	–	23.2	–	(0.1)

	2018			2017		
Company	**Contractual/ notional amount £m**	**Assets £m**	**Liabilities £m**	Contractual/ notional amount £m	Assets £m	Liabilities £m
Interest rate swaps	–	–	–	20.0	–	–
Total Company – due within one year	–	–	–	20.0	–	–

(a) Hedging reserve movements

The movement in the hedging reserve within equity as a result of the changes in the fair value of derivative financial instruments can be summarised as follows:

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Interest rate swaps	–	0.1	–	0.1
Foreign exchange contracts	–	0.1	–	–
Net credit to the hedging reserve	–	0.2	–	0.1

(b) Income statement

All cash flow hedges were deemed to be effective. There was no impact on the income statement of the Group and the Company in the year in respect of the movement in the fair value of ineffective interest rate swaps, previously designated as cash flow hedges (2017: £nil).

(c) Interest rate swaps

The Group and Company used interest rate swaps in order to manage the interest rate risk on the Group's borrowings. The Group entered into various interest rate swaps which were designated and effective under IAS 39 as cash flow hedges at inception. The movement in the fair value of effective interest rate swaps during the year was as follows:

	Group and Company	
	2018 £m	2017 £m
Liability at 1 January	–	(0.1)
Credited to the hedging reserve	–	0.1
Liability at 31 December	–	–

Notes to the financial statements *continued*

17 Derivative financial instruments *continued*

The weighted average interest rate and period to maturity of the interest rate swaps held by the Group and Company were as follows:

	2018			2017		
Group and Company	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years
Sterling	–	–	–	0.7	0.6 – 0.8	0.2

(d) Foreign exchange contracts

The Group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from CCD's euro operations in the Republic of Ireland. A liability of £nil is held in the Group balance sheet as at 31 December 2018 in respect of foreign exchange contracts (2017: liability of £0.1m).

In 2017 the Group's foreign exchange contracts comprised forward foreign exchange contracts to buy sterling and sell euros for a total notional amount of £3.2m. These contracts had a range of maturity dates from 16 January 2018 to 14 August 2018. These contracts were designated as cash flow hedges and were effective under IAS 39. Accordingly, the movement during 2017 in fair value of £0.1m was credited to the hedging reserve within equity.

18 Trade and other receivables

	Company	
Non-current assets	2018 £m	2017 £m
Amounts owed by Group undertakings	–	76.9

The amounts owed by Group undertakings at the end of 2017 represented amounts owed to Vanquis Bank. During 2018 the intercompany loan was repaid in full. As at 31 December there were no amounts past due and there was no impairment provision held against amounts owed by Group undertakings due for repayment in more than one year (2017: £nil). The amounts owed by Group undertakings were unsecured, due for repayment in more than one year and accrued interest at rates linked to LIBOR.

	Group		Company	
Current assets	2018 £m	2017 £m	2018 £m	2017 £m
Trade receivables	0.1	0.1	–	–
Other receivables	11.2	8.9	–	–
Amounts owed by Group undertakings	–	–	821.0	739.2
Prepayments and accrued income	38.3	35.0	2.6	5.2
Total current assets	49.6	44.0	823.6	744.4

Trade and other receivables include utility prepayments, prepaid broker costs and amounts paid on behalf of the group's pension scheme but not yet recharged. There are £nil amounts past due in respect of trade and other receivables due in less than one year (2017: £nil). Within the Company, an impairment provision of £122.9m (2017: £122.9m) is held against amounts owed by Group undertakings due in less than one year representing the deficiency in the net assets of those Group undertakings. There has been no charge to the Company income statement in 2018 (2017: £0.4m credit) in respect of the provision.

Prepayments and accrued income have increased by £3.3m due to higher deferred broker fees at Moneybarn.

Amounts owed by Group undertakings are unsecured, repayable on demand or within one year, and generally accrue interest at rates linked to LIBOR.

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19 Retirement benefit asset

(a) Pension schemes – defined benefit

The retirement benefit asset reflects the difference between the present value of the Group's obligation to current and past employees to provide a defined benefit pension and the fair value of assets held to meet that obligation. As at 31 December 2018, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded.

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

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

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the Group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2015 by a qualified independent actuary. A valuation as at 1 June 2018 is currently in progress but is not yet finalised. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the preliminary results of the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet.

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

The 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 – part 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; and Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

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

	Group and Company			
		2018		2017
	£m	%	£m	%
Equities	**62.6**	**8**	68.7	8
Other diversified return seeking investments	**71.5**	**9**	75.8	9
Corporate bonds	**136.0**	**17**	141.6	17
Fixed interest gilts	**177.3**	**22**	202.9	24
Index-linked gilts	**334.4**	**43**	341.6	41
Cash and money market funds	**6.5**	**1**	4.9	1
Total fair value of scheme assets	**788.3**	**100**	835.5	100
Present value of funded defined benefit obligation	**(704.4)**		(733.2)	
Net retirement benefit asset recognised in the balance sheet	**83.9**		102.3	

As part of a de-risking strategy agreed between the Company and the pension trustees to hedge the inflation and interest rate risks associated with the liabilities of the pension scheme, a substantial amount of more volatile growth funds (equities) were reinvested in liability protection assets (fixed interest and index-linked gilts) in January 2015. Further work was undertaken to refine the liability protection assets in early 2016.

Notes to the financial statements *continued*

19 Retirement benefit asset *continued*

The valuation of the pension scheme has decreased from £102.3m at 31 December 2017 to £83.9m at 31 December 2018. A high level reconciliation of the movement is as follows:

Group and Company	2018 £m	2017 £m
Pension asset as at 1 January	**102**	72
Cash contributions made by the Group	**10**	11
Actuarially based cost of new benefits	**–**	(2)
Exceptional past service cost – plan amendment	**(7)**	–
Exceptional past service cost – curtailment credit	**1**	4
Return on assets being held to meet pension obligations in excess of discount rate	**(31)**	18
Change in mortality assumptions	**(31)**	21
Increase/(decrease) in discount rate used to discount future liabilities	**51**	(20)
(Increase)/decrease in inflation rate used to forecast pensions	**(2)**	2
Actuarial/membership experience	**(9)**	(4)
Pension asset as at 31 December	**84**	102

The amounts recognised in the income statement were as follows:

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Current service cost	**(2.7)**	(4.2)	**(2.7)**	(4.2)
Interest on scheme liabilities	**(17.4)**	(19.1)	**(17.4)**	(19.1)
Interest on scheme assets	**19.9**	21.1	**19.9**	21.1
Contributions from subsidiaries	**–**	–	**9.2**	10.1
Net (charge)/credit recognised in the income statement before exceptional past service (costs)/credit	**(0.2)**	(2.2)	**9.0**	7.9
Exceptional past service cost – plan amendment (note 1)	**(6.9)**	–	**(6.9)**	–
Exceptional past service cost – curtailment credit (note 1)	**0.6**	3.9	**0.6**	3.9
Exceptional past service (costs)/credit	**(6.3)**	3.9	**(6.3)**	3.9
Net (charge)/credit recognised in the income statement	**(6.5)**	1.7	**2.7**	11.8

The exceptional cost for plan amendment relates to charges in respect of the acquisition of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018.

The exceptional curtailment credit of £0.6m in 2018 (2017: £3.9m) represents the reduction in headcount following business restructuring within CCD (see note 1).

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

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

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Fair value of scheme assets at 1 January	**835.5**	830.1	**835.5**	830.1
Interest on scheme assets	**19.9**	21.1	**19.9**	21.1
Contributions by subsidiaries	**–**	–	**9.2**	10.1
Actuarial movement on scheme assets	**(31.3)**	18.2	**(31.3)**	18.2
Contributions by the Group/Company	**9.8**	10.7	**0.6**	0.6
Net benefits paid out	**(45.6)**	(44.6)	**(45.6)**	(44.6)
Fair value of scheme assets at 31 December	**788.3**	835.5	**788.3**	835.5

The Group contributions to the defined benefit pension scheme in the year ending 31 December 2019 are expected to be approximately £10m.

19 Retirement benefit asset *continued*

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

	Group and Company	
	2018 £m	2017 £m
Present value of the defined benefit obligation at 1 January	**(733.2)**	(757.7)
Current service cost	**(2.7)**	(4.2)
Interest on scheme liabilities	**(17.4)**	(19.1)
Exceptional past service cost – plan amendment (note 1)	**(6.9)**	–
Exceptional past service cost – curtailment credit (note 1)	**0.6**	3.9
Actuarial movement – experience	**(9.1)**	(3.7)
Actuarial movement – demographic assumptions	**(31.4)**	21.3
Actuarial movement – financial assumptions	**50.1**	(18.3)
Net benefits paid out	**45.6**	44.6
Present value of the defined benefit obligation at 31 December	**(704.4)**	(733.2)

The liabilities of the scheme are based on the current value of expected benefit payments over the next 90 years. The weighted average duration of the scheme liabilities is approximately 17 years (2017: 19 years).

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

	Group and Company	
	2018 %	2017 %
Price inflation – RPI	**3.30**	3.20
Price inflation – CPI	**2.20**	2.10
Rate of increase to pensions in payment	**3.00**	2.95
Inflationary increases to pensions in deferment	**2.20**	2.10
Discount rate	**2.80**	2.40

The pension increase assumption shown above applies to pensions increasing in payment each year in line with RPI up to 5%. Pensions accrued prior to 2000 are substantially subject to fixed 5% increases each year. In deferment increases prior to retirement are linked to CPI.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 1 tables, with multipliers of 96% (2017: 105%) and 101% (2017: 115%) respectively for males and females. The 4% downwards (2017: 5% upwards) adjustment to mortality rates for males and an 1% upwards (2017: 15%) adjustment for females reflects the lower life expectancies 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) 2016 model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

	Male		Female	
Group and Company	**2018 years**	2017 years	**2018 years**	2017 years
Current pensioner aged 65	**22.2**	21.4	**23.8**	22.9
Current member aged 45 from age 65	**23.6**	22.9	**25.3**	24.5

The table below shows the sensitivity on the defined benefit obligation (not including any impact on assets) of changes in the key assumptions. Depending on the scenario, there would also be compensating asset movements.

	Group and Company	
	2018 £m	2017 £m
Discount rate decreased by 0.1%	**12**	14
Inflation increased by 0.1%	**5**	6
Life expectancy increased by 1 year	**30**	30

The actual return on scheme assets compared to the expected return is as follows:

	Group and Company	
	2018 £m	2017 £m
Interest on scheme assets	**19.9**	21.1
Actuarial movement on scheme assets	**(31.3)**	18.2
Actual return on scheme assets	**(11.4)**	39.3

Actuarial gains and losses are recognised through other comprehensive income in the period in which they occur.

