Our results

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

170 Consolidated income statement
170 Consolidated statement of comprehensive income
170 Earnings per share
170 Dividends per share
171 Balance sheets
172 Statements of changes in shareholders' equity
174 Statements of cash flows
175 Statement of accounting policies
183 Financial and capital risk management
188 Notes to the financial statements
226 Independent auditor's report
237 Alternative performance measures

Consolidated income statement

For the year ended 31 December

	Note	Group 2019 £m	2018 (restated) £m
Revenue	1,2	**998.3**	1,091.4
Finance costs	3	**(72.0)**	(91.7)
Impairment charges	15	**(336.9)**	(396.8)
Administrative and operating costs		**(460.6)**	(505.6)
Total costs		**(869.5)**	(994.1)
Profit before taxation	1,4	**128.8**	97.3
Profit before taxation, amortisation of acquisition intangibles and exceptional items	1,4	**162.6**	160.1
Amortisation of acquisition intangibles	11	**(7.5)**	(7.5)
Exceptional items	1	**(26.3)**	(55.3)
Tax charge	5	**(44.4)**	(32.0)
Profit for the year attributable to equity shareholders		**84.4**	65.3

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December

	Note	Group 2019 £m	2018 (restated) £m
Profit for the year attributable to equity shareholders		**84.4**	65.3
Items that will not be reclassified subsequently to the income statement:			
• actuarial movements on retirement benefit asset	19	**(9.7)**	(21.7)
• fair value movement on investments	16	**4.5**	2.2
• tax on items that will not be reclassified subsequently to the income statement	5	**0.6**	3.6
• impact of change in UK tax rate on items that will not be reclassified subsequently to the income statement	5	**(0.1)**	(0.7)
Other comprehensive expense for the year		**(4.7)**	(16.6)
Total comprehensive income for the year		**79.7**	48.7

Earnings per share

For the year ended 31 December

	Note	Group 2019 pence	2018 (restated) pence
Basic	6	**33.3**	27.3
Diluted	6	**33.1**	27.2

Dividends per share

For the year ended 31 December

	Note	Group 2019 pence	2018 pence
Proposed final dividend	7	**16.0**	10.0
Total dividend for the year	7	**25.0**	10.0
Paid in the year*	7	**19.0**	—

* The total cost of dividends paid in the year was £47.6m (2018: £nil).

Balance sheets

	Note	Group: At 31 December 2019 £m	Group: At 31 December 2018 (restated) £m	Group: At 1 January 2018 (restated) £m	Company: At 31 December 2019 £m	Company: At 31 December 2018 £m
ASSETS						
Non-current assets						
Goodwill	10	71.2	71.2	71.2	—	—
Other intangible assets	11	44.1	55.0	79.4	—	—
Property, plant and equipment	12	19.3	24.6	30.9	2.7	4.5
Right of use assets	13	67.1	—	—	20.8	—
Investment in subsidiaries	14	—	—	—	395.2	469.7
Financial assets:						
• amounts receivable from customers	15	418.3	364.8	320.3	—	—
Retirement benefit asset	19	78.0	83.9	102.3	78.0	83.9
Deferred tax asset	20	25.0	33.0	30.1	—	—
		723.0	632.5	634.2	496.7	558.1
Current assets						
Financial assets:						
• investments held at fair value through other comprehensive income	16	16.6	47.8	45.8	—	—
• amounts receivable from customers	15	1,794.3	1,839.2	1,781.2	—	—
• cash and cash equivalents	21	353.6	387.9	282.9	17.4	1.0
• trade and other receivables	18	33.3	29.8	28.5	892.6	823.6
Current tax asset		—	—	—	—	1.8
		2,197.8	2,304.7	2,138.4	910.0	826.4
Total assets	1	2,920.8	2,937.2	2,772.6	1,406.7	1,384.5
LIABILITIES						
Current liabilities						
Financial liabilities:						
• retail deposits	22	(410.0)	(339.3)	(350.8)	—	—
• bank and other borrowings	22	(53.5)	(49.8)	(38.1)	(51.5)	(47.1)
Total borrowings	22	(463.5)	(389.1)	(388.9)	(51.5)	(47.1)
• derivatives		—	—	(0.1)	—	
• trade and other payables	23	(89.3)	(91.8)	(96.9)	(100.4)	(86.6)
• lease liabilities	24	(10.2)	—	—	(2.5)	—
Current tax liabilities		(34.7)	(24.6)	(15.9)	(0.1)	—
Provisions	25	(14.5)	(53.2)	(104.6)	—	—
		(612.2)	(558.7)	(606.4)	(154.5)	(133.7)
Non-current liabilities						
Financial liabilities:						
• retail deposits	22	(935.2)	(1,092.4)	(950.2)	—	—
• bank and other borrowings	22	(564.8)	(574.0)	(853.9)	(564.8)	(574.0)
Total borrowings	22	(1,500.0)	(1,666.4)	(1,804.1)	(564.8)	(574.0)
• lease liabilities	24	(68.1)	—	—	(22.4)	—
Deferred tax liabilities	20	—	—	—	(11.6)	(13.3)
		(1,568.1)	(1,666.4)	(1,804.1)	(598.8)	(587.3)
Total liabilities	1	(2,180.3)	(2,225.1)	(2,410.5)	(753.3)	(721.0)
NET ASSETS	1	740.5	712.1	362.1	653.4	663.5
SHAREHOLDERS' EQUITY						
Share capital	26	52.5	52.5	30.7	52.5	52.5
Share premium		273.2	273.2	273.0	273.2	273.2
Other reserves	28	295.9	292.1	13.4	290.8	290.4
Retained earnings		118.9	94.3	45.0	36.9	47.4
TOTAL EQUITY		740.5	712.1	362.1	653.4	663.5

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 profit for the financial year reported in the financial statements of the Company was £47.1m (2018: retained loss of £62.2m).

The financial statements on pages 170 to 225 were approved and authorised for issue by the Board of directors on 27 February 2020 and signed on its behalf by:

Malcolm Le May
Chief Executive Officer

Simon Thomas
Chief Finance Officer

Company Number – 668987

Statements of changes in shareholders' equity

Group	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings (restated) £m	Total £m
At 31 December 2017		30.7	273.0	13.4	34.0	351.1
Prior year adjustment – directly attributable acquisition costs		—	—	—	11.0	11.0
At 1 January 2018		30.7	273.0	13.4	45.0	362.1
Profit for the year (restated)		—	—	—	65.3	65.3
Other comprehensive income/(expense):						
• actuarial movements on retirement benefit asset	19	—	—	—	(21.7)	(21.7)
• fair value movement on investments	16	—	—	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	47.2	48.7
Transactions with owners:						
• proceeds from rights issue	26	21.8	—	278.2	—	300.0
• issue of share capital	26	—	0.2	—	—	0.2
• share-based payment charge	27	—	—	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	94.3	712.1
Impact of adoption of IFRS 16 'Leases'		—	—	—	(5.6)	(5.6)
At 1 January 2019		**52.5**	**273.2**	**292.1**	**88.7**	**706.5**
Profit for the year		**—**	**—**	**—**	**84.4**	**84.4**
Other comprehensive (income)/expense:						
• actuarial movements on retirement benefit asset	19	**—**	**—**	**—**	**(9.7)**	**(9.7)**
• fair value movement on investments	16	**—**	**—**	**4.5**	**—**	**4.5**
• tax on items taken directly to other comprehensive income	5	**—**	**—**	**(1.2)**	**1.8**	**0.6**
• impact of change in UK tax rate	5	**—**	**—**	**0.1**	**(0.2)**	**(0.1)**
Other comprehensive income/(expense) for the year		**—**	**—**	**3.4**	**(8.1)**	**(4.7)**
Total comprehensive income for the year		**—**	**—**	**3.4**	**76.3**	**79.7**
Transactions with owners:						
• share-based payment charge	27	**—**	**—**	**1.9**	**—**	**1.9**
• transfer of share-based payment reserve on vesting of share awards		**—**	**—**	**(1.5)**	**1.5**	**—**
• dividends		**—**	**—**	**—**	**(47.6)**	**(47.6)**
At 31 December 2019		**52.5**	**273.2**	**295.9**	**118.9**	**740.5**

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 28.

Statements of changes in shareholders' equity continued

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2018		30.7	273.0	51.1	88.8	443.6
Loss for the year		—	—	—	(62.2)	(62.2)
Other comprehensive (expense)/income:						
• 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	26	21.8	—	278.2	—	300.0
• issue of share capital	26	—	0.2	—	—	0.2
• share–based payment charge	27	—	—	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	14	—	—	(37.9)	37.9	—
At 31 December 2018		52.5	273.2	290.4	47.4	663.5
Impact of adoption of IFRS 16 'Leases'		—	—	—	(2.9)	(2.9)
At 1 January 2019		**52.5**	**273.2**	**290.4**	**44.5**	**660.6**
Profit for the year		**—**	**—**	**—**	**47.1**	**47.1**
Other comprehensive (expense)/income:						
• actuarial movements on retirement benefit asset	19	**—**	**—**	**—**	**(9.7)**	**(9.7)**
• tax on items taken directly to other comprehensive income		**—**	**—**	**—**	**1.8**	**1.8**
• impact of change in UK tax rate		**—**	**—**	**—**	**(0.2)**	**(0.2)**
Other comprehensive expense for the year		**—**	**—**	**—**	**(8.1)**	**(8.1)**
Total comprehensive income for the year		**—**	**—**	**—**	**39.0**	**39.0**
Transactions with owners:						
• share-based payment charge	27	**—**	**—**	**1.3**	**—**	**1.3**
• transfer of share-based payment reserve on vesting of share awards		**—**	**—**	**(1.0)**	**1.0**	**—**
• share-based payment movement in investment in subsidiaries		**—**	**—**	**0.1**	**—**	**0.1**
• dividends		**—**	**—**	**—**	**(47.6)**	**(47.6)**
At 31 December 2019		**52.5**	**273.2**	**290.8**	**36.9**	**653.4**

Other reserves are further analysed in note 28.

Statements of cash flows

For the year ended 31 December

	Note	Group 2019 £m	Group 2018 (restated) £m	Company 2019 £m	Company 2018 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	31	**190.7**	67.2	**(80.2)**	(81.5)
Finance costs paid		**(66.1)**	(66.1)	**(38.3)**	(44.5)
Premium paid on early redemption of senior bonds	1	**—**	(18.5)	**—**	(18.5)
Finance income received		**—**	—	**51.7**	51.4
Tax paid		**(24.3)**	(22.3)	**—**	—
Net cash generated from/(used in) operating activities		**100.3**	(39.7)	**(66.8)**	(93.1)
Cash flows from investing activities					
Purchase of shares in subsidiary	14	**—**	—	**—**	(50.0)
Purchase of intangible assets	11	**(7.4)**	(7.6)	**—**	—
Purchase of property, plant and equipment	12	**(6.6)**	(5.3)	**(0.1)**	(1.7)
Proceeds from disposal of property, plant and equipment	12	**2.7**	1.5	**0.7**	0.2
Proceeds from the sale of government gilts held as an investment	16	**35.7**	0.2	**—**	—
Long-term loans repaid by subsidiaries		**—**	—	**—**	76.9
Dividends received from subsidiaries	29	**—**	—	**139.8**	—
Net cash generated from/(used in) investing activities		**24.4**	(11.2)	**140.4**	25.4
Cash flows from financing activities					
Proceeds from bank and other borrowings		**288.3**	737.1	**39.0**	247.7
Repayment of bank and other borrowings		**(379.7)**	(885.3)	**(42.5)**	(518.7)
Payment of lease liabilities		**(15.8)**	—	**(2.7)**	—
Dividends paid to Company shareholders	7	**(47.6)**	—	**(47.6)**	—
Net proceeds from rights issue		**—**	300.0	**—**	300.0
Proceeds from issue of share capital	26	**—**	0.2	**—**	0.2
Net cash (used in)/generated from financing activities		**(154.8)**	152.0	**(53.8)**	29.2
Net (decrease)/increase in cash, cash equivalents and overdrafts		**(30.1)**	101.1	**19.8**	(38.5)
Cash, cash equivalents and overdrafts at beginning of year		**380.9**	279.8	**(3.2)**	35.3
Cash, cash equivalents and overdrafts at end of year		**350.8**	380.9	**16.6**	(3.2)
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	21	**353.6**	387.9	**17.4**	1.0
Overdrafts (held in bank and other borrowings)	22	**(2.8)**	(7.0)	**(0.8)**	(4.2)
Total cash, cash equivalents and overdrafts		**350.8**	380.9	**16.6**	(3.2)

Cash at bank and in hand includes £321.9m (2018: £384.9m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the PRA's liquidity regime. As at 31 December 2019, £138.2m (2018: £106.5m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

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 have been consistently applied to all the years presented with the exception of: (a) the adoption of IFRS 16 'Leases' and IFRIC 23 'Uncertainty over Income Tax Treatments; (b) a change in treatment of directly attributable deferred acquisition costs in the recognition of revenue on credit impaired receivables; and the treatment of directly attributable acquisition costs in Moneybarn.

(a) The impact of new standards adopted by the Group from 1 January 2019

IFRS 16

IFRS 16 'Leases' has been adopted by the Group and Company from the mandatory adoption date of 1 January 2019. IFRS 16 replaces IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements for both lessees and lessors.

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

The Group and Company has applied the following practical expedients available on transition:

- not to reassess whether a contract is or contains a lease. The definition of a lease in accordance with IAS 17 will continue to be applied to those contracts entered or modified before 1 January 2019;
- reliance on previous assessment on whether leases are onerous instead of performing an impairment review;
- exclusion of initial direct costs from the measurement of the right of use asset at the date of adoption;
- continue to account for short-term leases with less than 12 months from 1 January 2019 as operating leases; and
- the use of hindsight in determining the lease term if the contract contains an option to extend or terminate the lease.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated amortisation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of future minimum lease payments discounted using the incremental borrowing rate at 1 January 2019. The incremental borrowing rates applied to individual leases ranged from 2.3% to 3.4%. 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 is affected as under IAS 17 operating lease payments were presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into a principal and interest portion which is presented as operating and financing cash flows respectively.

The adoption of IFRS 16 into the Group's opening balance sheet on 1 January 2019 resulted in an increase in assets of £81.9m and liabilities of £89.0m. Net of deferred tax of £1.5m, this has resulted in a reduction in net assets of £5.6m which has been reflected through opening reserves at 1 January 2019. The Group has taken the modified retrospective approach, as permitted by IFRS 16. Accordingly, comparative information has therefore not been restated.

The adoption of IFRS 16 has not had a material impact on profit in 2019.