Notes to the financial statements *continued*

19 Retirement benefit asset *continued*

An analysis of the amounts recognised in the statement of other comprehensive income is as follows:

	Group and Company	
	2018 £m	2017 £m
Actuarial movement on scheme assets	**(31.3)**	18.2
Actuarial movement on scheme liabilities	**9.6**	(0.7)
Total movement recognised in other comprehensive income in the year	**(21.7)**	17.5
Cumulative movement recognised in other comprehensive income	**(86.2)**	(64.5)

The history of the net retirement benefit asset recognised in the balance sheet and experience adjustments for the Group is as follows:

	Group and Company				
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Fair value of scheme assets	**788.3**	835.5	830.1	666.4	700.1
Present value of funded defined benefit obligation	**(704.4)**	(733.2)	(757.7)	(604.1)	(644.1)
Retirement benefit asset recognised in the balance sheet	**83.9**	102.3	72.4	62.3	56.0
Experience gains/(losses) on scheme assets:					
> amount (£m)	**(31.3)**	18.2	153.7	(52.4)	77.9
> percentage of scheme assets (%)	**(4.0)**	2.2	18.5	(7.9)	11.1
Experience gains/(losses) on scheme liabilities:					
> amount (£m)	**(9.1)**	(3.7)	4.5	25.9	4.1
> percentage of scheme liabilities (%)	**(1.3)**	(0.5)	0.6	4.3	0.6

(b) Pension schemes – defined contribution

The Group operates a Group Personal Pension plan into which Group companies contribute a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice arrangement (typically ranging between 3% and 8%). The assets of the scheme are held separately from those of the Group and Company.

The Group also operates a separate pension scheme for auto-enrolment into which the Company and subsidiaries contribute a proportion of qualifying earnings of the member of 1%. The assets of the scheme are held separately from those of the Group or the Company. The pension charge in the consolidated income statement represents contributions paid by the Group in respect of these plans and amounted to £9.3m for the year ended 31 December 2018 (2017: £8.1m). Contributions made by the Company amounted to £0.4m (2017: £0.4m). £0.6m contributions were payable to the fund at the year end (2017: £0.6m).

The Group contributed £nil in 2018 into individual personal pension plans in the year (2017: less than £0.1m).

The Unfunded, Unapproved Retirement Benefit Scheme (UURBS) decreased by £1.5m in the year as amounts were withdrawn from the scheme, the balance outstanding, for the Group at 31 December 2018 was £0.5m. The increase of £0.2m in 2017 was a result of the transfer of Andrew Fisher's scheme to a personal pension plan, and £1.6m into cash supplements

20 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences or timing differences between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of derivative financial instruments, the Group's pension asset, deductions for employee share awards which are recognised differently for tax purposes, property, plant and equipment which is depreciated on a different basis for tax purposes, certain cost provisions for which tax deductions are only available when the costs are paid, investments held at fair value through OCI which are taxed only on disposal and the opening balance sheet adjustments to state the IAS 39 balance sheet onto an IFRS 9 basis, for which tax deductions are available over 10 years. The deferred tax liability recognised on the acquisition of Moneybarn relates primarily to the intangible asset in respect of Moneybarn's broker relationships which will be amortised in future periods but for which tax deductions will not be available.

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. During 2015, reductions in corporation tax rates were enacted, reducing the mainstream UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In addition, the Government introduced a bank corporation tax surcharge enacted in the 2015 Finance (No 2) Act which imposes, with effect from 1 January 2016, an additional 8% corporation tax on profits of Vanquis Bank over £25m. During 2016, a further change was enacted which further reduced the mainstream UK corporation tax rate from 18% to 17% with effect from 1 April 2020.

Deferred tax at 31 December 2018 has been measured at 17% (2017: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2017: 25%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2017: 1 April 2020). The exception to this is the opening balance sheet adjustment to restate the IAS 39 balance sheet to an IFRS 9 basis where deferred tax has been measured at the mainstream UK corporation tax rate and in the case of Vanquis Bank at combined mainstream UK corporation tax and bank corporation tax surcharge rates at which the amount will be deductible over the next 10 years. In 2018, movements in deferred tax balances were measured at the mainstream corporation tax rate for the year of 19% (2017: 19.25%), and, in the case of Vanquis Bank, at the combined mainstream corporation tax and bank corporation tax surcharge rates for the year of 27% (2017: 27.25%). A tax charge of £0.6m (2017: credit of £0.6m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.7m (2017: credit of £0.3m), has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

20 Deferred tax *continued*

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

Asset/liability	Group 2018 IFRS 9 £m	Group 2017 IAS 39 £m	Company 2018 IFRS 9 £m	Company 2017 IAS 39 £m
At 1 January	**(20.3)**	(10.7)	**(15.9)**	(9.8)
Credit on adjustment arising on transition to IFRS 9 (note 32)	**54.1**	–	**–**	–
At 1 January restated	**33.8**	(10.7)	**(15.9)**	(9.8)
Credit/(charge) to the income statement	**2.2**	(6.7)	**(1.1)**	(3.5)
Credit/(charge) on other comprehensive income prior to impact of change in UK tax rate	**3.6**	(3.8)	**4.1**	(3.4)
Impact of change in UK tax rate:				
> (charge)/credit to the income statement	**(0.6)**	0.6	**0.1**	0.4
> (charge)/credit to other comprehensive income	**(0.7)**	0.3	**(0.5)**	0.4
At 31 December	**38.3**	(20.3)	**(13.3)**	(15.9)

The deferred tax credit of £54.1m (2017: £nil) arising on transition to IFRS 9 represents the deferred tax arising on the opening balance sheet adjustment to restate the IAS 39 balance sheet on to an IFRS 9 basis. The adjustment is tax deductible over 10 years commencing in 2018 and deferred tax has been measured at the UK corporation tax rate and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates, at which the temporary differences on which deferred tax has been recognised will reverse.

An analysis of the deferred tax liability for the Group is set out below:

Group – (liability)/asset	2018 IFRS 9 Accelerated capital allowances £m	2018 IFRS 9 Other temporary differences £m	2018 IFRS 9 Retirement benefit obligations £m	2018 IFRS 9 Total £m	2017 IAS 39 Accelerated capital allowances £m	2017 IAS 39 Other temporary differences £m	2017 IAS 39 Retirement benefit obligations £m	2017 IAS 39 Total £m
At 1 January	**2.7**	**(5.8)**	**(17.2)**	**(20.3)**	2.4	(1.0)	(12.1)	(10.7)
Credit on adjustment arising on transition to IFRS 9 (note 32)	**–**	**54.1**	**–**	**54.1**	–	–	–	–
At 1 January restated	**2.7**	**48.3**	**(17.2)**	**33.8**	2.4	(1.0)	(12.1)	(10.7)
(Charge)/credit to the income statement	**(0.1)**	**3.2**	**(0.9)**	**2.2**	0.3	(4.6)	(2.4)	(6.7)
(Charge)/credit on other comprehensive income prior to change in UK tax rate	**–**	**(0.5)**	**4.1**	**3.6**	–	(0.4)	(3.4)	(3.8)
Impact of change in UK tax rate:								
> (charge)/credit to the income statement	**–**	**(0.7)**	**0.1**	**(0.6)**	–	0.3	0.3	0.6
> (charge)/credit to other comprehensive income	**–**	**(0.2)**	**(0.5)**	**(0.7)**	–	(0.1)	0.4	0.3
At 31 December	**2.6**	**50.1**	**(14.4)**	**38.3**	2.7	(5.8)	(17.2)	(20.3)

An analysis of the deferred tax liability for the Company is set out below:

Company – (liability)/asset	2018 Accelerated capital allowances £m	2018 Other temporary differences £m	2018 Retirement benefit obligations £m	2018 Total £m	2017 Accelerated capital allowances £m	2017 Other temporary differences £m	2017 Retirement benefit obligations £m	2017 Total £m
At 1 January	**(0.1)**	**1.4**	**(17.2)**	**(15.9)**	(0.2)	2.5	(12.1)	(9.8)
Credit/(charge) to the income statement	**0.1**	**(0.3)**	**(0.9)**	**(1.1)**	0.1	(1.2)	(2.4)	(3.5)
Credit/(charge) on other comprehensive income prior to impact of change in UK tax rate	**–**	**–**	**4.1**	**4.1**	–	–	(3.4)	(3.4)
Impact of change in UK tax rate:								
> credit to the income statement	**–**	**–**	**0.1**	**0.1**	–	0.1	0.3	0.4
> (charge)/credit to other comprehensive income	**–**	**–**	**(0.5)**	**(0.5)**	–	–	0.4	0.4
At 31 December	**–**	**1.1**	**(14.4)**	**(13.3)**	(0.1)	1.4	(17.2)	(15.9)

Deferred tax assets have been recognised in respect of all temporary differences because it is probable that these assets will be recovered.

Notes to the financial statements *continued*

21 Cash and cash equivalents

Cash and cash equivalents includes cash at bank and held in short-term deposits, floats held by CEMs within CCD and Vanquis Bank's liquid assets buffer, including other liquid resources, held in accordance with the PRA's liquidity regime and an operational buffer. The PRA requires regulated entities to maintain a liquid assets buffer to ensure they have available funds to help protect against unforeseen circumstances. The total liquid resources required to be held is calculated in line with the Overall Liquidity Adequacy Rule (OLAR) as set out in the Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken by Vanquis Bank. Liquid resource must be maintained based upon daily stress tests linked to the three key liquidity risks of Vanquis Bank, namely retail deposit maturities, undrawn credit lines and operating cash flows. This results in a dynamic liquid resources requirement largely driven by retail deposits maturities in the following three months.

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Cash at bank and in hand	**387.9**	282.9	**1.0**	35.6

In addition to cash and cash equivalents, the Group had £7.0m of bank overdrafts at 31 December 2018 (2017: £3.1m) and the Company had £4.2m of bank overdrafts (2017: £0.3m) both of which are disclosed within bank and other borrowings (see note 22).

Vanquis Bank's total liquid assets buffer, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £420.6m (2017: £263.4m). This includes £384.9m (2017: £227.5m) held in cash and cash equivalents and £35.7m held in a combination of UK government gilts. As at 31 December 2018, £106.5m (2017: £22.3m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

The currency profile of cash and cash equivalents is as follows:

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Sterling	**387.7**	280.5	**1.0**	34.4
Euro	**0.2**	2.4	**–**	1.2
Total cash and cash equivalents	**387.9**	282.9	**1.0**	35.6

Cash and cash equivalents are non-interest bearing other than in respect of the cash held on deposit and the amounts held by Vanquis Bank as a liquid assets buffer and other liquid resources which bear interest at rates linked to the Bank of England base rate.

22 Borrowings

	Group		Company	
Current liabilities	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Retail deposits	**339.3**	350.8	**–**	–
Bank and other borrowings	**49.8**	38.1	**47.1**	35.3
Total	**389.1**	388.9	**47.1**	35.3
Non-current liabilities				
Retail deposits	**1,092.4**	950.2	**–**	–
Bank and other borrowings	**574.0**	853.9	**574.0**	853.9
Total	**1,666.4**	1,804.1	**574.0**	853.9
Total borrowings	**2,055.5**	2,193.0	**621.1**	889.2

(a) Facilities and borrowings

Borrowings principally comprise retail deposits issued by Vanquis Bank (see note 22(b)), syndicated bank facility, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 22(e)), loan notes privately placed with UK institutions (see note 22(f)) and retail bonds (see note 22(g)). As at 31 December 2018, borrowings under these facilities amounted to £2,055.5m (2017: £2,193.0m).

Historically, interest accruals on borrowings and retail deposits have been presented within trade and other payables in the balance sheet. They have now been disclosed as part of the principal balances to which they relate within borrowings, replicating the presentation of interest on customer receivables. Prior year comparatives have also been reclassified.

22 Borrowings *continued*

(b) Retail deposits

Vanquis Bank is a PRA-regulated bank and is now fully funded through retail deposits. As at 31 December 2018, £1,431.7m (2017: £1,301.0m) of fixed-rate, fixed-term retail deposits of one, two, three, four and five years had been taken. The deposits in issue at 31 December 2018 have been issued at rates of between 1.5% and 2.7%.

A reconciliation of the movement in retail deposits is set out below:

Group	2018 £m	2017 £m
At 1 January	**1,301.0**	949.0
New funds received	**352.2**	456.1
Maturities	**(347.9)**	(180.6)
Retentions	**134.9**	82.4
Cancellations	**(24.4)**	(18.5)
Interest	**15.9**	12.6
At 31 December	**1,431.7**	1,301.0

(c) Maturity profile borrowings

The maturity of borrowings, together with the maturity of facilities, is as follows:

	2018		2017	
Group	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand (uncommitted)	**14.5**	**7.0**	24.5	3.1
In less than one year	**370.7**	**370.7**	383.3	383.0
Accrued interest	**–**	**11.4**	–	2.8
Included in current liabilities	**385.2**	**389.1**	407.8	388.9
Between one and two years	**870.4**	**543.0**	536.1	536.1
Between two and five years	**1,121.9**	**1,121.9**	1,262.6	1,196.7
In more than five years	**–**	**–**	60.0	60.0
Accrued interest	**–**	**5.7**	–	16.1
Arrangement fees	**–**	**(4.2)**	–	(4.8)
Included in non-current liabilities	**1,992.3**	**1,666.4**	1,858.7	1,804.1
Total Group	**2,377.5**	**2,055.5**	2,266.5	2,193.0

Borrowings are stated after deducting £4.2m of unamortised arrangement fees (2017: £4.8m) and the addition of accrued interest of £17.1m (2017: £18.9m)

	2018		2017	
Company	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand (uncommitted)	**14.5**	**4.2**	24.4	0.3
In less than one year	**42.5**	**42.5**	35.0	35.0
Accrued interest	**–**	**0.4**	–	–
Included in current liabilities	**57.0**	**47.1**	59.4	35.3
Between one and two years	**500.2**	**173.0**	265.0	265.0
Between two and five years	**400.0**	**400.0**	590.2	524.0
In more than five years	**–**	**–**	60.0	60.0
Accrued interest	**–**	**5.2**	–	9.7
Arrangement fees	**–**	**(4.2)**	–	(4.8)
Included in non-current liabilities	**900.2**	**574.0**	915.2	853.9
Total Company	**957.2**	**621.1**	974.6	889.2

Notes to the financial statements *continued*

22 Borrowings *continued*

As at 31 December 2018, the weighted average period to maturity of the Group's committed facilities, including retail deposits, was 2.3 years (2017: 2.3 years) and for the Company's committed facilities was 2.5 years (2017: 2.5 years). Excluding retail deposits, the weighted average period to maturity of the Group's committed facilities was 2.3 years (2017: 2.5 years).

(d) Interest rate and currency profile of borrowings

Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the Group and Company, the interest rate and foreign exchange rate exposure on borrowings is as follows:

			2018			2017
Group	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	1,859.4	168.0	2,027.4	1,703.0	440.9	2,143.9
Euro	–	28.1	28.1	–	49.1	49.1
Total Group	1,859.4	196.1	2,055.5	1,703.0	490.0	2,193.0

			2018			2017
Company	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	427.7	165.3	593.0	402.0	438.1	840.1
Euro	–	28.1	28.1	–	49.1	49.1
Total Company	427.7	193.4	621.1	402.0	487.2	889.2

As detailed in note 17, the Group and the Company uses various interest rate swaps to hedge the interest rate exposure on borrowings. In 2017, after taking account of the aforementioned interest rate swaps, the Group's fixed rate borrowings were £1,707.5m and the Company's fixed rate borrowings were £415.7m. There were no interest rate swaps in place at 31 December 2018.

(e) Senior public bonds

On 23 October 2009, the Company issued £250.0m of senior public bonds. The bonds have an annual coupon of 8.0% and are repayable on 23 October 2019.

On 4 June 2018, the Group issued £250m of five year fixed rate bonds carrying a semi-annual coupon of 7%. The proceeds of the bond issue were used to finance the tender offer for the £250.0m existing senior bonds, maturing on 23 October 2019. 89% of the existing bonds were tendered and redeemed at an 8.0% premium on 30 May 2018. The remaining existing senior bonds of £27.5m will mature on their original maturity date on 23 October 2019.

(f) Private placement loan notes

On 13 January 2011, the Company entered into a committed £100.0m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years five and ten. The first two repayments of £10.0m were repaid in 2016 and 2017 and the third instalment of £15.0m was paid in 2018. A fourth instalment of £15.0m was paid on 31 January 2019.

The Company also entered into a £20m private placement loan note with a third party in March 2011, which was repaid on its contractual maturity date in March 2018, at a rate linked to LIBOR.

(g) Retail bonds

The Company has three outstanding retail bonds issued on the Order Book for Retail Bonds (ORB) platform established by the London Stock Exchange as follows:

Issue date	Amount £m	Rate %	Maturity date
14 April 2010	25.2	7.5%*	14 April 2020
27 March 2013	65.0	6.0%	27 September 2021
9 April 2015	60.0	5.125%	9 October 2023
Total Group and Company	150.2		

* Represents an all-in cost of 7.5%, comprising a 7.0% interest rate payable to the bond holder and 0.5% payable to the distributor.

22 Borrowings *continued*

(h) Undrawn committed borrowing facilities

The Group's funding and liquidity policy is designed to ensure that the Group is able to continue to fund the growth of the business. The Group therefore maintains headroom on its committed borrowing facilities, together with cash held on deposit, to fund growth and contractual maturities for at least the following 12 months.

The undrawn committed borrowing facilities at 31 December were as follows:

	Group and Company	
	2018 £m	2017 £m
Expiring within one year	**–**	–
Expiring within one to two years	**327.4**	–
Expiring in more than two years	**–**	66.2
Total undrawn committed borrowing facilities	**327.4**	66.2

The Group has committed borrowing facilities of £2,363.0m (2017: £2,242.0m) at the end of 2018.

Headroom on the Group's committed debt facilities was £327.4m at 31 December 2018. Together with the ongoing retail deposits programme, this is sufficient to fund contractual debt maturities and projected growth in the Group until May 2020, when the Group's syndicated revolving bank facility matures.

In order to reconcile the borrowings and the headroom on committed facilities shown, the facilities and borrowings in respect of amounts repayable on demand and interest accrued should be deducted and unamortised arrangement fees should be added back to borrowings as follows:

	2018		2017	
Group	**Facilities £m**	**Borrowings £m**	Facilities £m	Borrowings £m
Total facilities and borrowings	**2,377.5**	**2,055.5**	2,266.5	2,193.0
Repayable on demand	**(14.5)**	**(7.0)**	(24.5)	(3.1)
Unamortised arrangement fees	**–**	**4.2**	–	4.8
Accrued interest	**–**	**(17.1)**	–	(18.9)
Total committed facilities and borrowings	**2,363.0**	**2,035.6**	2,242.0	2,175.8
Headroom on committed facilities		**327.4**		66.2

(i) Weighted average interest rates and periods to maturity

Before taking account of the various interest rate swaps entered into by the Group and Company, the weighted average interest rate and the weighted average period to maturity of the Group and the Company's fixed-rate borrowings is as follows:

	2018		2017	
Group	**Weighted average interest rate %**	**Weighted average period to maturity years**	Weighted average interest rate %	Weighted average period to maturity years
Sterling	**3.20**	**2.4**	3.36	2.31

	2018		2017	
Company	**Weighted average interest rate %**	**Weighted average period to maturity years**	Weighted average interest rate %	Weighted average period to maturity years
Sterling	**6.65**	**2.5**	7.18	2.75

Notes to the financial statements *continued*

There were no interest rate swaps in place at 31 December 2018. In 2017, after taking account of interest rate swaps, the sterling-weighted average fixed interest rate for the Group was 3.2% and 6.65% for the Company. The sterling-weighted average period to maturity on the same basis was 2.3 years for the Group and 2.9 years for the Company.