A reconciliation from the closing operating lease commitments disclosed in 2018 and the opening IFRS 16 lease liability is shown below:

	Group £m	Company £m
Undiscounted future minimum lease payments under operating leases at 31 December 2018	117.4	37.2
Impact of discounting	(11.7)	(4.9)
Removal of VAT from operating lease calculations	(14.6)	(6.3)
Short-term leases	(0.9)	—
Use of hindsight to reflect break in lease	(1.2)	—
Other reconciling items	—	1.1
Lease liability recognised on adoption at 1 January 2019 (see note 24)	89.0	27.1

IFRIC 23

The Group and Company has adopted IFRIC 23 'Uncertainty over Income Tax Treatments' from the mandatory adoption date of 1 January 2019. The interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments and requires the Group and Company to: (i) determine whether uncertain tax positions are assessed separately or as a group; and (ii) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, in its income tax filings. If it is considered probable the accounting tax position should be consistent with the tax treatment used or planned to be used in the income tax filing. If it is not considered probable the effect of the uncertainty in determining the accounting tax position should reflect the most likely amount or the expected value method. The interpretation has not had a material impact on either the Group or Company.

There has been no other new or amended standards adopted in the financial year beginning 1 January 2019 which had a material impact on the Group or Company.

The impact of new standards not yet effective and not adopted by the Group from 1 January 2019

There are no new standards not yet effective and not adopted by the Group from 1 January 2019 which are expected to have a material impact on the Group.

Basis of preparation continued

(b) Changes in accounting treatment in 2019

Changes in treatment of directly attributable acquisition costs in Vanquis Bank

As part of a refresh of contractual terms with affiliates during 2019, the Group has reviewed the treatment of directly attributable acquisition costs paid by Vanquis Bank to third parties upon acceptance of new credit card customers introduced by those third parties. Historically, such costs were charged to the income statement as incurred on the basis that the credit card customer is not required to use the credit card. Upon review of this policy, it has been determined that the expected use of the issued credit cards can be reliably predicted and it is probable that the issued credit cards would be used resulting in the recognition of credit card receivables with the associated benefits flowing to Vanquis Bank. Accordingly, directly attributable acquisition costs are now capitalised as part of credit card receivables and amortised over the expected life of customer accounts. Directly attributable acquisition costs represented approximately 70% of total acquisition costs in 2019 compared with approximately 30% in 2017. This reflects the progressive shift in mix of new customer bookings towards internet affiliates as opposed to other channels such as direct marketing or direct mail where costs are not directly attributable to individual customer bookings. Under this revised treatment the acquisition costs are recognised over the same term as when the benefits from credit cards (i.e. interest income) are received by Vanquis Bank. The new treatment results in a reduction in the interest income recognised on credit card receivables and a reduction in administrative and operating costs.

The Group has concluded that the new treatment represents a change in accounting policy on the 2018 financial statements and accordingly has restated the 2018 consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in shareholders' equity. The prior year restatement has resulted in an increase in receivables of £21.3m at 31 December 2018 and an increase in profit before tax in 2018 of £6.6m, comprising a reduction in costs of £12.0m and a reduction in revenue of £5.4m. The prior year adjustment to retained earnings at 1 January 2018 amounted to £11.0m.

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

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

(i) Revenue recognition on credit impaired receivables

In 2018, revenue on Moneybarn's credit impaired receivables was recognised 'gross' of the impairment provision with this additional revenue reflected as an impairment charge resulting in a gross-up in the income statement. On reviewing its accounting policies in preparing the 2019 financial statements, the Group has determined that revenue on Moneybarn's credit impaired receivables should be recognised 'net' of the impairment provision to align the accounting treatment under IFRS 16 with IFRS 9 and also with the treatment in both Vanquis Bank and CCD.

A summary of the impact of the changes in treatment set out above in respect of Vanquis Bank and Moneybarn on the Group's primary statements is set out below:

	2019				2018			
	Previous policy £m	Vanquis Bank £m	Moneybarn £m	As reported £m	Previously disclosed £m	Vanquis Bank £m	Moneybarn £m	As restated £m
Revenue	**1,045.6**	**(7.8)**	**(39.5)**	**998.3**	1,124.4	(5.4)	(27.6)	1,091.4
Finance costs	**(72.0)**	**—**	**—**	**(72.0)**	(91.7)	—	—	(91.7)
Impairment charges	**(358.2)**	**—**	**21.3**	**(336.9)**	(410.4)	—	13.6	(396.8)
Administrative and operating costs	**(497.1)**	**18.3**	**18.2**	**(460.6)**	(531.6)	12.0	14.0	(505.6)
Total costs	**(927.3)**	**18.3**	**39.5**	**(869.5)**	(1,033.7)	12.0	27.6	(994.1)
Profit before tax	**118.3**	**10.5**	**—**	**128.8**	90.7	6.6	—	97.3
Tax charge	**(41.8)**	**(2.6)**	**—**	**(44.4)**	(30.4)	(1.6)	—	(32.0)
Profit for the year attributable to equity shareholders	**76.5**	**7.9**	**—**	**84.4**	60.3	5.0	—	65.3
Total comprehensive income for the period	**71.8**	**7.9**	**—**	**79.7**	43.7	5.0	—	48.7
Basic earnings per share (pence)	**30.3**	**3.0**	**—**	**33.3**	25.2	2.1	—	27.3
Diluted earnings per share (pence)	**30.1**	**3.0**	**—**	**33.1**	25.1	2.1	—	27.2
Amounts receivables from customers	**2,156.2**	**31.8**	**24.6**	**2,212.6**	2,162.9	21.3	19.8	2,204.0
Deferred tax	**32.9**	**(7.9)**	**—**	**25.0**	38.3	(5.3)	—	33.0
Trade and other receivables	**57.9**	**—**	**(24.6)**	**33.3**	49.6	—	(19.8)	29.8
Share capital	**52.5**	**—**	**—**	**52.5**	52.5	—	—	52.5
Share premium	**273.2**	**—**	**—**	**273.2**	273.2	—	—	273.2
Other reserves	**295.9**	**—**	**—**	**295.9**	292.1	—	—	292.1
Retained earnings	**95.0**	**23.9**	**—**	**118.9**	78.3	16.0	—	94.3
Total equity	**716.6**	**23.9**	**—**	**740.5**	696.1	16.0	—	712.1

Basis of preparation continued

(b) Changes in accounting treatment in 2019 continued

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

(i) Revenue recognition on credit impaired receivables continued

The Group has concluded that the new treatment reflects a change in accounting policy required to be applied retrospectively and accordingly has restated the 2018 income statement balances in the 2019 financial statements. The restatement results in a reduction in Moneybarn's revenue and impairment in 2018 of £13.6m with no impact on profit before tax, earnings per share, retained earnings or carrying values in the balance sheet.

(ii) Disclosure of directly attributable acquisition costs

Historically, directly attributable deferred acquisition costs in respect of Moneybarn's broker commissions were deferred within trade and other receivables and amortised through administrative and operating costs over the expected life of the associated customer contract.

Following the change in treatment of directly attributable acquisition costs in Vanquis Bank, and to align the treatment across the Group, the Group has concluded that directly attributable acquisition costs in Moneybarn should be deferred as part of amounts receivable from customers with amortisation therefore being treated as a deduction from revenue.

The change has been applied retrospectively and accordingly the 2018 income statement and balance sheet have been restated in the 2019 financial statements. The restatement results in a reduction in Moneybarn's 2018 revenue of £14.0m with a corresponding reduction in administrative and operating costs of £14.0m. There is no impact on profit before tax, earnings per share or retained earnings. The carrying value of receivables at 31 December 2018 has increased by £19.8m with a corresponding reduction in trade and other receivables.

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 returns 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 the performance obligation 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 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 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.

Directly attributable acquisition costs are capitalised as part of receivables and amortised over the expected life of customer accounts as a deduction to revenue.

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.

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

The Group and Company as a lessee

The Group and Company assesses whether a contract contains a lease at inception of a contract. A right of use asset and a corresponding liability is recognised with respect to all lease arrangements where it is a lessee, except for short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the lease payment is recognised within administrative and operating expenses on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the incremental borrowing rate is used. This is defined as the rate of interest that the lessee would have to pay to borrow, over a similar term, and with similar security the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. For Vanquis Bank, this would represent an average retail deposit rate; for all other companies this would be based on the Group's non-bank funding rate.

The lease payments included in the measurement of the lease liability comprise:

- fixed lease payments;
- variable lease payments; and
- payment of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease, using the effective interest rate method, and reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured whenever:

- the lease term has changed, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; and
- the lease contract is modified and the modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group or Company did not make any such adjustments during the year.

The right of use asset comprises the initial measurement of the corresponding lease liability and is subsequently measured at cost less accumulated depreciation and impairment losses. Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The lease liability and right of use asset are presented as separate line items on the balance sheet. The interest on the lease and depreciation are charged to the income statement and presented within finance costs and administrative and operating costs respectively.

The Group and Company as a lessor

Moneybarn is considered a lessor for its conditional sale agreements to customers; however, both revenue and impairment are accounted for under IFRS 9.

The Company has not entered into any arrangements as a lessor.

Other intangible assets

Other intangible assets include acquisition intangibles in respect of the broker relationships at Moneybarn, standalone 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 and impairment. Amortisation is charged to the income statement as part of administrative and operating costs. 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.

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 fair value representing 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.

A customer is deemed to have defaulted when they become three minimum monthly payments in arrears, they enter a temporary payment arrangement or there is evidence of a further significant increase in credit score. A customer is written off in the following cycle after being six minimum monthly payments in arrears.

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 customers 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.

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 historical repayment data excluding data since 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 2 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 5 missed weekly payments in the last 12 weeks. Home credit customers are fully written off from the field following 12 consecutive missed payments and transferred to a central recoveries team.

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.

Customers under forbearance

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 temporary 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.

Macroeconomic scenarios

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

For Vanquis Bank, the provision reflects the potential for future changes in unemployment under a range of unemployment forecasts provided by the Bank of England.

For Moneybarn, both changes in unemployment and the used car sales market are used to calculate a separate macroeconomic provision.

CCD customers are not considered to be reflective of the wider economy as they are less indebted and are therefore not impacted by the same macroeconomic factors or to the same degree. Consequently there is no evidence of any meaningful correlation between the impairment charge and any macro employment statistics; a separate macroeconomic provision is therefore not held. The assumptions are reviewed at each reporting date and trigger points linked to inflation are assessed at least annually the business.

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 1/3	Straight line
Motor vehicles	25	Reducing balance

Property, plant and equipment continued

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 amounts accumulated within equity are not reclassified to the income statement at derecognition. 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.

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.

Intercompany

Expected credit losses on intercompany balances are assessed at each balance sheet date. The PDs and LGDs are determined for each loan based on the subsidiary's available funding and cash flow forecasts.

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 and operating 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 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.

The merger reserve is considered to be a distributable reserve.

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, where there are performance conditions, these 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 previously granted 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).

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 underlying results.

Critical accounting judgements 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 judgements are based on historical experience; actual results may differ from these estimates.

Amounts receivable from customers (Group: £2,212.6m (2018: £2,204.0m))

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 has 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.

Sensitivity analysis of the Group's main assumptions are set out in note 15.

Retirement benefit asset (Group and Company: £78.0m (2018: £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 and the discount rate applied to liabilities. The most significant assumption which could lead to material adjustment is a change in mortality rates.
- 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.

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

Provisions for customer redress (Group: £14.5m (2018: £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. A contingent liability is disclosed if the present obligation is not probable or the amount cannot be estimated reliably, or if there is a possible obligation dependent on a future event occurring.

Judgement is applied to determine whether the criteria for establishing and retaining a provision have been met, or whether a contingent liability should be recognised including obtaining legal advice from the Group's lawyers.

Current provisions established are in respect of future claims which may arise in Vanquis Bank as a result of ongoing ROP claims outside the settlement agreement reached with the FCA. 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 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:

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

Sensitivity of the Group's main assumptions are set out in note 25.

Carrying value of investments (Company: £395.2m (2018: £469.7m))

Critical accounting assumptions:

- The Company reviews its carrying value of subsidiary investments at each balance sheet date. The carrying value is compared to the higher of the net assets at the balance sheet date or cash flow forecasts.
- Where cash flow forecasts are used, IAS 33 requires the future value in use to be assessed over the useful remaining life of the asset. A terminal growth rate is applied to cash flows from Board-approved budgets which project out for a minimum of four years from the balance sheet date. These are then discounted back to a net present value based on a credit risk-adjusted discount rate.
- Any difference between the carrying value of the investments and either the net assets or cash flow forecasts are booked as an impairment charge in the income statement. The impairment provision is subsequently released when the assets increase or the cash flow forecasts support a higher valuation.

Key sources of estimation uncertainty:

- Under IAS 36, the terminal growth rate must be the average growth rate for the 'products, industry or countries in which the entity operates'. UK GDP in 2020 is assumed to be an appropriate rate to be used to extrapolate future growth.
- Future cash flows should be discounted at a credit-adjusted discount rate. External advice is taken to provide a suitable range of credit risk-adjusted discount rates for the Group.

Sensitivity of the Company's main assumptions is set out in note 14.

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 42 to 53.

(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 2019 is the carrying value of amounts receivable from customers of £2,212.6m (2018: £2,204.0m).

Vanquis Bank

The Risk Committee is responsible for setting the credit policy. The CRO 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. The CRO discharges and informs this decision making through the Credit Committee. The Credit Committee meets quarterly, or more frequently if required.

A customer's risk profile and credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historical 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/expenditure and employment, and data from external credit bureaux. Initial credit limits are low, typically as low as £250. 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' payment performance position with other lenders. Credit lines can go up as well as down 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.

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 historical 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.

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.

CCD

Credit risk within CCD is managed by the Credit Forum, which meets at least eight times per year, and which is responsible for reviewing credit risk and performance of the portfolio and for making recommendations on credit model, lending and collections strategy changes, based on a majority vote, to the CCD Managing Director for approval.

Credit risk is managed using a combination of lending policy rules, credit scoring (including behavioural scoring), 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, in conjunction with central decisioning enhanced through the use of credit bureau data. 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.

Financial risk management continued

(i) Amounts receivable from customers continued

CCD continued

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.

(ii) Bank and government counterparties

The Group's maximum exposure to credit risk on bank and government counterparties as at 31 December 2019 was £347.8m (2018: £427.3m).

Counterparty credit risk arises as a result of cash deposits placed with banks and central government.

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 2019, the Group's committed borrowing facilities including retail deposits had a weighted average period to maturity of 2.2 years (2018: 2.3 years) and the headroom on these committed facilities amounted to £69.1m.

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 2019, the liquid assets buffer, including other liquid resources and the operational buffer, held by Vanquis Bank amounted to £321.9m (2018: £420.6m), comprising £321.9m (2018: £384.9m) held within cash and cash equivalents and £nil (2018: £35.7m) 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 2019 amounted to 224% (2018: 688%). 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 fund 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 is 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 liabilities

2019 – Group	Repayable on demand £m	<1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Retail deposits	—	423.0	387.1	592.9	—	1,403.0
Bank and other borrowings:						
• bank facilities	2.8	166.8	—	—	—	169.6
• senior public bonds	—	17.5	17.5	285.0	—	320.0
• private placement loan notes	—	26.6	25.3	—	—	51.9
• retail bonds	—	33.1	72.0	66.2	—	171.3
Total borrowings	2.8	667.0	501.9	944.1	—	2,115.8
Trade and other payables	—	89.3	—	—	—	89.3
Lease liabilities	—	8.3	7.0	30.7	32.3	78.3
Total	2.8	764.6	508.9	974.8	32.3	2,283.4

Financial assets

2019 – 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	—	33.3	—	—	—	33.3
Total	—	33.3	—	—	—	33.3

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	—	29.8	—	—	—	29.8
Total	—	29.8	—	—	—	29.8

(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 2019 and 2018 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 repriced 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 2019, a 2% movement in the sterling to euro exchange rate would have led to a £0.7m (2018: £0.8m) movement in customer receivables with an opposite movement of £0.7m (2018: £0.8m) 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.