22 Borrowings *continued*

(j) Fair values

The fair values of the Group and Company's borrowings are compared to their book values as follows:

Group	2018 Book value £m	2018 Fair value £m	2017 Book value £m	2017 Fair value £m
Retail deposits	**1,431.7**	**1,441.0**	1,301.0	1,302.6
Bank loans and overdrafts	**126.6**	**126.6**	384.8	384.8
Senior public bonds	**279.2**	**310.8**	254.1	242.1
Sterling private placement loan notes	**65.6**	**69.7**	100.7	107.0
Retail bonds	**152.4**	**151.7**	152.4	139.6
Total Group	**2,055.5**	**2,099.8**	2,193.0	2,176.1

Company	2018 Book value £m	2018 Fair value £m	2017 Book value £m	2017 Fair value £m
Bank loans and overdrafts	**123.9**	**123.9**	382.0	382.0
Senior public bonds	**279.2**	**310.8**	254.1	242.1
Sterling private placement loan notes	**65.6**	**69.7**	100.7	107.0
Retail bonds	**152.4**	**151.7**	152.4	139.6
Total Company	**621.1**	**656.1**	889.2	870.7

23 Trade and other payables

Current liabilities	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade payables	**7.3**	6.8	**–**	–
Amounts owed to Group undertakings	**–**	–	**72.7**	77.8
Other payables including taxation and social security	**9.6**	11.2	**1.7**	1.6
Accruals	**74.9**	78.9	**12.2**	17.6
Total trade and other payables	**91.8**	96.9	**86.6**	97.0

The amounts owed to Group undertakings are unsecured, due for repayment in less than one year and accrue interest at rates linked to LIBOR.

Accruals principally relate to normal operating accruals such as rent, rates and utilities. Historically, interest accruals on borrowings and retail deposits were presented within accruals. They have now been disclosed as part of the principal balances to which they relate within borrowings, this replicates the presentation of interest on customer receivables. Prior year comparatives have also been reclassified.

24 Provisions

Provisions	Group 2018 £m	2017 £m
At 1 January	**104.6**	–
Created in the year	**–**	104.6
Utilised in the year	**(62.2)**	–
Reclassification from balance reduction provisions	**10.8**	–
At 31 December	**53.2**	104.6

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

The ROP refund programme is on-track to be substantially completed in early 2019. Following a successful pilot during the summer, there was a significant step up in the volume of refunds being processed in the final quarter of the year and over 1 million current and former ROP customers had been refunded by the end of 2018. As a result, £61.8m of the provision established at the end of 2017 has been used during 2018. In addition, a reclassification of £10.8m has been made from the balance reduction provision held against receivables during 2018 which reflects an increase in the estimate of the number of customers that will receive a cash refund rather than a balance reduction. The balance reduction provision has reduced from £75.4m at the end of 2017 to £3.7m at the end of 2018 (see note 14), of which £60.9m relates to balance reductions applied to customer accounts and £10.8m relates to the reclassification to provisions.

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

Moneybarn has used £0.4m of the provision in 2018 in respect of legal costs. The balance reduction adjustment has also reduced by £10.3m from £12.1m to £1.8m during 2018 reflecting the write down of gross receivables based on the expected outcome of the termination options and forbearance parts of the FCA investigation (see note 14). Moneybarn is working towards concluding the matter in the first half of 2019

25 Share capital

Group and Company		2018 Issued and fully paid	2017 Issued and fully paid
Ordinary shares of 20 8/11p each	**– £m**	**52.5**	30.7
	– number (m)	**253.3**	148.2

The movement in the number of shares in issue during the year was as follows:

Group and Company	2018 m	2017 m
At 1 January	**148.2**	147.8
Shares issued due to rights issue	**105.0**	–
Shares issued pursuant to the exercise/vesting of options and awards	**0.1**	0.4
At 31 December	**253.3**	148.2

Share capital increased by £21.8m as a result of the rights issue in April 2018. The rights issue was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. The resulting merger reserve of £278.2m is included within other reserves.

The shares issued pursuant to the exercise/vesting of options and awards comprised 52,192 ordinary shares (2017: 463,504) with a nominal value of £10,818 (2017: £96,072) and an aggregate consideration of £0.1m (2017: £0.4m).

Provident Financial plc sponsors the Provident Financial plc 2007 Employee Benefit Trust (EBT) which is a discretionary trust established for the benefit of the employees of the Group. The Company has appointed SG Kleinwort Hambros Trust Company (CI) Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2018, the EBT held 2,853,722 (2017: 2,174,534) shares in the Company with a cost of £4.5m (2017: £2.3m) and a market value of £16.4m (2017: £19.5m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006 and the 2013 Performance Share Plan.

Notes to the financial statements *continued*

26 Share-based payments

The Group issues share options and awards to employees as part of its employee remuneration packages. The Group operates three equity settled share schemes: the Long Term Incentive Scheme (LTIS), employees' savings-related share option schemes typically referred to as Save As You Earn schemes (SAYE), and the Performance Share Plan (PSP). The Group also operates a cash-settled share incentive scheme, the Provident Financial Equity Plan (PFEP) for eligible employees based on a percentage of salary.

When an equity settled share option or award is granted, a fair value is calculated based on the share price at grant date, the probability of the option/award vesting, the Group's recent share price volatility, and the risk associated with the option/award. A fair value is calculated based on the value of awards granted and adjusted at each balance sheet date for the probability of vesting against performance conditions.

The fair value of all options/awards are charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

During 2018, awards/options have been granted under the LTIS, SAYE and PFEP schemes (2017: awards/options have been granted under the LTIS, PSP, SAYE and PFEP schemes).

(a) Equity-settled schemes

The charge to the income statement in 2018 for equity settled schemes was £1.1m for the Group (2017: credit of £3.4m) and £0.4m for the Company (2017: credit of of £2.2m).

The fair value per award/option granted and the assumptions used in the calculation of the equity settled share-based payment charges for the Group and the Company are as follows:

	2018		2017		
Group	**LTIS**	**SAYE**	PSP	LTIS	SAYE
Grant date	**16 Apr 2018**	**4 Oct 2018**	24 Mar 2017	24 Mar 2017	29 Sep 2017
Share price at grant date (£)	**6.85**	**5.90**	29.28	29.28	8.31
Exercise price (£)	**–**	**5.38**	–	–	6.90
Shares awarded/under option (number)	**1,417,274**	**963,978**	135,389	300,086	1,833,284
Vesting period (years)	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**82.6%**	**65.8%-83.3%**	27.7%	27.7%	60.7%-76.8%
Award/option life (years)	**3**	**Up to 5**	3	3	Up to 5
Expected life (years)	**3**	**Up to 5**	3	3	Up to 5
Risk-free rate	**0.82%**	**1.0%**	0.75%	0.75%	0.92%-1.09%
Expected dividends expressed as a dividend yield	**n/a**	**3.0%**	n/a	n/a	3.0%
Fair value per award/option (£)	**5.89**	**2.61-3.36**	29.28	29.28	2.01-2.76

			2017		
Company	**LTIS**	**SAYE**	PSP	LTIS	SAYE
Grant date	**16 Apr 2018**	**4 Oct 2018**	24 Mar 2017	24 Mar 2017	29 Sep 2017
Share price at grant date (£)	**6.85**	**5.90**	29.28	29.28	8.31
Exercise price (£)	**–**	**5.38**	–	–	6.90
Shares awarded/under option (number)	**460,947**	**28,651**	106,614	133,702	89,535
Vesting period (years)	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**82.6%**	**65.8%-83.3%**	27.7%	27.7%	60.7%-76.8%
Award/option life (years)	**3**	**Up to 5**	3	3	Up to 5
Expected life (years)	**3**	**Up to 5**	3	3	Up to 5
Risk-free rate	**0.82%**	**1.0%**	0.75%	0.75%	0.92%-1.09%
Expected dividends expressed as a dividend yield	**n/a**	**3.0%**	n/a	n/a	3.0%
Fair value per award/option (£)	**5.89**	**2.61-3.36**	29.28	29.28	2.01-2.76

The expected volatility is based on historical volatility over the last three or five years depending on the length of the option/award. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero coupon UK Government bonds of a similar duration to the life of the share option.

26 Share-based payments *continued*

A reconciliation of award/share option movements during the year is shown below:

Group	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £
Outstanding at 1 January 2018	296,741	–	595,503	–	1,932,732	7.28
Awarded/granted	–	–	1,417,274	–	963,978	5.39
Granted through rights issue	50,085	–	–	–	581,918	–
Lapsed	(548)	–	(53,211)	–	(717,115)	8.03
Exercised	(139,123)	–	(192,235)	–	(17,192)	5.13
Outstanding at 31 December 2018	207,155	–	1,767,331	–	2,744,321	5.31
Exercisable at 31 December 2018	–	–	–	–	20,677	12.08

Group	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £
Outstanding at 1 January 2017	499,328	–	961,560	–	625,446	19.42
Awarded/granted	135,389	–	300,086	–	1,833,284	6.90
Lapsed	(142,264)	–	(306,720)	–	(499,579)	19.58
Exercised	(195,712)	–	(359,423)	–	(26,419)	12.13
Outstanding at 31 December 2017	296,741	–	595,503	–	1,932,732	7.28
Exercisable at 31 December 2017	–	–	–	–	57,076	14.34

Share awards outstanding under the LTIS scheme at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 1.9 years (2017: 1.3 years). Share options outstanding under the SAYE schemes at 31 December 2018 had exercise prices ranging from 483p to 1,760p (2017: 662p to 2,406p) and a weighted average remaining contractual life of 2.6 years (2017: 3.2 years). Share awards outstanding under the PSP schemes at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 0.7 years (2017: 1.1 years).

Company	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £
Outstanding at 1 January 2018	189,005	–	227,380	–	94,718	7.51
Awarded/granted	–	–	460,947	–	28,651	5.38
Granted through rights issue	30,409	–	–	–	34,860	–
Lapsed	–	–	–	–	(33,534)	8.30
Exercised	(76,272)	–	(74,697)	–	(697)	5.01
Outstanding at 31 December 2018	143,142	–	613,630	–	123,998	5.34
Exercisable at 31 December 2018	–	–	–	–	386	11.75

Company	PSP Number	PSP Weighted average exercise price £	LTIS Number	LTIS Weighted average exercise price £	SAYE Number	SAYE Weighted average exercise price £
Outstanding at 1 January 2017	328,877	–	417,348	–	32,967	19.24
Awarded/granted	106,614	–	133,702	–	89,535	6.85
Lapsed	(114,170)	–	(148,304)	–	(26,414)	17.99
Exercised	(132,316)	–	(175,366)	–	(1,370)	11.81
Outstanding at 31 December 2017	189,005	–	227,380	–	94,718	7.51
Exercisable at 31 December 2017	–	–	–	–	5,349	16.44

Share awards outstanding under the LTIS scheme at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 1.9 years (2017: 1.2 years). Share options outstanding under the SAYE schemes at 31 December 2018 had exercise prices ranging from 501p to 1,760p (2017: 685p to 2,406p) and a weighted average remaining contractual life of 2.8 years (2017: 3.4 years). Share awards outstanding under the PSP schemes at 31 December 2018 had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 0.7 years (2017: 1.2 years).

Notes to the financial statements *continued*

26 Share-based payments *continued*

(b) Cash-settled schemes

During 2018, cash awards were granted under the PFEP to eligible employees that require the Group and Company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The credit to the income statement in 2018 was £3.9m for the Group (2017: charge of £1.0m) and £nil for the Company (2017: credit of £0.3m). The Group has a liability of £1.7m as at 31 December 2018 (2017: £5.6m) and £nil for the Company (2017: £nil).

27 Other reserves

Group	Merger reserve £m	Profit retained by subsidiary £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Fair value reserve £m	Total other reserves £m
At 1 January 2017	–	0.8	3.6	(0.2)	(1.0)	20.8	0.3	24.3
Other comprehensive income/(expense):								
> fair value movement in investments (note 15)	–	–	–	–	–	–	1.9	1.9
> fair value movements on cash flow hedges (note 17)	–	–	–	0.2	–	–	–	0.2
> tax on items taken directly to other comprehensive income (note 5)	–	–	–	–	–	–	(0.4)	(0.4)
> impact of change in UK tax rate	–	–	–	–	–	–	(0.1)	(0.1)
Other comprehensive income for the year	–	–	–	0.2	–	–	1.4	1.6
Transactions with owners:								
> purchase of own shares	–	–	–	–	(0.1)	–	–	(0.1)
> transfer of own shares on vesting of share awards	–	–	–	–	1.1	–	–	1.1
> share-based payment credit (note 26)	–	–	–	–	–	(3.4)	–	(3.4)
> transfer of share-based payment reserve on vesting of share awards	–	–	–	–	–	(10.1)	–	(10.1)
At 31 December 2017	–	0.8	3.6	–	–	7.3	1.7	13.4
At 1 January 2018	**–**	**0.8**	**3.6**	**–**	**–**	**7.3**	**1.7**	**13.4**
Other comprehensive income/(expense):								
> fair value movements in investments (note 15)	**–**	**–**	**–**	**–**	**–**	**–**	**2.2**	**2.2**
> tax on items taken directly to other comprehensive income (note 5)	**–**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
> impact of change in UK tax rate	**–**	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**1.5**	**1.5**
Transactions with owners:								
> proceeds from rights issue (note 25)	**278.2**	**–**	**–**	**–**	**–**	**–**	**–**	**278.2**
> share-based payment charge (note 26)	**–**	**–**	**–**	**–**	**–**	**1.1**	**–**	**1.1**
> transfer of share-based payment reserve on vesting of share awards	**–**	**–**	**–**	**–**	**–**	**(2.1)**	**–**	**(2.1)**
At 31 December 2018	**278.2**	**0.8**	**3.6**	**–**	**–**	**6.3**	**3.2**	**292.1**

The capital redemption reserve represents profits on the redemption of preference shares arising in prior years, together with the capitalisation of the nominal value of shares purchased and cancelled, net of the utilisation of this reserve to capitalise the nominal value of shares issued to satisfy scrip dividend elections.

The hedging reserve reflected the corresponding entry to the fair value of hedging derivatives held on the balance sheet as either assets or liabilities, net of deferred tax (see note 17).

The treasury shares reserve represented shares acquired by the Company, through various trusts, both from the market and through a fresh issue to satisfy awards under the Group's various share schemes (see note 26). The cost of the shares is treated as a deduction from equity. When the relevant awards vest, the cost of the shares provided to employees is transferred to retained earnings.

The share-based payment reserve reflects the corresponding credit entry to the cumulative share-based payment charges made through the income statement as there is no cash cost or reduction in assets from the charges. When options and awards vest, that element of the share-based payment reserve relating to those awards and options is transferred to retained earnings.

The fair value reserve reflects the fair value movements in the investments held at fair value through other comprehensive income, net of deferred tax (see note 15).

27 Other reserves *continued*

Company	Non-distributable reserve £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2017	609.2	2.3	3.6	(0.1)	(1.0)	20.9	634.9
Other comprehensive income:							
> fair value movements on cash flow hedges (note 17)	–	–	–	0.1	–	–	0.1
Other comprehensive income for the year	–	–	–	0.1	–	–	0.1
Transactions with owners:							
> purchase of own shares	–	–	–	–	(0.1)	–	(0.1)
> transfer of own shares on vesting of share awards	–	–	–	–	1.1	–	1.1
> share-based payment credit (note 26)	–	–	–	–	–	(2.2)	(2.2)
> transfer of share-based payment reserve on vesting of share awards	–	–	–	–	–	(5.0)	(5.0)
> share-based payment movement in investment in subsidiaries	–	–	–	–	–	(6.4)	(6.4)
> transfer of non-distributable reserve following write down of investments and loans to subsidiaries (note 13)	(571.3)	–	–	–	–	–	(571.3)
At 31 December 2017	37.9	2.3	3.6	–	–	7.3	51.1
At 1 January 2018	**37.9**	**2.3**	**3.6**	**–**	**–**	**7.3**	**51.1**
Transactions with owners:							
> proceeds from rights issue (note 25)	**–**	**278.2**	**–**	**–**	**–**	**–**	**278.2**
> share-based payment charge (note 26)	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
> transfer of share-based payment reserve on vesting of share awards	**–**	**–**	**–**	**–**	**–**	**(1.0)**	**(1.0)**
> share-based payment movement in investment in subsidiaries	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
> transfer of non-distributable reserve following write down of investment in subsidiaries (note 13)	**(37.9)**	**–**	**–**	**–**	**–**	**–**	**(37.9)**
At 31 December 2018	**–**	**280.5**	**3.6**	**–**	**–**	**6.3**	**290.4**

The non-distributable reserve arose on the sale of Provident Personal Credit Limited (PPC) by the Company to Provident Financial Management Services Limited (PFMSL) in 2000. The transaction enabled PFMSL to be established as a central service function for its subsidiaries PPC and Greenwood Personal Credit Limited and ensured that the entities forming CCD were consolidated into one sub-group which more accurately reflected the Group's structure. The original gain on sale of £809.2m was recognised as a non-distributable reserve as the consideration provided by PFMSL comprised cash funded by the issue of debt and shares by PFMSL to the Company. The debt was refinanced in 2004 with a new £638m term loan from the Company. £200m of the original gain was made distributable in 2005 following the settlement in cash of £200m of the £638m loan by PFMSL.

Following the significant losses incurred in CCD during 2017, a full review was undertaken of the Company's investment in PFMSL and the intercompany loans of £438m and £200m provided to PFMSL and PPC respectively. As a result of this review, the Company released PFMSL and PPC from their obligations under the intercompany loans and impairment charges of £644.8m were taken to the Company's income statement in 2017. £571.3m of the non-distributable reserve was transferred to retained earnings to offset these impairment charges (see note 13). The remaining £73.5m of impairment charges was not matched with a transfer from the non-distributable reserve as this amount represented the Company's original cost of investment in PPC. During 2018 a further £62.2m was recognised as impairment in PPC, of which £37.9m was reflected against the non distributable reserve and £24.3m against retained earnings.

Historically, approximately £50m of the intra-group loan receivable from PFMSL created as part of the aforementioned group reorganisation in 2000 met the criteria for qualifying consideration in accordance with Tech 02/17. This was on the basis that the debtor was capable of settling the receivable within a reasonable period of time, there was reasonable certainty that the debtor would be capable of settling when called upon to do so, and there was an expectation that the receivable would be settled. Based on historic dividends levels, £50m was considered to be an appropriate amount that PFMSL could settle within a year. Accordingly, the Company had historically included £50m as part of distributable reserves for the purposes of assessing dividend distributions. Following the significant deterioration in performance of CCD during 2017 and the subsequent release of the intra-group loan receivable, there are no longer any intra-group loan receivables capable of meeting the criteria for qualifying consideration.

The distributable reserves do not include distributable reserves held within subsidiary companies.

The rights issue was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium and thereby creating distributable reserves for the Company where capital is not injected in Vanquis Bank. The net proceeds of the rights issue of £300m, was recorded as an increase in share capital and the creation of a merger reserve. £50.0m of the capital raised was injected into Vanquis Bank with the remaining £250m was retained in the Company.

For the purposes of declaring dividends distributable reserves include: (i) retained earnings, adjusted to reflect the unrealised gain on the retirement benefit asset; (ii) share-based payment reserve net of deferred tax; (iii) merger reserve; (iv) treasury share reserve and; (v) an element of the intra-group loan receivable created as part of the Group reorganisation in 2000.

Notes to the financial statements *continued*

28 Commitments

Commitments under operating leases are as follows:

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Due within one year	**13.6**	13.2	**3.6**	3.2
Due between one and five years	**48.7**	47.9	**16.5**	15.8
Due in more than five years	**55.1**	67.8	**17.1**	22.2
Total commitments under operating leases	**117.4**	128.9	**37.2**	41.2

Operating lease commitments principally relate to the future rental payments until the first break on: (i) head office properties in Bradford; (ii) CCD branches nationwide; and (iii) Vanquis Bank head office in London and contact centre in Chatham.

Other group commitments are as follows:

	Group	
	2018 £m	2017 £m
Unutilised credit card facilities at 31 December	**1,148.9**	969.2
Vehicles held as collateral	**286.3**	239.1

Vehicles are held as collateral against a Moneybarn conditional sales agreement until it is repaid in full. At 31 December 2018, £286.3m of collateral is held against the net amounts receivable from customers of £396.6m (see note 14), representing 72% of the balance.

The Company has £nil unutilised credit card facilities and £nil vehicles held as collateral at 31 December 2018 (2017: £nil).

	Company	
	2018 £m	2017 £m
Vanquis Bank intercompany loan facility	**–**	140.0

The Company previously provided its subsidiary, Vanquis Bank, with a committed intercompany loan facility which was used to fund growth in the business alongside retail deposits. At 31 December 2017, the facility of £140m had a maturity date of 28 February 2020. On 26 February 2018, the Company and Vanquis Bank agreed a new intercompany term loan of £125m, which was drawn on 27 February 2018. This was subsequently reduced to £55m on 4 May 2018. During the year, Vanquis Bank has increased its retail deposits from £1,301.0m to £1,431.7m, allowing it to repay the residual intercompany loan from Provident Financial of £55m on 15 November 2018.

29 Related party transactions

The Company recharges the pension scheme referred to in note 19 with a proportion of the costs of administration and professional fees incurred by the Company. The total amount recharged during the year was £0.5m (2017: £0.4m) and the amount payable to the pension scheme at 31 December 2018 was £nil (2017: £nil).