Financial risk management continued

(d) Foreign exchange rate risk continued

As at 31 December 2019, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.5m (2018: £0.2m) movement in the investment held at fair value through other comprehensive income and a £0.5m 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 economic outlook post Brexit remains uncertain and has led to a significant amount of instability in the UK economy and capital markets, 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 three 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 mid-2022, 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 prolonged 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 the Group and Vanquis Bank are 25.5% (inclusive of a fixed add-on in respect of pension risk) and 24.9% of total risk weighted assets respectively. These assessments include: (i) CRD IV buffers of 3.5% of total risk weighted assets comprising the capital conservation buffer (2.5%) and counter cyclical buffer (1.0%); (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 and the regulatory backdrop and to support ongoing access to funding from the bank and debt capital markets.

The impact from the adoption of IFRS 9 on 1 January 2018 on the Group's net assets amounted to £184.0m and is being phased into regulatory capital on a transitional basis over five years as follows: 5% taken at the start of 2018 (£9m), 15% taken on 1 January 2019 (£18m), 30% taken on 1 January 2020 (£28m), 50% to be taken in 2021 (£37m), 75% to be taken in 2022 (£46m) and 100% to be taken at the start of 2023 (£46m). The impact of the IFRS 9 transitional arrangements on CET1 as at 31 December 2019 was £156m. For illustrative purposes, after adjusting for the impact on risk weighted assets, the CET1 ratio at 31 December 2019 would reduce from 30.7% to 24.1% if the IFRS 9 transitional arrangements did not apply. 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.

Capital risk management continued

A reconciliation of the Group's equity to regulatory capital and the CET1 ratio is set out below:

Regulatory capital (unaudited)	2019 £m	2018 £m
Net assets	**740.5**	696.1
IFRS 9 transition (85%/95% add-back)	**156.4**	174.8
Pension	**(78.0)**	(83.9)
Deferred tax on pension	**13.3**	14.3
Goodwill	**(71.2)**	(71.2)
Other intangible assets	**(44.1)**	(55.0)
Deferred tax on acquired intangible asset	**6.0**	7.2
Proposed dividend	**(40.5)**	(25.1)
Total regulatory capital (common equity tier 1)	**682.4**	657.2
Risk weighted exposures	**2,224.0**	2,209.2
CET1 ratio	**30.7%**	29.7%

The CET1 ratio of 30.7% at the end of 2019 (2018: 29.7%) provides headroom of approximately £117m (2018: approximately £96m) against the Group's TCR of 25.5%. A reconciliation of the movement in regulatory capital during 2019 and 2018 is as follows:

Regulatory capital (unaudited)	2019 £m	2018 £m
At 31 December	**657.2**	308.1
IFRS 9 transition adjustment (15%/5%)	**(18.4)**	(9.2)
IFRS 16 transition adjustment	**(5.6)**	—
Prior year adjustment in respect of deferred acquisition costs	**16.0**	—
At 1 January	**649.2**	298.9
Profit before tax, amortisation of acquisition intangibles and exceptional items	**162.6**	153.5
Exceptional items	**(26.3)**	(55.3)
Add back amortisation of intangible assets	**10.8**	24.5
Deduct intangible asset additions	**(7.4)**	(7.6)
Add back pension (credit)/charge	**(1.2)**	6.5
Deduct pension contributions	**(2.6)**	(9.8)
Add back share-based payment charge	**1.9**	1.1
Tax and other	**(41.6)**	(29.7)
Regulatory capital generated from operations	**96.2**	83.2
Shareholder capital movements:		
Shares issued	**—**	300.2
Dividends accrued	**(40.5)**	(25.1)
Dividends paid exceed dividends accrued	**(22.5)**	—
At 31 December	**682.4**	657.2

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.

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 Group ExCo, whose primary responsibility is to support the Chief Executive Officer in managing the Group's day-to-day operations and analyse trading performance. The Group's segments comprise Vanquis Bank, Moneybarn, CCD and Central which are those segments reported in the Group's management accounts used by the Group ExCo as the primary means for analysing trading performance. The Group 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	2019 £m	2018 (restated) £m	2019 £m	2018 (restated) £m
Vanquis Bank	580.9	644.9	173.5	190.9
Moneybarn	122.0	104.3	30.9	28.1
CCD	295.4	342.2	(20.8)	(38.7)
Central costs	—	—	(21.0)	(20.2)
Total Group before amortisation of acquisition intangibles and exceptional items	998.3	1,091.4	162.6	160.1
Amortisation of acquisition intangibles (note 11)	—	—	(7.5)	(7.5)
Exceptional items	—	—	(26.3)	(55.3)
Total Group	998.3	1,091.4	128.8	97.3

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 2019 amounted to £7.5m (2018: £7.5m).

Exceptional items represent a net exceptional charge of £26.3m in 2019 (2018: £55.3m) and comprise:

	2019 £m	2018 £m
Bid defence costs associated with NSF's unsolicited offer for the Group	23.8	—
Restructuring costs, primarily in respect of the ongoing turnaround of CCD	19.3	29.9
Release of provisions in respect of ROP refund programme (see note 25)	(14.2)	—
Release of provisions in respect of Moneybarn FCA investigation (see note 25)	(2.6)	—
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
Total exceptional items	26.3	55.3

Restructuring costs comprise: (i) CCD costs of £14.4m (2018: £29.9m) in relation to the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017, comprising redundancy and other related costs of £13.0m (2018: £16.7m), an exceptional impairment charge of £1.9m in respect of intangible assets (2018: £13.8m, comprising £12.8m in respect of intangible assets and £1.0m in respect of property, plant and equipment) and an exceptional pension credit of £0.5m (2018: £0.6m) (see note 19); and (ii) redundancy and other one-off costs in respect of central activities and Vanquis Bank of £3.1m (2018: £nil) and £1.8m (2018: £nil) respectively.

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

	Segment assets		Segment liabilities		Net assets/(liabilities)	
Group	2019 £m	2018 (restated) £m	2019 £m	2018 (restated) £m	2019 £m	2018 (restated) £m
Vanquis Bank	1,889.5	1,974.7	(1,492.2)	(1,577.4)	397.3	397.3
Moneybarn	541.0	438.9	(501.4)	(421.9)	39.6	17.0
CCD	284.9	342.6	(344.8)	(352.1)	(59.9)	(9.5)
Central	443.3	368.7	(79.8)	(61.4)	363.5	307.3
Total before intra-group elimination	3,158.7	3,124.9	(2,418.2)	(2,412.8)	740.5	712.1
Intra-group elimination	(237.9)	(187.7)	237.9	187.7	—	—
Total Group	2,920.8	2,937.2	(2,180.3)	(2,225.1)	740.5	712.1

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

1 Segment reporting continued

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

Group	Capital expenditure 2019 £m	Capital expenditure 2018 £m	Depreciation 2019 £m	Depreciation 2018 £m	Amortisation 2019 £m	Amortisation 2018 £m
Vanquis Bank	**7.1**	3.7	**1.5**	1.2	**3.3**	2.7
Moneybarn	**4.4**	1.4	**0.7**	0.7	**0.8**	0.7
CCD	**2.4**	6.1	**3.4**	5.6	**4.8**	8.3
Central	**0.1**	1.7	**1.4**	1.6	**7.5**	7.5
Total Group	**14.0**	12.9	**7.0**	9.1	**16.4**	19.2

Capital expenditure in 2019 comprises expenditure on intangible assets of £7.4m (2018: £7.6m) and property, plant and equipment of £6.6m (2018: £5.3m).

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, did not have a material impact on the Group or Company.

	Group 2019 £m	Group 2018 (restated) £m
Interest income	**879.4**	943.9
Fee income	**118.9**	147.5
Total revenue	**998.3**	1,091.4

All fee income earned relates to Vanquis Bank and Moneybarn.

Interest income relates to the interest charges on Vanquis Bank credit cards, net of deferred acquisition costs, and Moneybarn conditional sale agreements together with the service charge on home credit and Satsuma loans. Fee income predominantly relates to Vanquis Bank and reflects default and over-limit fees as well as other ancillary income streams such as ROP fees. Interchange income is also recognised within Vanquis Bank as part of fee income on an accruals basis. Fee income in 2019 represented 20% (2018: 22%) of Vanquis Bank revenue.

3 Finance costs

Interest payable on:	Group 2019 £m	Group 2018 £m
Retail deposits	**30.2**	29.4
Senior public and retail bonds	**29.0**	29.1
Bank borrowings	**5.9**	11.0
Private placement loan notes	**4.6**	3.7
Lease liabilities	**2.3**	—
Exceptional premium and fees on redemption of senior bond (note 1)	**—**	18.5
Total finance costs	**72.0**	91.7

Interest cover continues to be one of the Group's banking covenants. It is calculated as 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 2019 was 3.4 times compared with 3.2 times in 2018. The increase in this measure reflects the higher profit in the year following the continued turnaround of the home credit business in the year.

4 Profit before taxation

Profit before taxation is stated after charging/(crediting):	Group 2019 £m	Group 2018 (restated) £m
Amortisation of other intangible assets:		
• computer software (note 11)	8.9	11.7
• acquisition intangibles (note 11)	7.5	7.5
Depreciation of property, plant and equipment (note 12)	7.0	9.1
Loss on disposal of property, plant and equipment (note 12)	2.2	—
Depreciation of right of use assets (note 13)	17.6	—
Lease liability finance costs (note 3)	2.3	—
Short-term lease costs	0.9	—
Impairment of amounts receivable from customers (note 15)	336.9	396.8
Employment costs (prior to exceptional redundancy costs and curtailment credit) (note 9(b))	215.9	234.4
Exceptional items:		
Exceptional bid defence costs associated with NSF's unsolicited offer for the Group	23.8	—
Exceptional release of provisions (note 25)	(16.8)	—
Exceptional curtailment credit (note 19(a))	(0.5)	(0.6)
Exceptional redundancy cost, primarily in respect of CCD (note 9(b))	14.8	4.8
Exceptional intangible impairment charge (note 11)	1.9	12.8
Exceptional property, plant and equipment impairment charge (note 12)	—	1.0
Exceptional restructuring costs, primarily in respect of CCD	3.1	11.9
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

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

Auditor's remuneration	Group 2019 £m	Group 2018 £m
Fees payable to the Company's auditor for the audit of Company and consolidated financial statements	0.2	0.1
Fees payable to the Company's auditor and its associates for other services:		
• audit of Company's subsidiaries pursuant to legislation	1.0	0.7
• other non-audit services	0.2	0.1
Total auditor's remuneration	1.4	0.9

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

5 Tax charge

Tax charge in the income statement	Group 2019 £m	Group 2018 (restated) £m
Current tax:		
• UK	(34.4)	(32.3)
• overseas	—	0.3
Total current tax	(34.4)	(32.0)
Deferred tax (note 20)	(10.3)	0.5
Impact of change in UK tax rate (note 20)	0.3	(0.5)
Total tax charge	(44.4)	(32.0)

The tax charge in respect of exceptional costs in 2019 amounts to £2.9m (2018: credit of £10.2m) and represents: (i) tax relief of £3.7m in respect of the exceptional restructuring costs in CCD and the wider Group (2018: £5.5m); (ii) tax relief of £0.1m in respect of exceptional costs associated with the defence of the unsolicited offer from NSF (2018: £nil); (iii) a tax charge of £6.0m which represents tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £14.2m exceptional release of provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally, as well as tax at 27% on the 10% deemed taxable receipt on customer balance reductions related to charged off accounts which are treated as bank compensation payments as well as tax on the release of the related impairment provision (2018: £nil); and (iv) a tax charge of £0.7m in respect of the £2.6m release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options at Moneybarn.

5 Tax charge continued

The tax credit in 2018 also comprised: (i) tax relief of £3.5m in respect of the premium and fees paid on redemption of senior bonds; and (ii) tax relief of £1.2m in respect of the GMP equalisation charge in respect of the Group's defined benefit scheme.

The tax credit in respect of the amortisation of acquisition intangibles amounts to £1.3m (2018: £1.3m).

The effective tax rate for 2019, prior to the amortisation of acquisition intangibles and exceptional items, is 26.3% (2018 (restated): 27.2%).

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 2019 have been measured at 17% (2018: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rate of 25% (2018: 25%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 1 April 2020). In 2019, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.0% (2018: 19.0%), 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% (2018: 27.0%). A tax credit of £0.3m (2018 (restated): charge of £0.5m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.1m (2018: charge of £0.7m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

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

	Group	
Tax credit/(charge) on items taken directly to other comprehensive income	**2019 £m**	2018 £m
Deferred tax charge on fair value movement in investment	**(1.2)**	(0.5)
Deferred tax credit on actuarial movements on retirement benefit asset	**1.8**	4.1
Tax credit on items taken directly to other comprehensive income prior to impact of change in UK tax rate	**0.6**	3.6
Impact of change in UK tax rate	**(0.1)**	(0.7)
Total tax credit on items taken directly to other comprehensive income	**0.5**	2.9

The deferred tax charge of £1.2m (2018: £0.5m) on the fair value movements in investments represents the deferred tax at the combined mainstream corporation tax and bank corporation tax surcharge rate of 27.0% (2018: 27.0%) on the change in the valuation of the Visa Inc. preferred stock during the year.

The rate of tax charge on the profit (2018: profit) before taxation for the year is higher than (2018: higher than) the average rate of mainstream corporation tax in the UK of 19.00% (2018: 19.00%). This can be reconciled as follows:

	Group	
	2019 £m	2018 £m
Profit before taxation	**128.8**	97.3
Profit before taxation multiplied by the average rate of mainstream corporation tax in the UK of 19.00% (2018: 19.00%)	**(24.5)**	(18.5)
Effects of:		
• impact of lower tax rates overseas	**(1.1)**	(0.4)
• adjustment in respect of prior years	**0.7**	1.2
• non-deductible general expenses	**0.2**	(0.1)
• non-deductible bid defence costs	**(4.5)**	—
• non-deductible bank compensation payments	**(1.4)**	—
• additional 10% of bank compensation payments	**(0.2)**	—
• impact of change in UK tax rate	**0.3**	(0.5)
• impact of bank corporation tax surcharge	**(13.9)**	(13.7)
Total tax charge	**(44.4)**	(32.0)

The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2018: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19.0% (2018: 19.0%). In 2019, the home credit business in the Republic of Ireland made a loss (2018: loss) 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 19.0% UK statutory tax rate. This gives rise to an adverse impact on the Group tax charge of £1.1m in 2019 (2018: £0.4m). No deferred tax has been recognised in respect of this loss giving rise to a total adverse impact on the Group tax charge of £1.1m in 2019 (2018: £0.4m).

The £0.7m credit (2018: £1.2m) in respect of prior years represents the benefit of resolving historical tax liabilities net of the release of part of the provision for uncertain tax liabilities and, in the case of 2018, also securing tax deductions for employee share awards which are higher than those originally anticipated.

Most of the costs associated with the defence of the unsolicited offer from NSF are, at this point, considered to be non-tax deductible in computing the Group's taxable profits. This gives rise to an adverse impact on the tax charge of £4.5m in 2019 (2018: £nil).

5 Tax charge continued

The additional balance reductions related to charged off accounts, net of the release of provisions related to balance reductions and settlements on other accounts which have arisen following completion of the refund programme in respect of ROP, are treated as bank compensation payments and are therefore non-deductible in computing Vanquis Bank's profits for tax purposes. This gives rise to an adverse impact on the tax charge of £1.4m (2018: £nil). It also gives rise to an additional 10% deemed taxable receipt under the bank compensation provisions on the additional balance reductions related to charged off accounts. This gives rise to an adverse impact on the tax charge of £0.2m (2018: £nil).

The adverse impact of the bank corporation tax surcharge amounts to £13.9m (2018 (restated): £13.7m) 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 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'.

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.

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

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

	2019			2018 (restated)		
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	84.4	253.4	33.3	65.3	239.5	27.3
Dilutive effect of share options and awards	—	1.9	(0.2)	—	0.7	(0.1)
Diluted earnings per share	84.4	255.3	33.1	65.3	240.2	27.2

The directors have elected to show an adjusted earnings per share prior to the amortisation of acquisition intangibles which arose on the acquisition of Moneybarn in August 2014 (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 per share to adjusted basic and diluted earnings per share is as follows:

	2019			2018 (restated)		
Group	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share	84.4	253.4	33.3	65.3	239.5	27.3
Amortisation of acquisition intangibles, net of tax	6.2	—	2.5	6.2	—	2.6
Exceptional items, net of tax	29.1	—	11.5	45.1	—	18.8
Adjusted basic earnings per share	119.7	253.4	47.3	116.6	239.5	48.7
Diluted earnings per share	84.4	255.3	33.1	65.3	240.2	27.2
Amortisation of acquisition intangibles, net of tax	6.2	—	2.4	6.2	—	2.6
Exceptional items, net of tax	29.1	—	11.4	45.1	—	18.8
Adjusted diluted earnings per share	119.7	255.3	46.9	116.6	240.2	48.6

Adjusted basic earnings per share has reduced by 2.9%, reflecting the impact of the rights shares issued in April 2018. Basic earnings per share increased by 22.0%, despite the impact of the rights shares issued in April 2018, reflecting the reduction in exceptional costs in the year.

7 Dividends

	Group 2019 £m	Group 2018 £m
2018 final – 10.0p per share	25.1	—
2019 interim – 9.0p per share	22.5	—
Dividends paid	47.6	—

The directors are recommending a final dividend in respect of the financial year ended 31 December 2019 of 16.0p per share (2018: 10.0p) which will amount to an estimated dividend payment of £40.5m (2018: £25.1m). If approved by the shareholders at the Annual General Meeting on 7 May 2020, this dividend will be paid on 22 May 2020 to shareholders who are on the register of members at 3 April 2020. This dividend is not reflected in the balance sheet as at 31 December 2019 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 2019 £m	Group and Company 2018 £m
Short-term employee benefits	3.7	2.1
Share-based payment charge	0.9	0.2
Total directors' remuneration	4.6	2.3

Short-term employee benefits comprise salary/fees, bonus, benefits earned in the year and pension salary supplements for Malcolm Le May and Simon Thomas.

The share-based payment charge reflects the expected vesting of the Group's share-based incentives.

9 Employee information

(a) Average monthly number of employees in the Group:

	2019					2018				
	Vanquis Bank	Moneybarn	CCD	Central	Group	Vanquis Bank	Moneybarn	CCD	Central	Group
Full time	1,366	265	2,923	67	4,621	1,386	235	3,643	62	5,326
Part time	171	39	343	11	564	161	25	327	10	523
Total	1,537	304	3,266	78	5,185	1,547	260	3,970	72	5,849

Employees comprise all head office and branch employees within CCD and head office and contact centre employees within Vanquis Bank and Moneybarn. Central employees represent corporate office employees and executive and non-executive directors employed by the Company. Vanquis Bank average employee numbers have reduced by 10 in the year reflecting the focus on tight cost control. Moneybarn's 17% increase in average headcount continues to reflect the resource required to support the growth of the business and enhance the customer experience. The 18% decrease in CCD average employee numbers reflects actions to reduce headcount in response to the reduction in customer numbers.

9 Employee information continued

(b) Employment costs

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Aggregate gross wages and salaries paid to the Group's employees	**184.5**	205.6	**11.6**	10.4
Employer's National Insurance contributions	**20.5**	22.1	**1.5**	1.7
Pension charge, prior to exceptional pension credit	**9.6**	9.5	**(2.6)**	(8.6)
Share-based payment charge/(credit) (note 27)	**1.3**	(2.8)	**1.3**	0.4
Total employment cost prior to exceptional costs	**215.9**	234.4	**11.8**	3.9
Exceptional redundancy cost	**14.8**	4.8	**1.6**	—
Exceptional pension curtailment credit (note 19)	**(0.5)**	(0.6)	**(0.5)**	(0.6)
Exceptional pension cost for GMP equalisation (note 19)	**—**	6.9	**—**	6.9
Total employment costs	**230.2**	245.5	**12.9**	10.2

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan and contributions to personal pension arrangements. The £2.6m (2018: £8.6m) 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 charge from a £2.8m credit in 2018 to a £1.3m charge in 2019 primarily reflects the higher expected vesting levels across the equity and cash-settled schemes in the Group. The share-based payment charge of £1.3m (2018: £2.8m credit) relates to equity-settled schemes charges of £1.9m (2018: £1.1m charge) and a cash-settled schemes credit of £0.6m (2018: £3.9m credit).

10 Goodwill

	Group	
	2019 £m	2018 £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 net book value of goodwill relates wholly to the acquisition of Moneybarn in 2014. 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 adopts 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 2% (2018: 2%). The rate used to discount the forecast cash flows is 11% (2018: 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

	2019			2018		
	Acquisition intangibles £m	**Computer software £m**	**Total £m**	Acquisition intangibles £m	Computer software £m	Total £m
Cost						
At 1 January	**75.0**	**76.2**	**151.2**	75.0	92.1	167.1
Additions	**—**	**7.4**	**7.4**	—	7.6	7.6
Disposals	**—**	**(18.2)**	**(18.2)**	—	(23.5)	(23.5)
At 31 December	**75.0**	**65.4**	**140.4**	75.0	76.2	151.2
Accumulated amortisation and impairment						
At 1 January	**32.5**	**63.7**	**96.2**	25.0	62.7	87.7
Charged to the income statement	**7.5**	**8.9**	**16.4**	7.5	11.7	19.2
Exceptional impairment charge (note 1)	**—**	**1.9**	**1.9**	—	12.8	12.8
Disposals	**—**	**(18.2)**	**(18.2)**	—	(23.5)	(23.5)
At 31 December	**40.0**	**56.3**	**96.3**	32.5	63.7	96.2
Net book value at 31 December	**35.0**	**9.1**	**44.1**	42.5	12.5	55.0
Net book value at 1 January	**42.5**	**12.5**	**55.0**	50.0	29.4	79.4

11 Other intangible assets continued

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 to computer software in the year of £7.4m (2018: £7.6m) comprise £1.3m (2018: £2.5m) of internally generated assets and £6.1m (2018: £5.1m) of externally purchased software.

The £7.4m (2018: £7.6m) of computer software expenditure principally relates to: (i) the development of systems in Vanquis Bank; and (ii) systems to support the collections and operational projects at Moneybarn.

The disposals of £18.2m (2018: £23.5m) relate to assets in CCD which are no longer being used and have been fully amortised or impaired.

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 2019	**3.4**	**6.5**	**77.3**	**87.2**
Additions	**—**	**2.1**	**4.5**	**6.6**
Disposals	**(3.4)**	**—**	**(21.2)**	**(24.6)**
At 31 December 2019	**—**	**8.6**	**60.6**	**69.2**
Accumulated depreciation and impairment				
At 1 January 2019	**3.3**	**1.1**	**58.2**	**62.6**
Charged to the income statement	**—**	**0.8**	**6.2**	**7.0**
Disposals	**(3.3)**	**—**	**(16.4)**	**(19.7)**
At 31 December 2019	**—**	**1.9**	**48.0**	**49.9**
Net book value at 31 December 2019	**—**	**6.7**	**12.6**	**19.3**
Net book value at 1 January 2019	**0.1**	**5.4**	**19.1**	**24.6**

The loss on disposal of property, plant and equipment in 2019 amounted to £2.2m (2018: £nil) and represented proceeds received of £2.7m (2018: £1.5m) less the net book value of disposals of £4.9m (2018: £1.5m).

Additions in 2019 principally comprise expenditure in respect of the routine replacement of IT equipment. Disposals in 2019 principally relate to the sale of company vehicles in CCD which are no longer offered to non-essential users.

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

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 2019	3.4	0.2	14.3	17.9
Additions	—	—	0.1	0.1
Disposals	(3.4)	—	(2.0)	(5.4)
At 31 December 2019	—	0.2	12.4	12.6
Accumulated depreciation				
At 1 January 2019	3.3	0.1	10.0	13.4
Charged to the income statement	—	—	1.4	1.4
Disposals	(3.3)	—	(1.6)	(4.9)
At 31 December 2019	—	0.1	9.8	9.9
Net book value at 31 December 2019	—	0.1	2.6	2.7
Net book value at 1 January 2019	0.1	0.1	4.3	4.5

The profit on disposal of property, plant and equipment in 2019 amounted to £0.2m (2018: £nil) and represented proceeds received of £0.7m (2018: £0.2m) less the net book value of disposals of £0.5m (2018: £0.2m).

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

13 Right of use assets

	Group £m	Company £m
Cost		
At 1 January 2019 – recognised on adoption of IFRS 16	81.9	23.6
Additions	3.0	—
Disposals	(0.3)	—
At 31 December 2019	84.6	23.6
Accumulated depreciation and impairment		
At 1 January 2019	—	—
Charged to the income statement	17.6	2.8
Disposals	(0.1)	—
At 31 December 2019	17.5	2.8
Net book value at 31 December 2019	67.1	20.8
Net book value at 1 January 2019	81.9	23.6

All right of use assets relate to property leases. The addition in the year relates to the new head office property leased by Moneybarn.

14 Investment in subsidiaries

	Company	
	2019 £m	2018 £m
Cost		
At 1 January	816.9	773.8
Additions	0.1	50.0
Disposals	—	(6.9)
At 31 December	817.0	816.9
Accumulated impairment losses		
At 1 January	347.2	291.5
Exceptional charge to the income statement	74.7	62.2
Credit to the income statement	(0.1)	—
Disposal	—	(6.5)
At 31 December	421.8	347.2
Net book value at 31 December	395.2	469.7
Net book value at 1 January	469.7	482.3

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

The £0.1m addition in 2019 relates to the IFRIC 11 adjustment relating to share options/awards provided to subsidiary employees. Under IFRIC 11, the fair value of the share options/awards issued is required to be treated as a capital contribution and an investment in the relevant subsidiary, net of any share options/awards that have vested. Additions in 2018 of £50.0m represented capital injected into Vanquis Bank following receipt of the rights issue proceeds of £300.0m in April 2018.

A review of the investment carrying value in PFMSL and the exposure of intercompany loans has been performed on a consistent basis as 2018, using forecast future cash flows of the CCD business. This has resulted in an exceptional impairment charge of £74.7m (2018: £62.2m) which has been recognised in the income statement. In 2018, £37.9m of the impairment was reflected against the residual non-distributable reserve and the remaining £24.3m against retained earnings. To the extent that the terminal growth rate of 2% differs by 1% the valuation would differ by £50m. To the extent that the discount growth rate of 11% differs by 1% the valuation would differ by £50m. To the extent the cash flows used in the calculation differ by 5% the valuation would differ by £22m.

The disposals in 2018 relate to: (i) the elimination of dormant companies of £6.5m and the associated provision of £6.5m; and, (ii) £0.4m relating to the IFRIC 11 adjustment.

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
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*
CCD	Provident Financial Management Services Limited	Management services	England	Ordinary	100
	Provident Personal Credit Limited	Financial services	England	Ordinary	100*

* Shares held by wholly owned intermediate companies.

The above companies operate principally in their country of incorporation.

15 Amounts receivable from customers

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 historical 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 historical 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 historical experience. Revenue is recognised on the net receivable after impairment provision.

Impairment provisions are calculated based on an unbiased probability-weighted outcome which takes into account historical performance and considers the outlook for macroeconomic conditions. Further details can be found on page 179.

Group	2019 Due within one year £m	2019 Due in more than one year £m	2019 Total £m	2018 (restated) Due within one year £m	2018 (restated) Due in more than one year £m	2018 (restated) Total £m
Vanquis Bank	**1,451.5**	**10.0**	**1,461.5**	1,481.0	14.1	1,495.1
Moneybarn	**117.3**	**384.8**	**502.1**	95.1	321.3	416.4
CCD	**225.5**	**23.5**	**249.0**	263.1	29.4	292.5
Total reported amounts receivable from customers	**1,794.3**	**418.3**	**2,212.6**	1,839.2	364.8	2,204.0

Vanquis Bank receivables comprise £1,432.6m (2018 (restated): £1,469.1m) in respect of credit cards and £28.9m (2018: £26.0m) in respect of loans. The balance at 31 December 2019 is stated net of an estimated balance reduction provision of £nil (2018: £3.7m) in respect of the FCA investigation into ROP.

Moneybarn receivables are stated net of an estimated balance reduction provision of £nil (2018: £1.8m) in respect of the FCA investigation into affordability, forbearance and termination options.

CCD receivables comprise £205.8m in respect of the home credit business (2018: £253.0m) and £43.2m in respect of Satsuma (2018: £39.5m).