Details of the transactions between the Company and its subsidiary undertakings, which comprise management recharges and interest charges on intra-group balances, along with any balances outstanding at 31 December are set out below:

	2018			2017		
Company	**Management recharge £m**	**Interest credit £m**	**Outstanding balance £m**	Management recharge £m	Interest credit £m	Outstanding balance £m
Vanquis Bank	**4.3**	**(6.6)**	**2.1**	2.7	(10.7)	76.9
CCD	**8.5**	**(15.4)**	**364.4**	5.5	(23.1)	347.0
Moneybarn	**2.0**	**(21.9)**	**405.8**	0.7	(15.6)	337.6
Other central companies	**–**	**–**	**98.8**	–	–	99.7
Total related party transactions	**14.8**	**(43.9)**	**871.1**	8.9	(49.4)	861.2

The outstanding balance represents the gross intercompany balance receivable by the Company, against which a provision of £122.9m (2017: £122.9m) is held.

During 2017, the Company received dividends of £67.3m from Vanquis Bank and £2.9m from other non-trading companies as part of a rationalisation and wind up process which was offset by a write down in investments. In 2016, Vanquis Bank and the PRA agreed a voluntary requirement for Vanquis Bank not to pay dividends to, or enter into certain transactions outside the normal course of business with, the Provident Financial Group without the PRA's consent. The voluntary requirement remains in place. With the consent of the PRA, Vanquis Bank has approved and paid a £59.8m dividend in March 2019.

There are no transactions with directors other than those disclosed in the directors' remuneration report.

30 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty exists regarding the outcome of future events.

(a) Threatened proceedings in respect of the Company's alleged failure to previously disclose certain matters contained in the Company's public announcement on 22 August 2017

On 26 January 2018, the Company received a letter on behalf of an institutional investor (which has a number of subsidiary investment funds) in connection with certain matters disclosed in its public announcement on 22 August 2017. On that date, as part of a trading update, the Company announced, among other things, that Vanquis Bank was co-operating with an investigation by the FCA into ROP, had agreed with the FCA to enter into a voluntary requirement to suspend all new sales of ROP in April 2016 and had agreed with the PRA, not to pay dividends to, or enter into certain transactions outside the normal course of business with, the Group without the PRA's consent. The institutional investor asserts that the Company is liable to compensate it and its subsidiary investment funds for losses suffered as a result of the fact that certain matters disclosed in the trading update were not publicly announced earlier or disclosed to them by the Company in investor meetings. The institutional investor has not quantified the losses that it alleges have been incurred, although it alleges that it and its subsidiary investment funds held significant positions in the Company's shares at the time. The institutional investor also asserts that the Company's earlier public announcements were false or misleading or, alternatively, the delay in disclosing those matters publicly was dishonest pursuant to Section 90A of the Financial Services and Markets Act 2000, and the Company made actionable misstatements during those investor meetings.

The Company believes the claims by the institutional investor are unmeritorious and considers the prospects of the claims being upheld to be limited. The Company has responded to the claims and intends to defend its position vigorously and to the fullest extent possible. In the event these claims, or claims brought by any other investors in connection with these, or other, announcements or investor meetings, were upheld, the compensation which the Company may be required to pay could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

(b) Bank guarantees and Unfunded Unapproved Retirement Benefits Scheme (UURBS)

The Company has a contingent liability for guarantees given in respect of borrowing facilities of certain subsidiaries to a maximum of £330.2m (2017: £69.0m). At 31 December 2018, the fixed and floating rate borrowings in respect of these guarantees amounted to £2.8m (2017: £2.8m). No loss is expected to arise. These guarantees are defined as financial guarantees under IFRS 9 and their fair value at 31 December 2018 was not deemed to be material (2017: not material).

A floating charge is held over CCD's receivables of up to £15m in respect of the unfunded pension benefit promises made to executive directors and certain members of senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise.

(c) Other legal actions and regulatory matters

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

Notes to the financial statements *continued*

31 Reconciliation of profit/(loss) after taxation to cash generated from/(used in) operations

		Group		Company	
	Note	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Profit/ (loss) after taxation		**60.3**	(134.4)	**(62.2)**	(556.0)
Adjusted for:					
> tax charge	5	**30.4**	11.4	**(1.2)**	3.5
> finance costs	3	**73.2**	77.0	**43.8**	51.7
> exceptional premium and fees paid on refinancing of senior bonds		**18.5**	–	**18.5**	–
> finance income		**–**	–	**(51.4)**	(76.1)
> dividends received	29	**–**	–	**–**	(70.2)
> share-based payment charge/(credit)	26	**1.1**	(3.4)	**0.4**	(2.2)
> retirement benefit charge/(credit) prior to exceptional pension charge/(credit)	19	**0.2**	2.2	**(9.0)**	(7.9)
> exceptional pension charge/(credit)	19	**6.3**	(3.9)	**6.3**	(3.9)
> amortisation of intangible assets	11	**19.2**	19.2	**–**	–
> exceptional impairment of intangible assets	1	**12.8**	–	**–**	–
> depreciation of property, plant and equipment	12	**9.1**	9.3	**1.6**	1.7
> exceptional impairment on property, plant and equipment	12	**1.0**	–	**–**	–
> loss on disposal of property, plant and equipment	12	**–**	0.6	**–**	0.1
> increase of impairment provision against investment in subsidiaries	13	**–**	–	**62.2**	260.0
Changes in operating assets and liabilities:					
> amounts receivable from customers		**(80.8)**	(90.1)	**–**	–
> balance reduction on amounts receivable from customers	14	**–**	87.5	**–**	–
> trade and other receivables		**(6.2)**	(8.1)	**(79.5)**	349.1
> trade and other payables		**(5.9)**	10.8	**(10.4)**	(25.3)
> provisions	24	**(62.2)**	104.6	**–**	–
> contributions into the retirement benefit scheme	19	**(9.8)**	(10.7)	**(0.6)**	(0.6)
Cash generated from/(used in) operations		**67.2**	72.0	**(81.5)**	(76.1)

32 IFRS 9

IFRS 9 'Financial instruments' has been adopted by the Group from the mandatory adoption date of 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'.

IFRS 9 prescribes:

(i) Classification and measurement of financial instruments – requires asset classification and measurement based upon business model;
(ii) Hedge accounting – wider eligibility criteria to hedging of financial instruments; and
(iii) Expected loss accounting for impairment – replaces an incurred loss model.

Classification and measurement

Under IFRS 9, the classification of financial assets is determined by a contractual cash flows test referred to as the 'Solely payment of principal and interest' (SPPI) business model test.

Financial assets are required to be measured at amortised cost if they are held as part of a business model where the objective is to hold the financial asset in order to collect contractual cash flows. This is known as the 'hold to collect' business model.

Financial assets are required to be measured at fair value through other comprehensive income if they are held in a business model to both collect contractual cash flows and sell the financial assets. This is known as the 'hold to collect and sell' business model.

Financial assets that fail the SPPI test are required to be measured at fair value through the income statement.

There are no changes to the classification and measurement of the Group's financial assets as a result of the IFRS 9 SPPI test.

Hedge accounting

The requirements on hedge accounting are revised under IFRS 9 but adoption is optional. IAS 39 continues to be available.

The Group is continuing to apply the IAS 39 hedge accounting requirements but has implemented the amended IFRS 7 disclosure requirements.

32 IFRS 9 *continued*

Expected loss accounting

The area within IFRS 9 which materially affects the Group is expected loss accounting for impairment. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the typical loss arising on default:

> Stage 1 – Accounts at initial recognition. The expected loss is based on a 12-month PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.

> Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historic experience, and recognised on the gross receivable before impairment provision.

> Stage 3 – Accounts which have missed a payment and are in arrears. Provisions are based on expected losses based on historic cash flows. Revenue is recognised on the net receivable after impairment provision. This stage is effectively the current IAS 39 treatment for impairment.

Provisions under IFRS 9 are calculated based on an unbiased probability-weighted outcome which take into account historic performance and considers the outlook for macro-economic conditions.

All credit issued is recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk either through a missed payment or an adverse change in behavioural score. Revenue recognition will be recognised on a gross basis in stage 1 and 2 and on a net basis in stage 3. A customer can only move to stage 3 for revenue recognition purposes at the Group's interim or year end.

The impairment approach under IFRS 9 differs from the incurred loss model under IAS 39 where impairment provisions were only reflected when there was objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This resulted in the following one-off adjustment to receivables, deferred tax and reserves on adoption as follows:

	IAS 39 £m	IFRS 9 adjustment £m	IFRS 9 £m
Receivables:			
Vanquis Bank	1,554.7	(149.5)	1,405.2
CCD	390.6	(43.2)	347.4
Moneybarn	364.1	(45.4)	318.7
Total receivables	2,309.4	(238.1)	2,071.3
Pension asset	102.3	–	102.3
Liquid assets buffer	263.4	–	263.4
Borrowings	(2,193.0)	–	(2,193.0)
Deferred tax (liabilites)/assets	(20.3)	54.1	33.8
Other	73.3	–	73.3
Net assets	**535.1**	**(184.0)**	**351.1**

A reconciliation from the closing IAS 39 loss allowance account to opening IFRS 9 loss allowance account is shown below:

	Vanquis Bank £m	Moneybarn £m
At 31 December 2017 (IAS 39)	288.9	44.4
Stage 1 provision (12 month ECL)	126.0	9.1
Stage 2 and 3 provision (lifetime ECL)	22.0	39.5
Macro economic provision	0.1	–
Other	1.4	–
At 1 January 2018 (IFRS 9)	**438.4**	**93.0**

Within CCD, under IAS 39, impairments was deducted directly from amounts receivable from customers without the use of an allowance account. A loss allowance account was created by CCD on adoption of IFRS 9.

The Group has not restated its 2017 statutory prior year comparatives. This is due to the IFRS 9 requirement in respect of de-recognition of a financial asset which would require loans terminated prior to 1 January 2018 to remain under IAS 39 in the prior year which will distort comparability with the 2018 income statement and 2018 balance sheet which are on a full IFRS 9 basis.

Notes to the financial statements *continued*

33 Details of subsidiary undertakings

The subsidiary undertakings of the Group at 31 December 2018 are shown below. The Company is the parent or ultimate parent of all subsidiaries and they are all 100% owned by the Group. All companies are incorporated within the UK with the exception of Erringham Holdings Limited and PF JerseyCo Limited which are/were incorporated in Jersey.