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

Group	2019 Vanquis Bank £m	2019 Moneybarn £m	2019 CCD £m	2019 Group £m	2018 (restated) Vanquis Bank £m	2018 (restated) Moneybarn £m	2018 (restated) CCD £m	2018 (restated) Group £m
Gross amounts receivable from customers	**1,903.1**	**586.8**	**593.9**	**3,083.8**	1,997.8	540.8	725.6	3,264.2
Allowance account	**(441.6)**	**(84.7)**	**(344.9)**	**(871.2)**	(502.7)	(124.4)	(433.1)	(1,060.2)
Reported amounts receivable from customers	**1,461.5**	**502.1**	**249.0**	**2,212.6**	1,495.1	416.4	292.5	2,204.0

15 Amounts receivable from customers continued

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

Vanquis Bank	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m	2018 (restated) Stage 1 £m	2018 (restated) Stage 2 £m	2018 (restated) Stage 3 £m	2018 (restated) Total £m
Gross carrying amount								
At 1 January	1,303.3	174.7	519.8	1,997.8	1,399.8	95.3	363.2	1,858.3
New financial assets originated and new drawdowns	2,252.1	135.6	35.2	2,422.9	2,279.6	82.0	4.8	2,366.4
Net transfers and changes in credit risk	(269.9)	20.1	249.8	—	(395.1)	11.4	383.7	—
Write offs	(12.1)	(18.0)	(348.0)	(378.1)	—	—	(193.3)	(193.3)
Recoveries	(2,417.9)	(229.7)	(111.9)	(2,759.5)	(2,533.3)	(62.2)	(95.0)	(2,690.5)
Revenue	496.8	87.1	(3.0)	580.9	543.0	47.1	54.8	644.9
Other movements	15.6	1.8	21.7	39.1	9.3	1.1	1.6	12.0
At 31 December	1,367.9	171.6	363.6	1,903.1	1,303.3	174.7	519.8	1,997.8
Allowance account								
At 1 January	187.0	58.7	257.0	502.7	136.2	50.4	251.8	438.4
Movements through income statement:								
• drawdowns and net transfers and changes in credit risk	(61.8)	68.7	189.5	196.4	43.9	5.6	192.1	241.6
• other movements	27.3	(24.8)	—	2.5	—	—	—	—
Total movements through income statement	(34.5)	43.9	189.5	198.9	43.9	5.6	192.1	241.6
Other movements:								
• write offs	(12.1)	(18.0)	(348.0)	(378.1)	—	—	(193.3)	(193.3)
• amounts recovered	6.2	0.6	111.3	118.1	6.9	2.7	6.4	16.0
Allowance account at 31 December	146.6	85.2	209.8	441.6	187.0	58.7	257.0	502.7
Reported amounts receivable from customers at 31 December	1,221.3	86.4	153.8	1,461.5	1,116.3	116.0	262.8	1,495.1
Reported amounts receivable from customers at 1 January	1,116.3	116.0	262.8	1,495.1	1,263.6	44.9	111.4	1,419.9

Write offs have increased significantly in 2019 due to paying debt sales during the year. The Vanquis Bank allowance account includes the macroeconomic provision which takes into account the potential for future changes in unemployment under a range of unemployment forecasts provided by the Bank of England. A 20% weighting is placed on both the downside and upside scenarios with a 60% weighting on the base case scenario. This is consistent with the prior year.

In 2019, Vanquis Bank improved its IFRS 9 models to better predict impairment. The enhancements included:

- alignment of the business and financial view of credit risk;
- improvement of lifetime extrapolations by risk grade at origination;
- the recalibration of probability of default (PD) models; and
- the thresholds for significant increase in credit risk to latest data.

As at 31 December unutilised credit card commitments at Vanquis Bank were £1,101.1m (2018: £1,148.9m).

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £5.3m based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

A breakdown of the gross receivable by internal credit risk rating is shown below:

Vanquis Bank	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m
Good	1,200.1	58.9	—	1,259.0
Satisfactory	167.8	112.7	—	280.5
Lower quality	—	—	363.6	363.6
Total	1,367.9	171.6	363.6	1,903.1

Internal credit risk rating is based on the most recent credit score of a customer. All lower quality customers are in stage 3 as there has been evidence of a significant increase in their credit score or they have defaulted or have entered a payment arrangement.

15 Amounts receivable from customers continued

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

Moneybarn	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m	2018 (restated) Stage 1 £m	2018 (restated) Stage 2 £m	2018 (restated) Stage 3 £m	2018 (restated) Total £m
Gross carrying amount								
At 1 January	**292.8**	**130.7**	**117.3**	**540.8**	253.9	98.7	74.6	427.2
New financial assets originated	**282.8**	**—**	**—**	**282.8**	234.6	—	—	234.6
Net transfers and changes in credit risk	**(179.5)**	**59.8**	**119.7**	**—**	(155.7)	40.8	114.9	—
Write offs	**—**	**—**	**(99.2)**	**(99.2)**	(0.4)	(0.2)	(2.4)	(3.0)
Recoveries	**(153.3)**	**(49.4)**	**(79.9)**	**(282.6)**	(101.3)	(42.0)	(94.7)	(238.0)
Revenue*	**78.8**	**38.4**	**26.1**	**143.3**	53.5	29.4	35.0	117.9
Other changes	**13.8**	**8.9**	**(21.0)**	**1.7**	8.2	4.0	(10.1)	2.1
At 31 December	**335.4**	**188.4**	**63.0**	**586.8**	292.8	130.7	117.3	540.8
Allowance account								
At 1 January	**9.2**	**28.4**	**86.8**	**124.4**	8.6	29.7	54.7	93.0
Movements through income statement:								
• new financial assets originated	**9.6**	**—**	**—**	**9.6**	8.3	—	—	8.3
• net transfers and changes in credit risk	**(9.3)**	**7.4**	**55.4**	**53.5**	(7.3)	(1.1)	48.1	39.7
Total movements through income statement	**0.3**	**7.4**	**55.4**	**63.1**	1.0	(1.1)	34.5	48.0
Amounts netted off against revenue for stage 3 assets	**—**	**—**	**(21.3)**	**(21.3)**	—	—	(13.6)	(13.6)
Other movements:								
• write offs	**—**	**—**	**(81.5)**	**(81.5)**	(0.4)	(0.2)	(2.4)	(3.0)
Allowance account at 31 December	**9.5**	**35.8**	**39.4**	**84.7**	9.2	28.4	86.8	124.4
Reported amounts receivable from customers at 31 December	**325.9**	**152.6**	**23.6**	**502.1**	283.6	102.3	30.5	416.4
Reported amounts receivable from customers at 1 January	**283.6**	**102.3**	**30.5**	**416.4**	245.3	69.0	19.9	334.2

* In the income statement Moneybarn revenue is £122.0m (2018: £104.3m) and for stage 3 assets is reported net of the impairment charge, the difference of which is included in the 'amounts netted against revenue for stage 3 assets' in the loss allowance account reconciliation of £21.3m (2018: £13.6m).

Write offs have increased significantly in 2019 due to the sale of terminated debt towards the end of the year. The Moneybarn allowance account includes the macroeconomic provision which reflects that a reduction in car sales and an increase in unemployment could lead to an increase in impairment. This is consistent with the prior year.

Vehicles are held as collateral against a Moneybarn conditional sale agreement until it is repaid in full. The impact of holding the collateral of £339.8m (2018: £286.3m) on the allowance account as at 31 December 2019 was £52.9m (2018: £65.1m), representing 71% (2018: 72%) of the balance.

Moneybarn gross receivables are stated net of unearned finance income of £308.7m (2018: £254.1m).

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £0.5m based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

A breakdown of the gross receivable by internal credit risk rating is shown below:

Moneybarn	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m
Good	**72.0**	**16.6**	**2.5**	**91.1**
Satisfactory	**221.5**	**124.2**	**39.3**	**385.0**
Lower quality	**41.2**	**46.1**	**19.5**	**106.8**
Below standard	**0.7**	**1.5**	**1.7**	**3.9**
Total	**335.4**	**188.4**	**63.0**	**586.8**

Internal credit risk rating is based on the internal credit score of a customer at inception of the loan. The majority of good and satisfactory gross receivables is held in stage 1 reflecting the tightening of underwriting in the fourth quarter of 2019.

15 Amounts receivable from customers continued

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

CCD	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m	2018 Stage 1 £m	2018 Stage 2 £m	2018 Stage 3 £m	2018 Total £m
Gross carrying amount								
At 1 January	183.6	48.4	493.6	725.6	221.2	60.9	443.1	725.2
New financial assets originated	353.4	5.5	—	358.9	404.4	6.7	—	411.1
Net transfers and changes in credit risk	(118.7)	3.7	115.0	—	(145.1)	10.6	134.5	—
Write offs	(1.1)	(1.4)	(181.4)	(183.9)	(2.2)	(3.0)	(60.0)	(65.2)
Recoveries	(454.1)	(61.2)	(87.8)	(603.1)	(506.5)	(78.4)	(99.7)	(684.6)
Revenue	192.8	40.9	59.7	293.4	211.6	51.6	76.8	340.0
Other movements	—	0.1	2.9	3.0	0.2	—	(1.1)	(0.9)
At 31 December	155.9	36.0	402.0	593.9	183.6	48.4	493.6	725.6
Allowance account								
At 1 January	12.0	12.9	408.2	433.1	20.4	15.1	342.3	377.8
Movements through income statement:								
• new financial assets originated	31.5	0.7	—	32.2	38.6	1.1	—	39.7
• net transfers and changes in credit risk	(32.0)	(2.1)	98.1	64.0	(44.8)	(0.3)	126.2	81.1
Total movements through income statement	(0.5)	(1.4)	98.1	96.2	(6.2)	0.8	126.2	120.8
Other movements:								
• write offs	(1.1)	(1.4)	(181.4)	(183.9)	(2.2)	(3.0)	(60.0)	(65.2)
• other movements	—	—	(0.5)	(0.5)	—	—	(0.3)	(0.3)
Allowance account at 31 December	10.4	10.1	324.4	344.9	12.0	12.9	408.2	433.1
Reported amounts receivable from customers at 31 December	145.5	25.9	77.6	249.0	171.6	35.5	85.4	292.5
Reported amounts receivable from customers at 1 January	171.6	35.5	85.4	292.5	200.8	45.8	100.8	347.4

Write offs have increased significantly in 2019 due to the removal of the ring-fenced book which is now included as part of the post-charge off asset. There is no additional macroeconomic provision included in the allowance account for CCD, consistent with the prior year, as the payment performance of home credit customers is not typically correlated to the wider economy as may be the case for prime customers.

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £0.3m based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

A breakdown of the gross receivable by internal credit risk rating is shown below:

CCD	2019 Stage 1 £m	2019 Stage 2 £m	2019 Stage 3 £m	2019 Total £m
Very good	62.2	8.9	6.3	77.4
Good	23.2	6.7	10.4	40.3
Satisfactory	28.8	8.4	35.2	72.4
Lower quality	10.4	3.0	72.7	86.1
Below standard	31.3	9.0	277.4	317.7
Total	155.9	36.0	402.0	593.9

Internal credit risk rating reflects the internal credit risk grade of customers at the year end. The significant amount of below standard gross receivables held in stage 3 reflects the post-charge off asset and ring-fenced book held in CCD following the change to the employed operating model in 2017.

15 Amounts receivable from customers continued

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

Group	2019 Vanquis Bank £m	2019 Moneybarn £m	2019 CCD £m	2019 Group £m	2018 Vanquis Bank £m	2018 Moneybarn £m	2018 CCD £m	2018 Group £m
Brought forward	21.3	19.8	1.3	42.4	14.7	15.5	1.0	31.2
Capitalised	18.3	23.0	8.8	50.1	12.0	18.3	4.4	34.7
Amortised	(7.8)	(18.2)	(8.2)	(34.2)	(5.4)	(14.0)	(4.1)	(23.5)
Carried forward	31.8	24.6	1.9	58.3	21.3	19.8	1.3	42.4

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

Impairment charge on amounts receivable from customers	Group 2019 £m	Group 2018 (restated) £m
Vanquis Bank	198.9	241.6
Moneybarn	41.8	34.4
CCD	96.2	120.8
Total impairment charge	336.9	396.8

The average effective interest rate for the year ended 31 December 2019 was 25% for Vanquis Bank (2018: 28%), 125% for CCD (2018: 119%) and 34% for Moneybarn (2018: 34%).

The average effective EIR for Vanquis Bank has reduced from 28% in 2018 to 25% in 2019 due to a modest increase in the mix of nearer-prime customers and the downwards repricing of higher APR accounts where the customer has improved their credit standing. The CCD average effective interest rate has increased from 109% in 2018 to 125% in 2019 due to the modest shift in mix to shorter-term, higher-yielding products.

The average period to maturity of the amounts receivable from customers within CCD is 6 months (2018: 6 months) and within Moneybarn is 39 months (2018: 39 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 3% of the amount owed plus any fees and interest charges in the month and £10.

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

Group	Group 2019 £m	Group 2018 (restated) £m
Sterling	2,179.1	2,165.1
Euro	33.5	38.9
Reported amounts receivable from customers	2,212.6	2,204.0

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 13% of CCD's receivables (2018: 13%).

16 Investments

Group	Group 2019 £m	Group 2018 £m
Government gilts	—	35.7
Visa shares	16.6	12.1
Total investments	16.6	47.8

(a) Government gilts

Government gilts in 2018 comprised UK Government gilts which formed part of the liquid assets buffer and other liquid resources held by Vanquis Bank in accordance with the PRA's liquidity regime.

(b) Visa shares

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

16 Investments continued

(b) Visa shares continued

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 31 December 2019 of £16.6m (2018: £12.1m) is held at fair value through the OCI. The increase in the fair value of the investment during the year of £4.5m (2018: £2.2m) 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 tradable 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.

17 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:

	2019			
Group	Investment held at fair value through OCI £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets				
Investments	16.6	—	—	16.6
Cash and cash equivalents	—	353.6	—	353.6
Amounts receivable from customers	—	2,212.6	—	2,212.6
Trade and other receivables	—	6.6	26.7	33.3
Deferred tax asset	—	—	25.0	25.0
Retirement benefit asset	—	—	78.0	78.0
Property, plant and equipment	—	—	19.3	19.3
Right of use assets	—	—	67.1	67.1
Goodwill	—	—	71.2	71.2
Other intangible assets	—	—	44.1	44.1
Total assets	16.6	2,572.8	331.4	2,920.8
Liabilities				
Retail deposits	—	(1,345.2)	—	(1,345.2)
Bank and other borrowings	—	(618.3)	—	(618.3)
Trade and other payables	—	(89.3)	—	(89.3)
Lease liabilities	—	(78.3)	—	(78.3)
Current tax liabilities	—	—	(34.7)	(34.7)
Provisions	—	—	(14.5)	(14.5)
Total liabilities	—	(2,131.1)	(49.2)	(2,180.3)

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

	2018 (restated)			
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	—	2,204.0	—	2,204.0
Trade and other receivables	1.3	10.0	18.5	29.8
Deferred tax asset	—	—	33.0	33.0
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	2,601.9	286.2	2,937.2
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)

17 Financial instruments continued

(a) Classification and measurement continued

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

Company	2019 Amortised cost £m	2019 Non-financial assets/ liabilities £m	2019 Total £m
Assets			
Cash and cash equivalents	17.4	—	17.4
Investment in subsidiaries	—	395.2	395.2
Trade and other receivables	890.8	1.8	892.6
Retirement benefit asset	—	78.0	78.0
Property, plant and equipment	—	2.7	2.7
Right of use assets	—	20.8	20.8
Total assets	908.2	498.5	1,406.7
Liabilities			
Bank and other borrowings	(616.3)	—	(616.3)
Trade and other payables	(100.4)	—	(100.4)
Lease liabilities	(24.9)	—	(24.9)
Current tax liabilities	—	(0.1)	(0.1)
Deferred tax liabilities	—	(11.6)	(11.6)
Total liabilities	(741.6)	(11.7)	(753.3)

Company	2018 Amortised cost £m	2018 Non-financial assets/ liabilities £m	2018 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)

(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:

Group	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2018 Level 1 £m	2018 Level 2 £m	2018 Level 3 £m
Assets						
Investments held at fair value through other comprehensive income:						
• government gilts	—	—	—	35.7	—	—
• Visa Inc. shares	—	—	16.6	—	—	12.1
Total assets	—	—	16.6	35.7	—	12.1

Level 1 fair value measurements are those derived from quoted market prices in active markets for identical assets and liabilities. The Group previously held government gilts within Level 1 as they were 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.