Company Name	Company number
Registered at 1 Godwin Street, Bradford, BD1 2SU:	
Vanquis Bank Limited	2558509
Provident Financial Management Services Limited	328933
Provident Personal Credit Limited*	146091
Greenwood Personal Credit Limited*	125150
N&N Simple Financial Solution Limited	3803565
Cheque Exchange Limited*	2927947
Provident Investments Limited (formerly Provident Investments plc)	4541509
Direct Auto Finance Insurance Services Limited	3834656
Direct Auto Finance Limited	3412137
Direct Auto Financial Services Limited	3444409
Provfin Limited*	1879771
Provident Limited	575965
Provident Print Limited	2211204
Provident Yes Car Credit Limited	4253314
Yes Car Credit (Holdings) Limited	194214
Yes Car Credit Limited	3459042
Aquis Cards Limited	7036307
Ellaf Limited	1858423
Envoyhead Limited	1910002
HT Greenwood Limited*	954387
Peoples Motor Finance Limited	1078365
Policyline Limited	1294141
Provfin Investments Limited	953919
Provident Family Finance Limited	912244
Provident Financial Group Limited	642504
Provident Financial Trustees (Performance Share Plan) Limited	4625062
Provident Home Shopping Limited	543498
The Provident Clothing and Supply Company Limited	509371
Registered at The New Barn, Bedford Road, Petersfield, Hampshire, GU32 3LJ:	
Moneybarn No.1 Limited*	4496573
Duncton Group Limited	6308608
Moneybarn Group Limited*	4525773
Moneybarn Limited*	2766324
Moneybarn No. 4 Limited*	8582214

* Companies whose immediate parent is not Provident Financial plc.

Company Name	Company number
Registered at Suite 2/04 King James VI Business Centre, Friarton Road, Perth, Scotland, PH2 8DY:	
First Tower LP (1) Limited	SC122077
First Tower LP (2) Limited	SC125164
First Tower LP (3) Limited	SC129388
First Tower LP (4) Limited	SC118423
First Tower LP (5) Limited	SC127062
First Tower LP (6) Limited	SC127489
First Tower LP (7) Limited	SC127807
First Tower LP (8) Limited	SC118257
First Tower LP (9) Limited	SC118428
First Tower LP (10) Limited	SC118426
First Tower LP (11) Limited	SC122181
First Tower LP (12) Limited	SC129378
Lawson Fisher Limited	SC004758
Registered at 13 Castle Street, St. Helier, Jersey, Channel Islands, JE4 5UT:	
Erringham Holdings Limited	39894

Companies dissolved during 2018:

Company Name	Company number
Registered at 1 Godwin Street, Bradford, BD1 2SU:	
Arden Insurance Services	670843
Colonnade Insurance Services Limited	1877501
Ellaf Limited	1858423
Envoyhead Limited	1910002
I for Insurance Services Limited	2422430
Provident Finance Limited	40725
Provident Check Traders Limited	1730008
Provident No 1 Limited	1524084
Provident Personal Credit (London) Limited	499964
Provident Personal Credit (North) Limited	100957
Provident Personal Credit (South) Limited	716773
Registered at The New Barn, Bedford Road, Petersfield, Hampshire, GU32 3LJ:	
Moneybarn Vehicle Finance Limited	7431494
Registered at 22 Grenville Street, St Helier, Jersey, Channel Islands, JE4 8PX:	
PF JerseyCo Limited (created and dissolved during 2018)	125851

34 Post balance sheet events

On Friday 22 February 2019, Non-Standard Finance plc announced the terms of a firm all share offer to acquire the entire issued share capital of the Company. Shareholders have given irrevocable undertakings, and letters of intent, to accept the offer, which, at 13 March 2019, amount to just below 50% of the Company's share capital. However, the transaction remains subject to a number of conditions set out in the offer.

Independent auditor's report to the members of Provident Financial plc

Report on the audit of the financial statements

In our opinion:

> the financial statements of Provident Financial plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;

> the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Provident Financial plc (the 'Company') and its subsidiaries (the 'Group') which comprise:

> The consolidated income statement;

> The consolidated statement of comprehensive income;

> The consolidated and Company balance sheets;

> The consolidated and Company statements of changes in equity;

> The consolidated and Company cash flow statements;

> The statement of accounting policies; and

> The related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Provident Financial plc *continued*

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: > Provision for impairment losses against loans and receivables in the home credit business, Vanquis Bank and Moneybarn > Vanquis Bank Repayment Option Plan ("ROP") provision > Moneybarn FCA investigation into affordability, forbearance and termination options > Revenue recognition in the home credit business and Vanquis Bank > Defined benefit pension scheme valuation Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ▶
Materiality	The materiality that we used for the Group financial statements was £8.6 million which was determined on the basis of 4.5% of the average profit before tax and exceptional items for the past three years.
Scoping	As in the prior year, our Group audit scope focused on all of the principal trading subsidiaries within the Group's three reportable segments which account for 100% of the Group's profit before tax.
Significant changes in our approach	We have determined that there is no longer a material uncertainty relating to going concern following on from the completion of the rights issue in April 2018 that raised net share proceeds of £300m. This recapitalised the group and generated sufficient funds to cover the estimated costs of the ROP refund programme, Moneybarn's affordability, forebearance and termination options investigation and regulatory capital headroom. In the current year we have set out separate key audit matters in respect of the Vanquis Bank ROP provision and the Moneybarn conduct provision as the audit risks identified and the audit approach in 2018 are different. In the previous year we referred to the Consumer Credit Division in relation to our key audit matters for loan loss provisioning and revenue recognition, the current year we more specifically refer to home credit in line with where our work is focussed. We determined that application of a three-year average profit measure remains appropriate due to the importance of applying a consistent materiality benchmark during a period of significant change and rebuilding of the group. The percentage applied to the benchmark has been increased from 3.5% to 4.5% to reflect the improved result in the current year.

Conclusions relating to going concern, principal risks and viability statement

Going concern	We have reviewed the directors' statement in the statement of accounting policies in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the Company, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement	Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: > the disclosures on pages 46-54 that describe the principal risks and explain how they are being managed or mitigated; > the directors' confirmation on page 143 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; or > the directors' explanation on page 70 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the directors' statement relating to the prospects of the Company required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision for impairment losses against loans and receivables (Home Credit Division, Vanquis Bank and Moneybarn) ▶

Key audit matter description

The IFRS 9 provision for impairment losses is calculated by modelling portfolios of receivables within the Group. The assessment of the Group's calculation of provisions is complex and requires management to make significant judgements regarding the level and timing of expected future cash flows to calculate expected credit losses. There is further judgement involved in assessing whether the model and any adjustments capture all relevant factors that have a significant influence on expected credit losses.

Due to the ability of management to introduce inappropriate bias to judgements made in the estimation process, we have determined that there was a potential for fraud through possible manipulation of any provision for loan impairment.

The Group's provision for impairment against loans and receivables is £1,073.7 million and further detail in respect of these assumptions is set out on page 174 and 175 and in note 14 of the financial statements and also on page 131 within the governance section.

Within the **Home Credit Division** receivables are valued using collections curves to estimate the expected future losses on cohorts of loans exhibiting similar risk characteristics including the customer's internal credit score, the number of missed payments in the previous 12 weeks, and whether the customer has previously had a Provident home-collect loan. These collections curves are based on 2016 collections levels, which was prior to the operational disruption experienced during 2017 and the corresponding impact on customer collections and customer relationships. We have therefore identified a risk that the embedded IFRS 9 collection curves do not accurately predict future cash collections for the current composition of the receivables book.

Within **Vanquis Bank** modelling techniques are applied by management to estimate the provision for expected credit losses on credit card receivables.

The underlying IFRS 9 models and calculation techniques are complex and make use of significant amounts of data from a variety of sources.

We consider that the key areas of judgement in determining the provision are:

- The determination of the probability of default ("PDs") for accounts which have not experienced a significant increase in credit risk since origination; and
- The level and timing of expected future cash flows from defaulted loans impacting the estimate of loss given default ("LGDs").

Historical payment patterns are generated using data extracted from the Company's loan administration system. The extracted data is used to calibrate the developed models updating their parameters to capture the most recent performance of the portfolio which then estimates account-specific PDs and LGDs. Inappropriate calibration of the models could materially impact the provision for expected credit losses.

Within **Moneybarn** management use SQL scripts to extract historical collections which are then used to manually create PD and LGD models within excel spreadsheets. We identified a significant risk in relation to the ability of the PD and LGD models to estimate future losses as historical collections data will not necessarily reflect future performance.

Independent auditor's report to the members of Provident Financial plc *continued*

Provision for impairment losses against loans and receivables (Home Credit Division, Vanquis Bank and Moneybarn) ▶	
How the scope of our audit responded to the key audit matter	**Controls procedures** Within the **Home Credit Division** and **Vanquis Bank** we evaluated the design and implementation and tested the operating effectiveness of relevant controls relating to calibration of the expected credit loss models. Identification, valuation and recording of impairment provisions. Within the **Home Credit Division** this included using our IT specialists to test the data flow of loans made and collections received from source systems to the automated IFRS 9 model scripts to test their completeness and accuracy. Within **Moneybarn** we evaluated the design and implementation of relevant controls relating to the recording of impairment provisions. **Substantive procedures** Across each of the divisions we obtained an understanding of the IFRS 9 methodology and models. We evaluated whether the methodology applied by management is compliant with requirements of IFRS 9. This included considerations related to the appropriateness of portfolio segmentation into homogeneous cohorts. In performing these procedures we further considered whether there were any indications of bias in the methodology applied by management or in the estimate of the level and timing of expected future cash flows. We also challenged whether the potential impact of Brexit has been appropriately incorporated into expected credit loss calculations. Within the **Home Credit Division** we utilised our data specialists to independently reperform the expected credit loss calculation for the entire population of loans using the fixed 2016 collections curves. We tested management's calculation of the provision shortfall on loans which are performing below 2016 levels. This cohort is made up of loans written in the first half of 2017, which is consistent with the period most significantly impacted following the announcement of the plan for transition to an employee based collections model. We engaged our data specialists to test the completeness and accuracy of the data used in the provision shortfall calculations, and we reviewed and challenged the underlying methodology. Within **Vanquis Bank** we evaluated the mechanics of the model with the assistance of an internal credit modelling specialist to confirm that it is consistent with the methodology designed by management. We obtained, evaluated and tested the model performance monitoring reports produced by management which compare observed default data to parameters predicted by the models. We tested the data used in the models including historical data used to generate expected future cash flows, the current portfolio data and the macroeconomic forecast data which are sourced by the company from a third party provider. When testing the macroeconomic data, we have considered whether the potential impact of Brexit has been incorporated into the forecasts. Within **Moneybarn** we engaged internal data specialists to evaluate the PD and LGD data extraction. We reperformed a sample of model calculations for terminated customer loans to ensure the PD and LGD data was being corrected captured and represented by the SQL scripts within the excel models; thus further challenging the underlying logic of the scripts and ensuring that the models work as expected. We challenged whether there was any evidence to suggest that historical collections data would not appropriately estimate future performance; by reference to recent actual loss experience and loan book trend analysis using internal management information.
Key observations	The provision models across the Group were found to be working as intended and the methodology used reflects the requirements of IFRS 9. Within the Home Credit Division, we identified that a number of individuals had privileged user access to databases that are key to the flow of data into the IFRS 9 models. We did not place reliance on these controls and addressed the corresponding audit risks substantively. We found the Home Credit Division provision shortfall calculated by management to be appropriate.