17 Financial instruments continued

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

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	
	2019 £m	2018 £m
At 1 January	12.1	9.9
Gains or losses recognised in other comprehensive income	4.5	2.2
At 31 December	16.6	12.1

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. These assumptions are consistent with 2018.

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	
	2019 £m	2018 £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:

	2019		2018 (restated)	
Group	Fair value £m	Book value £m	Fair value £m	Book value £m
Assets				
Cash and cash equivalents	353.6	353.6	387.9	387.9
Amounts receivable from customers	3,008.3	2,212.6	3,329.2	2,204.0
Trade and other receivables	33.3	33.3	29.8	29.8
Total assets	3,395.2	2,599.5	3,746.9	2,621.7
Liabilities				
Retail deposits	(1,351.6)	(1,345.2)	(1,441.0)	(1,431.7)
Bank and other borrowings	(631.3)	(618.3)	(658.8)	(623.8)
Trade and other payables	(89.3)	(89.3)	(91.8)	(91.8)
Lease liabilities	(78.3)	(78.3)	—	—
Total liabilities	(2,150.5)	(2,131.1)	(2,191.6)	(2,147.3)

	2019		2018	
Company	Fair value £m	Book value £m	Fair value £m	Book value £m
Assets				
Cash and cash equivalents	17.4	17.4	1.0	1.0
Trade and other receivables	892.6	892.6	823.6	823.6
Total assets	910.0	910.0	824.6	824.6
Liabilities				
Bank and other borrowings	(629.2)	(616.1)	(656.1)	(621.1)
Trade and other payables	(100.4)	(100.4)	(86.6)	(86.6)
Lease liabilities	(24.9)	(24.9)	—	—
Total liabilities	(754.5)	(741.4)	(742.7)	(707.7)

17 Financial instruments continued

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

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 be 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.

18 Trade and other receivables

	Group		Company	
Current assets	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Trade receivables	**0.1**	0.1	**—**	—
Other receivables	**6.5**	11.2	**—**	—
Amounts owed by Group undertakings	**—**	—	**890.8**	821.0
Prepayments and accrued income	**26.7**	18.5	**1.8**	2.6
Total current assets	**33.3**	29.8	**892.6**	823.6

There are £nil amounts past due in respect of trade and other receivables (2018: £nil). Within the Company, an impairment provision of £121.4m (2018: £122.9m) is held against amounts owed by Group undertakings due in less than one year. The Company has assessed the estimated credit losses representing the probability of default and loss given default for these intercompany loans. As a result of which, there has been a £1.5m credit to the Company income statement in 2019 (2018: £nil) in respect of the provision.

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

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 2019, 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 2018 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee Benefits' has been based on the 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.

19 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

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

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

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

	Group and Company			
	2019 £m	2019 %	2018 £m	2018 %
Equities	76.4	9	62.6	8
Other diversified return seeking investments	—	—	71.5	9
Corporate bonds	219.3	26	136.0	17
Fixed interest gilts	252.9	30	177.3	22
Index-linked gilts	284.8	34	334.4	43
Cash and money market funds	9.2	1	6.5	1
Total fair value of scheme assets	842.6	100	788.3	100
Present value of funded defined benefit obligation	(764.6)		(704.4)	
Net retirement benefit asset recognised in the balance sheet	78.0		83.9	

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. This position is reviewed periodically by the trustee who consult the Company as part of this process.

The valuation of the pension scheme has decreased from £83.9m at 31 December 2018 to £78.0m at 31 December 2019. A high-level reconciliation of the movement is as follows:

Group and Company	2019 £m	2018 £m
Pension asset as at 1 January	84	102
Cash contributions made by the Group	3	10
Actuarially based cost of new benefits	(1)	—
Exceptional past service cost – plan amendment	—	(7)
Exceptional past service cost – curtailment credit	1	1
Return on assets being held to meet pension obligations in excess of discount rate	67	(31)
Change in mortality assumptions	20	(31)
(Decrease)/increase in discount rate used to discount future liabilities	(110)	51
Decrease/(increase) in inflation rate used to forecast pensions	13	(2)
Actuarial/membership experience	1	(9)
Pension asset as at 31 December	78	84

19 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

The amounts recognised in the income statement were as follows:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current service cost	**(1.7)**	(2.7)	**(1.7)**	(2.7)
Interest on scheme liabilities	**(19.5)**	(17.4)	**(19.5)**	(17.4)
Interest on scheme assets	**21.9**	19.9	**21.9**	19.9
Contributions from subsidiaries	**—**	—	**2.4**	9.2
Net credit/(charge) recognised in the income statement before exceptional past service (costs)/credit	**0.7**	(0.2)	**3.1**	9.0
Exceptional past service charge – plan amendment (note 1)	**—**	(6.9)	**—**	(6.9)
Exceptional past service credit – curtailment credit (note 1)	**0.5**	0.6	**0.5**	0.6
Exceptional past service credit/(cost)	**0.5**	(6.3)	**0.5**	(6.3)
Net credit/(charge) recognised in the income statement	**1.2**	(6.5)	**3.6**	2.7

The exceptional curtailment credit of £0.5m in 2019 (2018: £0.6m) represents the reduction in headcount following business restructuring within CCD (see note 1).

The exceptional cost for plan amendment in 2018 related to charges in respect of the estimated liabilities arising due to amending members benefits for equalisation of Guaranteed Minimum Pensions, following the High Court judgement against Lloyds Bank PLC and others in October 2018.

The net credit/(charge) 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	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Fair value of scheme assets at 1 January	**788.3**	835.5	**788.3**	835.5
Interest on scheme assets	**21.9**	19.9	**21.9**	19.9
Contributions by subsidiaries	**—**	—	**0.2**	9.2
Actuarial movement on scheme assets	**67.4**	(31.3)	**67.4**	(31.3)
Contributions by the Group/Company	**2.6**	9.8	**2.4**	0.6
Net benefits paid out	**(37.6)**	(45.6)	**(37.6)**	(45.6)
Fair value of scheme assets at 31 December	**842.6**	788.3	**842.6**	788.3

The Group contributions to the defined benefit pension scheme in the year ending 31 December 2020 are expected to be approximately £4m.

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

	Group and Company	
	2019 £m	2018 £m
Present value of the defined benefit obligation at 1 January	**(704.4)**	(733.2)
Current service cost	**(1.7)**	(2.7)
Interest on scheme liabilities	**(19.5)**	(17.4)
Exceptional past service charge – plan amendment (note 1)	**—**	(6.9)
Exceptional past service credit – curtailment credit (note 1)	**0.5**	0.6
Actuarial movement – experience	**0.1**	(9.1)
Actuarial movement – demographic assumptions	**19.9**	(31.4)
Actuarial movement – financial assumptions	**(97.1)**	50.1
Net benefits paid out	**37.6**	45.6
Present value of the defined benefit obligation at 31 December	**(764.6)**	(704.4)

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 18 years (2018: 17 years).

19 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

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

	Group and Company	
	2019 %	2018 %
Price inflation – RPI	2.95	3.30
Price inflation – CPI	2.05	2.20
Rate of increase to pensions in payment	2.70	3.00
Inflationary increases to pensions in deferment	2.10	2.20
Discount rate	2.00	2.80

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 2 tables (2018: SAPS series 1 tables), with multipliers of 96% (2018: 96%) and 101% (2018: 101%) respectively for males and females. The 4% downwards (2018: 4% downwards) adjustment to mortality rates for males and a 1% upwards (2018: 1% upwards) adjustment for females reflect higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2018 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	2019 years	2018 years	2019 years	2018 years
Current pensioner aged 65	21.8	22.2	23.3	23.8
Current member aged 45 from age 65	23.1	23.6	24.8	25.3

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	
	2019 £m	2018 £m
Discount rate decreased by 0.1%	14	12
Inflation increased by 0.1%	6	5
Life expectancy increased by 1 year	38	30

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

	Group and Company	
	2019 £m	2018 £m
Interest on scheme assets	21.9	19.9
Actuarial movement on scheme assets	67.4	(31.3)
Actual return on scheme assets	89.3	(11.4)

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

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

	Group and Company	
	2019 £m	2018 £m
Actuarial movement on scheme assets	67.4	(31.3)
Actuarial movement on scheme liabilities	(77.1)	9.6
Total movement recognised in other comprehensive income in the year	(9.7)	(21.7)
Cumulative movement recognised in other comprehensive income	(95.9)	(86.2)

19 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

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				
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of scheme assets	842.6	788.3	835.5	830.1	666.4
Present value of funded defined benefit obligation	(764.6)	(704.4)	(733.2)	(757.7)	(604.1)
Retirement benefit asset recognised in the balance sheet	78.0	83.9	102.3	72.4	62.3
Experience gains/(losses) on scheme assets:					
• amount (£m)	67.4	(31.3)	18.2	153.7	(52.4)
• percentage of scheme assets (%)	8.0	(4.0)	2.2	18.5	(7.9)
Experience (losses)/gains on scheme liabilities:					
• amount (£m)	(0.1)	(9.1)	(3.7)	4.5	25.9
• percentage of scheme liabilities (%)	—	(1.3)	(0.5)	0.6	4.3

(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 £10.3m for the year ended 31 December 2019 (2018: £9.3m). Contributions made by the Company amounted to £0.5m (2018: £0.4m). £nil contributions were payable to the fund at the year end (2018: £0.6m).

The Group contributed £nil in 2019 into individual personal pension plans in the year (2018: £nil).

The Unfunded, Unapproved Retirement Benefit Scheme (UURBS) decreased by £0.5m in the year as amounts were withdrawn from the scheme; the balance outstanding for the Group at 31 December 2019 was £nil (2018: £0.5m).

20 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences or timing difference between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of 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 which are taxed only on disposal, the opening balance sheet adjustments to restate the IAS 39 balance sheet onto an IFRS 9 basis for which tax deductions are available over 10 years, the opening balance sheet adjustment in respect of the change of accounting treatment of deferred acquisition costs which is taxable over 10 years and the opening balance sheet adjustment in respect of the adoption of IFRS 16 which is deductible over the average period of the relevant leases. 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 2019 has been measured at 17% (2018: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2018: 25%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 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 the combined mainstream UK corporation tax and bank corporation tax surcharge rate, at which the amount will be tax deductible over the next 10 years. In 2019, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.0% (2018: 19%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rate for the year of 27.0% (2018: 27%). A tax credit of £0.3m (2018 (restated): tax charge of £0.5m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.1m (2018 (restated): credit of £0.7m) 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 2019 £m	Group 2018 (restated) £m	Company 2019 £m	Company 2018 £m
At 1 January as previously reported	33.0	33.8	(13.3)	(15.9)
Charge on prior year adjustment in respect of directly attributable acquisition costs	—	(3.7)	—	—
Credit on adjustment arising on transition to IFRS 16	1.5	—	0.6	—
At 1 January restated	34.5	30.1	(12.7)	(15.9)
(Charge)/credit to the income statement	(10.3)	0.5	(0.6)	(1.1)
Credit on other comprehensive income prior to impact of change in UK tax rate	0.6	3.6	1.8	4.1
Impact of change in UK tax rate:				
• credit/(charge) to the income statement	0.3	(0.5)	0.1	0.1
• charge to other comprehensive income	(0.1)	(0.7)	(0.2)	(0.5)
At 31 December	25.0	33.0	(11.6)	(13.3)

The deferred tax charge of £3.7m at 1 January 2018 represents deferred tax at the combined mainstream corporation tax and the bank corporation tax surcharge rate on the opening balance sheet adjustment in respect of the change of accounting treatment of directly attributable acquisition costs in Vanquis Bank which is taxable over 10 years.

The deferred tax credit of £1.5m at 1 January 2019 represents deferred tax at the mainstream rate of corporation tax and, in the case of Vanquis Bank, at the combined mainstream corporation tax and the bank corporation tax surcharge rate on the opening balance sheet adjustment in respect of the adoption of IFRS 16 'Leases' which is deductible over the average remaining term of the relevant leases.

An analysis of the deferred tax asset/(liability) for the Group is set out below:

Group – asset/(liability)	2019 Accelerated capital allowances £m	2019 Other temporary differences £m	2019 Retirement benefit obligations £m	2019 Total £m	2018 (restated) Accelerated capital allowances £m	2018 (restated) Other temporary differences £m	2018 (restated) Retirement benefit obligations £m	2018 (restated) Total £m
At 1 January previously reported	2.6	44.8	(14.4)	33.0	2.7	48.3	(17.2)	33.8
Charge on prior year adjustment in respect of directly attributable acquisition costs	—	—	—	—	—	(3.7)	—	(3.7)
Credit on adjustment arising on transition to IFRS 16	—	1.5	—	1.5	—	—	—	—
At 1 January restated	2.6	46.3	(14.4)	34.5	2.7	44.6	(17.2)	30.1
Credit/(charge) to the income statement	0.4	(10.0)	(0.7)	(10.3)	(0.1)	1.5	(0.9)	0.5
(Charge)/credit on other comprehensive income prior to change in UK tax rate	—	(1.2)	1.8	0.6	—	(0.5)	4.1	3.6
Impact of change in UK tax rate:								
• credit/(charge) to the income statement	—	0.2	0.1	0.3	—	(0.6)	0.1	(0.5)
• credit/(charge) to other comprehensive income	—	0.1	(0.2)	(0.1)	—	(0.2)	(0.5)	(0.7)
At 31 December	3.0	35.4	(13.4)	25.0	2.6	44.8	(14.4)	33.0

20 Deferred tax continued

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

Company – asset/(liability)	2019 Accelerated capital allowances £m	2019 Other temporary differences £m	2019 Retirement benefit obligations £m	2019 Total £m	2018 Accelerated capital allowances £m	2018 Other temporary differences £m	2018 Retirement benefit obligations £m	2018 Total £m
At 1 January previously reported	—	1.1	(14.4)	(13.3)	(0.1)	1.4	(17.2)	(15.9)
Credit on adjustment arising on transition to IFRS 16	—	0.6	—	0.6	—	—	—	—
At 1 January restated	—	1.7	(14.4)	(12.7)	(0.1)	1.4	(17.2)	(15.9)
Credit/(charge) to the income statement	0.1	—	(0.7)	(0.6)	0.1	(0.3)	(0.9)	(1.1)
Credit on other comprehensive income prior to impact of change in UK tax rate	—	—	1.8	1.8	—	—	4.1	4.1
Impact of change in UK tax rate:								
• credit to the income statement	—	—	0.1	0.1	—	—	0.1	0.1
• charge to other comprehensive income	—	—	(0.2)	(0.2)	—	—	(0.5)	(0.5)
At 31 December	0.1	1.7	(13.4)	(11.6)	—	1.1	(14.4)	(13.3)

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

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.