ROP provision (Vanquis Bank) ▶	
Key audit matter description	On 27 February 2018 the Group reached a settlement with the Financial Conduct Authority ("FCA") in respect of the investigation into the sale of the ROP product sold by the Group. Significant management judgement was required to assess the level of provision which should be recognised and the nature of any contingent liability disclosure. As disclosed in note 24 the total provision remaining at 31 December 2018 following redress paid out to customers amounts to £45.7m (2017: £96.7m).
How the scope of our audit responded to the key audit matter	**Controls procedures** We evaluated the design and implementation of the controls over the valuation of the ROP provision. **Substantive procedures** In order to understand whether key assumptions in estimation of the cash redress settlements are appropriate, we obtained and reviewed the correspondence between the Group and the FCA in relation to ROP. We have reviewed and tested the accuracy of the calculations supporting the valuation of the provision recognised by management. We have evaluated whether the underlying assumptions are reasonable and supportable. We have tested the data used in the calculations by agreeing to supporting evidence. We also evaluated whether the provision disclosures contained within note 24 were appropriate and in accordance with the requirements of IAS 37.
Key observations	No material issues were identified in the data used in the calculations. We did not identify any material issues in the methodology used to calculate the redress and the calculations themselves were found to be appropriate. The disclosures are in line with the requirements of IAS 37.

Moneybarn FCA investigation into affordability, forbearance and termination options ▶

Key audit matter description	At 31 December 2017 Moneybarn recognised a provision of £20m as management's best estimate of the cost of settlement in respect of the FCA investigation. The investigation specifically related to the business' failure to ensure that repayments were affordable at the time of writing a loan; that affordable arrears payment plans were put in place when a customer showed signs of detriment; and that clear communications were issued to customers in the run up to the termination of their contracts. The investigation remains open and further customer redress may be required. As a result we have identified a significant risk in relation to the completeness of the provision recorded in relation to the FCA investigation. As disclosed in note 24 the total provision remaining at 31 December 2018 amounts to £7.5m (2017: £7.9m).
How the scope of our audit responded to the key audit matter	We engaged an internal conduct risk specialist to obtain and review all correspondence between the Group and the FCA during the year and determine the completeness of the Moneybarn conduct risk provisions. In order to understand whether key assumptions in estimating the total cost of settlement are appropriate we reviewed their consistency with those used to create the provision in 2017, with changes expected and noted as a result of the ongoing dialogue with the FCA and the introduction of the IFRS 9 provisioning model. We also evaluated whether the provision disclosures contained within note 24 were appropriate and in accordance with the requirements of IAS 37.
Key observations	The provision recognised is appropriate and the disclosures are in line with the requirements of IAS 37.

Revenue Recognition (Vanquis Bank and Home Credit Division) ▶ ▲

Key audit matter description	The Group's revenue is £1,124.4 million (FY17: £1,196.3 million) and further detail in respect of the accounting policies and revenue recognised is set out in the accounting policies on pages 173 and 174 and notes 1 and 2 of the financial statements. Within **Vanquis Bank** we concluded that manual adjustments posted to the revenue balance pose a significant risk of material misstatement. These manual adjustments are necessary to ensure revenue is recognised in compliance with the requirements of IFRS 9, which requires that interest should be accrued using the original effective interest rate applied to the net carrying value of the asset for credit-impaired assets and to the gross carrying value of assets that are not credit-impaired. The loan administration system accrues revenue on a gross contractually billed basis, and therefore a manual adjustment is necessary. The revenue calculation within the **Home Credit Division** is calculated in the IFRS 9 models using SQL scripts. As a result of the additional complexities when calculating revenue under IFRS 9 with regards to whether or not the customer has met the definition of default, there exists an increased risk related the accuracy of the design of the underlying scripts to capture these complexities.
How the scope of our audit responded to the key audit matter	**Controls procedures** We evaluated the design and implementation of the controls over the manual adjustments to revenue recognised by management We tested the operating effectiveness of relevant controls over the flow of data from source systems into the revenue models within the **Home Credit Division.** **Substantive procedures** Within **Vanquis Bank** , we critically assessed the methodology used to calculate the manual adjustments to revenue against the IFRS requirements. We also involved an internal specialist to review the programming code used to perform the calculation and evaluate whether it is performed in line with IFRS 9. Within the **Home Credit Division** we challenged the appropriateness of the Effective Interest Rates used to calculate revenue and reperformed the EIR calculations for a sample of products. We utilised internal data specialists to create an independent IFRS 9 revenue model and recalculated the weekly revenue for a sample of customers.
Key observations	Within the **Home Credit Division** we found the models to be working as intended and the underlying assumptions to be reasonable. From the evidence we obtained, the underlying data used was found to be complete and accurate. Within **Vanquis Bank** We concluded that the calculation is performed in compliance with IFRS 9 and the underlying data was found to be complete and accurate.

Defined benefit pension scheme valuation ▶

Key audit matter description	Under IAS 19, the value of the defined benefit pension scheme is recognised on the Group's balance sheet, reflecting an actuarial valuation of the assets and liabilities of the scheme at the balance sheet date. The key risk of material misstatement is the valuation of the pension obligation of £704.4 million (2017: £733.2 million). This valuation involves judgements in relation to inflation rates, discount rates and mortality rates. The most critical element identified was the discount rate assumption as set out in the sensitivity analysis in note 19. We also focussed on the Guaranteed Minimum Pensions ("GMP") equalisation ruling and the resulting increase in the scheme's liabilities of £6.9 million. Further detail in respect of these assumptions is set out in the accounting policies on page 176 and note 19 of the financial statements and also on page 131 in the governance section.
How the scope of our audit responded to the key audit matter	We used internal actuarial specialists to assist us in evaluating the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation. This involved benchmarking management's assumptions against those used by a range of organisations as at 31 December 2018 and considering the consistency of those judgements compared to prior year. Our actuarial specialists also performed a review of the GMP equalisation calculation and recalculated the estimated past service cost with no material differences noted.

Independent auditor's report to the members of Provident Financial plc *continued*

Revenue Recognition (Vanquis Bank and Home Credit Division) ▶ ▲	
Key observations	The GMP equalisation methodology was found to be in line with expectations and no material differences were identified through independent recalculation by our actuarial specialists.
	All assumptions, including the discount rate adopted by management are within what we deem to be an acceptable range. Our actuarial specialists also performed a review of the GMP equalisation calculation and recalculated the estimated past service cost with no material differences noted.

Our application of materiality

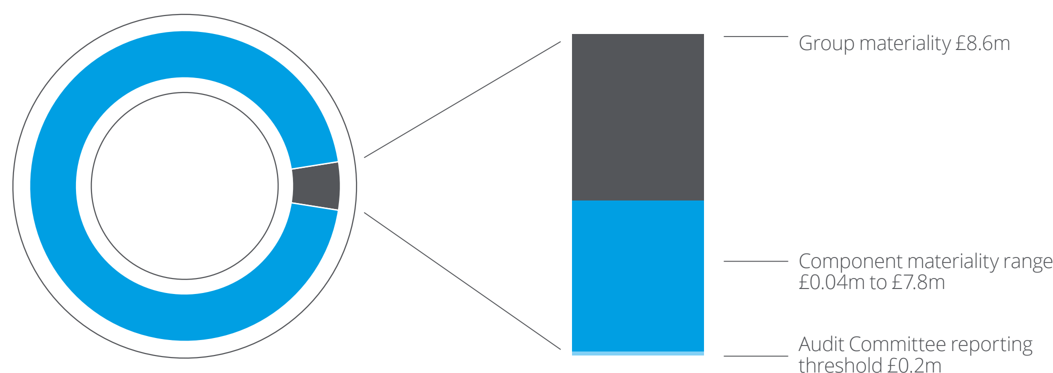
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and inevaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£8.6 million (2017: £8.3 million)	£5.4 million (2017: £4.6 million)
Basis for determining materiality	4.5% of profit before tax and exceptional items averaged over the previous three years (2017: 3.5%)	0.75% of net assets (2017: 5% of profit before tax and exceptional items).
Rationale for the benchmark applied	Profit based measures are the financial measures most relevant to users of the financial statements. We considered the most relevant basis for materiality to be the profits earned from continuing business operations and have therefore excluded the exceptional items as identified by management in note 1 to the financial statements. We determined that application of a three-year average profit measure remains appropriate due to the importance of applying a consistent materiality benchmark during a period of significant change and rebuilding of the Group. The percentage applied to the benchmark has been increased from 3.5% to 4.5% to reflect the improved result in year.	We determined net assets to be the most appropriate benchmark as the Company made a loss in the current year. We considered that equity represented a relevant measure used by investors and other stakeholders when assessing the performance of the parent company.

Materiality

Profit before tax and exceptional items averaged over three years £191.4m



■ Group materiality

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2 million (2017: £0.2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, and as in the prior year, our Group audit scope focused on all of the principal trading subsidiaries within the Group's three reportable segments which account for 100% of the Group's profit before tax. Moneybarn and the Consumer Credit Division are audited by separate engagement teams led by the Group audit partner; Vanquis Bank is audited by a separate component team, under the supervision of the Group team who have maintained regular communication throughout the audit.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic report, the Governance section and the Directors' remuneration report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

> **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

> **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

> **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Provident Financial plc *continued*

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: provisions for impairment losses against loans and receivables, ROP provision, Moneybarn conduct provision and revenue recognition, and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation. In addition, compliance with the requirements of the Financial Conduct Authority and Prudential Regulation Authority were fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified provisions for impairment losses against loans and receivables, Vanquis Bank ROP provision, Moneybarn affordability forbearance and termination options provision, pension scheme valuation and revenue recognition as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters. As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory bodies such the Prudential Regulation Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Directors on 29 June 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2012 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Perkins, (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
13 March 2019