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Cash at bank and in hand	353.6	387.9	17.4	1.0

In addition to cash and cash equivalents, the Group had £2.8m of bank overdrafts at 31 December 2019 (2018: £7.0m) and the Company had £0.8m of bank overdrafts (2018: £4.2m), 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 £321.9m (2018: £420.6m). This includes £321.9m (2018: £384.9m) held in cash and cash equivalents and £nil (2018: £35.7m) held in a combination of UK Government gilts. As at 31 December 2019, £138.2m (2018: £106.5m) 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 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Sterling	353.6	387.7	17.4	1.0
Euro	—	0.2	—	—
Total cash and cash equivalents	353.6	387.9	17.4	1.0

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	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current liabilities				
Retail deposits	**410.0**	339.3	**—**	—
Bank and other borrowings	**53.5**	49.8	**51.5**	47.1
Total	**463.5**	389.1	**51.5**	47.1
Non-current liabilities				
Retail deposits	**935.2**	1,092.4	**—**	—
Bank and other borrowings	**564.8**	574.0	**564.8**	574.0
Total	**1,500.0**	1,666.4	**564.8**	574.0
Total borrowings	**1,963.5**	2,055.5	**616.3**	621.1

(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 2019, borrowings under these facilities amounted to £1,963.5m (2018: £2,055.5m).

(b) Retail deposits

Vanquis Bank is a PRA-regulated bank and is now fully funded through retail deposits. As at 31 December 2019, £1,345.2m (2018: £1,431.7m) 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 2019 have been issued at rates of between 1.0% and 2.7%.

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

Group	**2019 £m**	2018 £m
At 1 January	**1,431.7**	1,301.0
New funds received	**125.1**	352.2
Maturities	**(327.2)**	(347.9)
Retentions	**119.9**	134.9
Cancellations	**(15.2)**	(24.4)
Interest	**10.9**	15.9
At 31 December	**1,345.2**	1,431.7

(c) Maturity profile borrowings

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

	2019		2018	
Group	**Borrowing facilities available £m**	**Borrowings £m**	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand (uncommitted)	**5.2**	**2.8**	14.5	7.0
In less than one year	**457.2**	**457.2**	370.7	370.7
Accrued interest	**—**	**3.5**	—	11.4
Included in current liabilities	**462.4**	**463.5**	385.2	389.1
Between one and two years	**459.1**	**459.1**	870.4	543.0
Between two and five years	**1,102.7**	**1,033.6**	1,121.9	1,121.9
Accrued interest	**—**	**12.8**	—	5.7
Arrangement fees	**—**	**(5.5)**	—	(4.2)
Included in non-current liabilities	**1,561.8**	**1,500.0**	1,992.3	1,666.4
Total Group	**2,024.2**	**1,963.5**	2,377.5	2,055.5

Borrowings are stated after deducting £5.5m of unamortised arrangement fees (2018: £4.2m) and the addition of accrued interest of £16.3m (2018: £17.1m).

22 Borrowings continued

(c) Maturity profile borrowings continued

Company	2019 Borrowing facilities available £m	2019 Borrowings £m	2018 Borrowing facilities available £m	2018 Borrowings £m
Repayable:				
On demand (uncommitted)	5.2	0.8	14.5	4.2
In less than one year	50.2	50.2	42.5	42.5
Accrued interest	—	0.5	—	0.4
Included in current liabilities	55.4	51.5	57.0	47.1
Between one and two years	90.0	90.0	500.2	173.0
Between two and five years	545.0	475.9	400.0	400.0
Accrued interest	—	4.4	—	5.2
Arrangement fees	—	(5.5)	—	(4.2)
Included in non-current liabilities	635.0	564.8	900.2	574.0
Total Company	690.4	616.3	957.2	621.1

As at 31 December 2019, the weighted average period to maturity of the Group's committed facilities, including retail deposits, was 2.2 years (2018: 2.3 years) and for the Company's committed facilities was 2.7 years (2018: 2.5 years). Excluding retail deposits, the weighted average period to maturity of the Group's committed facilities was 2.7 years (2018: 2.3 years).

(d) Interest rate and currency profile of borrowings

The interest rate and foreign exchange rate exposure on borrowings is as follows:

Group	2019 Fixed £m	2019 Floating £m	2019 Total £m	2018 Fixed £m	2018 Floating £m	2018 Total £m
Sterling	1,743.6	185.2	1,928.8	1,859.4	168.0	2,027.4
Euro	—	34.7	34.7	—	28.1	28.1
Total Group	1,743.6	219.9	1,963.5	1,859.4	196.1	2,055.5

Company	2019 Fixed £m	2019 Floating £m	2019 Total £m	2018 Fixed £m	2018 Floating £m	2018 Total £m
Sterling	398.4	183.2	581.6	427.7	165.3	593.0
Euro	—	34.7	34.7	—	28.1	28.1
Total Company	398.4	217.9	616.3	427.7	193.4	621.1

(e) Senior public bonds

On 23 October 2009, the Company issued £250.0m of senior public bonds. The bonds had an annual coupon of 8.0% and were 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 matured and were repaid on their original maturity date on 23 October 2019.

22 Borrowings continued

(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 ten-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 and the fifth instalment of £25.0m was paid in line with its contractual maturity on 31 January 2020. The remaining instalment of £25.0m was repaid early on 14 February 2020.

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

(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.

(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	
	2019 £m	2018 £m
Expiring within one year	—	—
Expiring within one to two years	—	327.4
Expiring in more than two years	69.1	—
Total undrawn committed borrowing facilities	69.1	327.4

The Group has committed borrowing facilities of £2,019.0m (2018: £2,363.0m) at the end of 2019.

Headroom on the Group's committed debt facilities was £69.1m at 31 December 2019. Together with the ongoing retail deposits programme, and the bilateral securitisation facility signed on 14 January 2020 (see note 32), this is sufficient to fund contractual debt maturities and projected growth in the Group until mid 2022, 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:

	2019		2018	
Group	Facilities £m	Borrowings £m	Facilities £m	Borrowings £m
Total facilities and borrowings	2,024.2	1,963.5	2,377.5	2,055.5
Repayable on demand	(5.2)	(2.8)	(14.5)	(7.0)
Unamortised arrangement fees	—	5.5	—	4.2
Accrued interest	—	(16.3)	—	(17.1)
Total committed facilities and borrowings	2,019.0	1,949.9	2,363.0	2,035.6
Headroom on committed facilities		69.1		327.4

22 Borrowings continued

(i) Weighted average interest rates and periods to maturity

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:

Group	2019 Weighted average interest rate %	2019 Weighted average period to maturity years	2018 Weighted average interest rate %	2018 Weighted average period to maturity years
Sterling	3.29	2.2	3.20	2.4

Company	2019 Weighted average interest rate %	2019 Weighted average period to maturity years	2018 Weighted average interest rate %	2018 Weighted average period to maturity years
Sterling	6.56	3.0	6.65	2.5

(j) Fair values

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

Group	2019 Book value £m	2019 Fair value £m	2018 Book value £m	2018 Fair value £m
Retail deposits	1,345.1	1,351.6	1,431.7	1,441.0
Bank loans and overdrafts	164.0	164.0	126.6	126.6
Senior public bonds	251.3	262.7	279.2	310.8
Sterling private placement loan notes	50.5	51.9	65.6	69.7
Retail bonds	152.6	152.7	152.4	151.7
Total Group	1,963.5	1,982.9	2,055.5	2,099.8

Company	2019 Book value £m	2019 Fair value £m	2018 Book value £m	2018 Fair value £m
Bank loans and overdrafts	161.9	161.9	123.9	123.9
Senior public bonds	251.3	262.7	279.2	310.8
Sterling private placement loan notes	50.5	51.9	65.6	69.7
Retail bonds	152.6	152.7	152.4	151.7
Total Company	616.3	629.2	621.1	656.1

23 Trade and other payables

Current liabilities	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Trade payables	3.5	7.3	—	—
Amounts owed to Group undertakings	—	—	94.6	72.7
Other payables including taxation and social security	8.3	9.6	1.7	1.7
Accruals	77.5	74.9	4.1	12.2
Total trade and other payables	89.3	91.8	100.4	86.6

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

24 Lease liabilities

	Group 2019 £m	Company 2019 £m
Current	10.2	2.5
Non-current	68.1	22.4
Total	78.3	24.9

A maturity analysis of the lease liabilities is shown below:

	Group 2019 £m	Company 2019 £m
Due within one year	10.3	3.2
Due between one and five years	43.5	14.8
Due in more than five years	34.7	11.0
Total	88.5	29.0
Unearned finance cost	(10.2)	(4.1)
Total lease liabilities	78.3	24.9

The total cash outflow for leases in the year amounted to £16.7m for the Group, including short-term lease cash outflows of £0.9m. At 31 December 2019, the Group is also committed to £0.3m for short-term leases. Total cash outflows for the company amounted to £3.0m.

25 Provisions

	Group	
Provisions	2019 £m	2018 £m
At 1 January	53.2	104.6
Utilised in the year	(21.9)	(62.2)
Released in the year	(16.8)	—
Reclassification from balance reduction provisions	—	10.8
At 31 December	14.5	53.2

Vanquis Bank

On 27 February 2018, Vanquis Bank agreed a settlement with the FCA into their 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 amounted 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 was completed in 2019 with over 1.3 million current and former ROP customers refunded. As a result, the provision has reduced from £45.7m at 31 December 2018 to £11.7m at 31 December 2019 reflecting: (i) cash settlements and administration costs of £19.8m (2018: £61.8m); and (ii) the release of £14.2m of the provisions originally established in 2017 as an exceptional credit (see note 1) following completion of the refund programme and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally. The balance reduction provision has also reduced from £3.7m at the end of 2018 to £nil at 31 December 2019 (see note 15).

The remaining ROP provision principally reflects the estimated cost of the forward flow of ROP complaints more generally in respect of which compensation may need to be paid. The provision is calculated using a number of key assumptions:

- customer complaints volumes – an estimate of future claims which may be initiated by customers where the volume is anticipated to cease after 31 December 2021;
- average claim redress – the expected average payment to customers for upheld claims; and
- customer and FOS complaints upheld rates – the number of claims redressed as a percentage of total claims received.

These assumptions involve management judgement and are subjective, particularly in respect of the uncertainty associated with future claims levels. It is therefore possible that the eventual outcome may differ from the current estimate. A +/-10% variation in customer complaints volumes would result in a £1.0m increase/decrease in provisions, a +/-10% variation in average claim redress would result in a £1.0m increase/decrease in provisions, and a +/-10% variation in upheld rate would result in a £1.8m increase/decrease in provisions.

25 Provisions continued

Moneybarn

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

The redress required to resolve the issues arising in respect of the FCA investigation into affordability, forbearance and termination options was completed in the third quarter of 2019 and Moneybarn has now received the final notice from the FCA. As a result, the provision has reduced from £7.5m at 31 December 2018 to £2.8m at 31 December 2019 in respect of: (i) refund activity and the costs of the investigation of £2.1m; and (ii) the release of £2.6m of the provision as an exceptional credit following receipt of the final notice (see note 1). The balance reduction provision has also reduced from £1.8m at the end of 2018 to £nil at 31 December 2019 (see note 15).

26 Share capital

Group and Company		2019 Issued and fully paid	2018 Issued and fully paid
Ordinary shares of 20 $\frac{8}{11}$p each	– £m	**52.5**	52.5
	– number (m)	**253.4**	253.3

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

Group and Company	2019 m	2018 m
At 1 January	**253.3**	148.2
Shares issued due to rights issue	**—**	105.0
Shares issued pursuant to the exercise/vesting of options and awards	**0.1**	0.1
At 31 December	**253.4**	253.3

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 94,296 ordinary shares (2018: 52,192) with a nominal value of £19,545 (2018: £10,818) and an aggregate consideration of £0.1m (2018: £0.1m).

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 2019, the EBT held 2,853,722 (2018: 2,853,722) shares in the Company with a cost of £4.5m (2018: £4.5m) and a market value of £13.0m (2018: £16.4m). 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.

27 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 2019, awards/options have been granted under the LTIS, PSP and SAYE (UK and ROI) schemes (2018: awards/options have been granted under the LTIS, SAYE (UK and ROI) and PFEP schemes).

27 Share-based payments continued

(a) Equity-settled schemes

The charge to the income statement in 2019 for equity-settled schemes was £1.9m for the Group (2018: £1.1m) and £1.3m for the Company (2018: £0.4m).

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:

	2019			2018	
Group	PSP	LTIS	SAYE	LTIS	SAYE
Grant date	1 Apr 2019	1 Apr 2019	8 Oct 2019	16 Apr 2018	4 Oct 2018
Share price at grant date (£)	5.17	5.17	3.87	6.85	5.90
Exercise price (£)	—	—	3.23	—	5.38
Shares awarded/under option (number)	85,798	1,693,073	1,883,398	1,417,274	963,978
Vesting period (years)	3	3	3 and 5	3	3 and 5
Expected volatility	—	74.1%	68.0%–84.9%	82.6%	65.8%–83.3%
Award/option life (years)	3	3	Up to 5	3	Up to 5
Expected life (years)	3	3	Up to 5	3	Up to 5
Risk-free rate	—	0.66%	0.23%–0.27%	0.82%	0.99%–1.22%
Expected dividends expressed as a dividend yield	n/a	n/a	3.0%	n/a	3.0%
Fair value per award/option (£)	5.12	4.53	0.38–0.76	5.89	2.61–3.36

	2019			2018	
Company	PSP	LTIS	SAYE	LTIS	SAYE
Grant date	1 Apr 2019	1 Apr 2019	8 Oct 2019	16 Apr 2018	4 Oct 2018
Share price at grant date (£)	5.17	5.17	3.87	6.85	5.90
Exercise price (£)	—	—	3.23	—	5.38
Shares awarded/under option (number)	69,307	752,522	146,987	460,947	28,651
Vesting period (years)	3	3	3 and 5	3	3 and 5
Expected volatility	—	74.1%	68.0%–84.9%	82.6%	65.8%–83.3%
Award/option life (years)	3	3	Up to 5	3	Up to 5
Expected life (years)	3	3	Up to 5	3	Up to 5
Risk-free rate	—	0.66%	0.23%–0.27%	0.82%	0.99%–1.22%
Expected dividends expressed as a dividend yield	n/a	n/a	3.0%	n/a	3.0%
Fair value per award/option (£)	5.12	4.33	0.38–0.76	5.89	2.61–3.36

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.

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

	PSP		LTIS		SAYE	
Group	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2019	207,155	—	1,767,331	—	2,744,321	5.31
Awarded/granted	85,798	—	1,693,073	—	1,883,398	3.23
Lapsed	(51,231)	—	(338,986)	—	(1,944,819)	5.28
Exercised	(45,230)	—	—	—	(8,498)	5.09
Outstanding at 31 December 2019	196,492	—	3,121,418	—	2,674,402	3.87
Exercisable at 31 December 2019	—	—	—	—	5,958	16.05

27 Share-based payments continued

(a) Equity-settled schemes continued

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

Share awards outstanding under the LTIS scheme at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 1.7 years (2018: 1.9 years). Share options outstanding under the SAYE schemes at 31 December 2019 had exercise prices ranging from 323p to 1,760p (2018: 483p to 1,760p) and a weighted average remaining contractual life of 2.8 years (2018: 2.6 years). Share awards outstanding under the PSP schemes at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 1.1 years (2018: 0.7 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 2019	143,142	—	613,630	—	123,998	5.34
Awarded/granted	69,307	—	752,522	—	146,987	3.23
Lapsed	(33,939)	—	(106,720)	—	(108,368)	5.29
Exercised	(31,734)	—	—	—	—	—
Outstanding at 31 December 2019	146,776	—	1,259,432	—	162,617	3.45
Exercisable at 31 December 2019	—	—	—	—	774	17.60

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

Share awards outstanding under the LTIS at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 1.8 years (2018: 1.9 years). Share options outstanding under the SAYE schemes at 31 December 2019 had exercise prices ranging from 323p to 1,760p (2018: 501p to 1,760p) and a weighted average remaining contractual life of 3.0 years (2018: 2.8 years). Share awards outstanding under the PSP schemes at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 1.2 years (2018: 0.7 years).

(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 2019 was £0.6m for the Group (2018: £3.9m) and £nil for the Company (2018: £nil). The Group has a liability of £1.1m as at 31 December 2019 (2018: £1.7m) and £nil for the Company (2018: £nil).

28 Other reserves

Group	Merger reserve £m	Profit retained by subsidiary £m	Capital redemption reserve £m	Share-based payment reserve £m	Fair value reserve £m	Total other reserves £m
At 1 January 2018	—	0.8	3.6	7.3	1.7	13.4
Other comprehensive income/(expense):						
• fair value movements in investments (note 16)	—	—	—	—	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 26)	278.2	—	—	—	—	278.2
• share-based payment charge (note 27)	—	—	—	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
At 1 January 2019	**278.2**	**0.8**	**3.6**	**6.3**	**3.2**	**292.1**
Other comprehensive income/(expense):						
• fair value movements in investments (note 16)	**—**	**—**	**—**	**—**	**4.5**	**4.5**
• tax on items taken directly to other comprehensive income (note 5)	**—**	**—**	**—**	**—**	**(1.2)**	**(1.2)**
• impact of change in UK tax rate	**—**	**—**	**—**	**—**	**0.1**	**0.1**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**3.4**	**3.4**
Transactions with owners:						
• share-based payment charge (note 27)	**—**	**—**	**—**	**1.9**	**—**	**1.9**
• transfer of share-based payment reserve on vesting of share awards	**—**	**—**	**—**	**(1.5)**	**—**	**(1.5)**
At 31 December 2019	**278.2**	**0.8**	**3.6**	**6.7**	**6.6**	**295.9**

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 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 16).

28 Other reserves continued

Company	Non-distributable reserve £m	Merger reserve £m	Capital redemption reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2018	37.9	2.3	3.6	7.3	51.1
Transactions with owners:					
• proceeds from rights issue (note 26)	—	278.2	—	—	278.2
• share-based payment charge (note 27)	—	—	—	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 14)	(37.9)	—	—	—	(37.9)
At 31 December 2018	—	280.5	3.6	6.3	290.4
At 1 January 2019	**—**	**280.5**	**3.6**	**6.3**	**290.4**
Transactions with owners:					
• share-based payment charge (note 27)	**—**	**—**	**—**	**1.3**	**1.3**
• transfer of share-based payment reserve on vesting of share awards	**—**	**—**	**—**	**(1.0)**	**(1.0)**
• share-based payment movement in investment in subsidiaries	**—**	**—**	**—**	**0.1**	**0.1**
At 31 December 2019	**—**	**280.5**	**3.6**	**6.7**	**290.8**

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 14). 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.

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. £50m of the capital raised was injected into Vanquis Bank with the remaining £250m 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 and the IFRIC 11 adjustment; (iii) merger reserve; and (iv) treasury share reserve. The distributable reserves do not include distributable reserves held within subsidiary companies.

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 (2018: £0.5m) and the amount payable to the pension scheme at 31 December 2019 was £nil (2018: £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:

	2019			2018		
Company	**Management recharge £m**	**Interest credit £m**	**Outstanding balance £m**	Management recharge £m	Interest credit £m	Outstanding balance £m
Vanquis Bank	**5.2**	**—**	**8.3**	4.3	(6.6)	2.1
Moneybarn	**2.4**	**(28.3)**	**488.0**	2.0	(21.9)	405.8
CCD	**8.8**	**(9.2)**	**324.1**	8.5	(15.4)	364.4
Other central companies	**—**	**—**	**97.4**	—	—	98.8
Total related party transactions	**16.4**	**(37.5)**	**917.8**	14.8	(43.9)	871.1

The outstanding balance represents the gross intercompany balance receivable by the Company, against which a provision of £121.4m (2018: £122.9m) is held.

29 Related party transactions continued

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 approved and paid a £59.8m dividend in March 2019 and approved and paid a dividend of £80.0m in September 2019. Subsequent to the year end, a further dividend of £80.0m was approved and paid in February 2020.

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) Challenge to self-employed status of UK home credit agents

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

In July 2017, the Group changed its home credit operating model in the UK from a self-employed agent model to an employed workforce to take direct control of all aspects of the customer relationship. Policies and procedures were in place up to the transition to the new operating model to ensure that the relationship between the business and the agents it engaged were such that self-employed status was maintained. Compliance with policies was routinely evidenced and tested. To date, the Group has successfully defended claims and challenges against the historic employment status of the Group's UK home credit agents although there can be no guarantee that this will also be the case with future claims and challenges.

The Group's discussions with HMRC, which are focusing on the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014 to the change of operating model in July 2017, remain in the initial fact-finding stages. The Group is working positively and collaboratively with HMRC who have indicated that the review could continue for another year.

Were the Group to be unsuccessful in defending the historic self-employed position of agents, it may be required to pay additional taxes, in particular employer's national insurance contributions, on the approximate £80m per annum commission it paid to agents in the UK for the years concerned. As discussions with HMRC remain in the preliminary stages and the Group does not know the amounts of tax and national insurance contributions paid by agents through self-assessment which are available for offset, it is difficult to calculate an accurate liability should the Group be unsuccessful in defending the position.

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

(b) Irresponsible lending complaints and the Financial Ombudsman Service (FOS)

There continues to be heightened claims management company activity around non-standard lending sectors, particularly in respect of irresponsible lending in high-cost credit and more recently in home credit. As a result, CCD has seen an increase in the number and cost of such complaints and an increase in referrals to the FOS, particularly in the first half of 2019. CCD continues to robustly defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard. Complaints of irresponsible lending and referrals to the FOS stabilised during the second half of 2019.

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

(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 advisors where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established 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.

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

		Group		Company	
	Note	2019 £m	2018 (restated) £m	2019 £m	2018 £m
Profit/(loss) after taxation		84.4	65.3	47.1	(62.2)
Adjusted for:					
• tax charge/(credit)	5	44.4	32.0	0.6	(1.2)
• finance costs	3	72.0	73.2	40.9	43.8
• exceptional premium and fees paid on refinancing of senior bonds	3	—	18.5	—	18.5
• finance income		—	—	(51.7)	(51.4)
• dividends received	29	—	—	(139.8)	—
• share-based payment charge	27	1.9	1.1	1.3	0.4
• retirement benefit (credit)/charge prior to exceptional pension (credit)/charge	19	(0.7)	0.2	(3.1)	(9.0)
• exceptional pension (credit)/charge	19	(0.5)	6.3	(0.5)	6.3
• amortisation of intangible assets	11	16.4	19.2	—	—
• exceptional impairment of intangible assets	1	1.9	12.8	—	—
• depreciation of property, plant and equipment and right of use assets	12	24.6	9.1	4.1	1.6
• exceptional impairment on property, plant and equipment	12	—	1.0	—	—
• loss/(profit) on disposal of property, plant and equipment	12	2.2	—	(0.2)	—
• exceptional release of provisions	25	(16.8)	—	—	—
• increase of impairment provision against investment in subsidiaries	14	—	—	74.6	62.2
Changes in operating assets and liabilities:					
• amounts receivable from customers		(8.6)	(91.7)	—	—
• trade and other receivables		(3.5)	(1.9)	(67.1)	(79.5)
• trade and other payables		(2.5)	(5.9)	13.8	(10.4)
• provisions	25	(21.9)	(62.2)	—	—
• contributions into the retirement benefit scheme	19	(2.6)	(9.8)	(0.2)	(0.6)
Cash generated from/(used in) operations		190.7	67.2	(80.2)	(81.5)

The movements in amounts receivable from customers of £8.6m (2018: £91.7m) includes the non-cash movement in the impairment provision of £189.0m (2018: £151.0m).

Group	2019 £m	2018 £m
Cash movement in amounts receivable from customers	180.4	(253.5)
Non-cash provision movement – allowance account	(189.1)	161.8
Net movement in amounts receivable from customers	(8.6)	(91.7)

The table below details changes in the Group and Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	2019							
		Cash changes		Non-cash changes				
Group	1 January 2019 £m	Financing cash flows £m	Lease payments £m	Amortised fees £m	Interest paid £m	Included within overdrafts £m	Lease additions and disposals £m	31 December 2019 £m
Total borrowings (note 22)	(2,055.5)	91.4	—	(2.1)	(1.5)	4.2	—	(1,963.5)
Lease liabilities (note 24)	(89.0)	—	15.8	—	(2.3)	—	(2.8)	(78.3)
Total	(2,144.5)	91.4	15.8	(2.1)	(3.8)	4.2	(2.8)	(2,041.8)

	2018					
		Cash changes	Non-cash changes			
Group	1 January 2018 £m	Financing cash flows £m	Amortised fees £m	Interest paid £m	Included within overdrafts £m	31 December 2018 £m
Total borrowings (note 22)	(2,193.0)	148.2	(3.0)	(3.8)	(3.9)	(2,055.5)
Total	(2,193.0)	148.2	(3.0)	(3.8)	(3.9)	(2,055.5)

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

Company	2019						
		Cash changes		Non-cash changes			
	1 January 2019 £m	Financing cash flows £m	Lease payments £m	Amortised fees £m	Interest paid £m	Included within overdrafts £m	31 December 2019 £m
Total borrowings (note 22)	(621.1)	3.5	—	(2.9)	0.8	3.4	(616.3)
Lease liabilities (note 24)	(27.1)	—	2.7	—	(0.5)	—	(24.9)
Total	(648.2)	3.5	2.7	(2.9)	0.3	3.4	(641.2)

Company	2018					
		Cash changes	Non-cash changes			
	1 January 2018 £m	Financing cash flows £m	Amortised fees £m	Interest paid £m	Included within overdrafts £m	31 December 2018 £m
Total borrowings (note 22)	(889.2)	271.0	(3.0)	4.0	(3.9)	(621.1)
Total	(889.2)	271.0	(3.0)	4.0	(3.9)	(621.1)

32 Post balance sheet events

The Group successfully signed a bilateral securitisation facility with NatWest Markets to fund Moneybarn business flows on 14 January 2020. The new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months. As a part of obtaining consent for the securitisation from the Group's existing lenders, the Group's revolving syndicated credit facility has reduced from £235m to £211m and the Group early repaid the remaining M&G loan facility of £25m on 14 February 2020.

33 Details of subsidiary undertakings

The subsidiary undertakings of the Group at 31 December 2019 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 which is 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	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

* Companies whose immediate parent is not Provident Financial plc.

Company name	Company number
Registered at Athena House, 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
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

Moneybarn Financing Limited (company number: 12323134) was incorporated in the UK on 19 November 2019 to act as a vehicle to allow the securitisation of the Moneybarn customer receivables. Its registered address is Fifth Floor, 100 Wood Street, London EC2V 7EX. The company is not a subsidiary of Provident Financial plc but will form part of the consolidated Group due to meeting the requirements of IFRS 10 'Consolidated Financial Statements'.

Report on the audit of the financial statements

Opinion

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 2019 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 33.

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 Group and 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 (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 Group or the parent company.

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

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 Vanquis Bank, Home Credit Division and Moneybarn. • Provision for Repayment Option Plan forward flow (ROP) in Vanquis Bank. • Revenue recognition in Vanquis Bank and Home Credit Division. • Valuation of the defined benefit scheme. • Carrying value of the parent company's investment in the Consumer Credit Division (CCD). 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 £8.1m which was determined on the basis of 5% of the profit before tax and exceptional items.
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	There were changes in the key audit matters identified, as discussed further in the key audit matters section below. In 2017 and 2018 we determined materiality based on a three-year average profit before tax and exceptional items benchmark due to the fact that the Group had made losses in 2017. We have revised our benchmark from the prior year to reflect the fact that the Group's profitability is now more stable and the Group's recovery is largely complete. We therefore consider it appropriate to return to a measure based on current year profit before tax and exceptional items. Additionally, we have increased our benchmark for materiality from 4.5% on three-year average profit before tax and exceptional items, to 5%, of profit before tax and exceptional items, for 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 12 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 42 to 53 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated; • the directors' confirmation on page 144 that they have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; or • the directors' explanation on page 64 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.

Changes to key audit matters identified, compared with the previous audit

Following receipt of the FCA's final notice in February 2020, we no longer consider the investigation into Moneybarn's affordability, forbearance and termination options a key audit matter as the fine is consistent with the amount provided for in the balance sheet.

The ROP refund programme was completed in early 2019 and therefore our key audit matter is now focused on the key assumptions driving the valuation of the ROP forward flow provision.

Key audit matters continued

Changes to key audit matters identified, compared with the previous audit continued

Impairment indicators have been identified in relation to the valuation of CCD as a result of the poor trading since the implementation of the employed operating model in 2017. The estimated recoverable amount of these balances is subjective due to the need for management judgement being applied in forecasting and discounting future cash flows which form the basis of the value in use calculation. We have therefore identified a key audit matter in relation to the carrying value of CCD in the Company's balance sheet.

<table>
<tr><th colspan="2">Provision for impairment losses against loans and receivables (Vanquis Bank, Home Credit Division and Moneybarn) </th></tr>
<tr><td>Key audit matter description</td><td>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 applied and any adjustments capture all relevant factors that have a significant influence on expected credit losses.

Due to the potential for 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 provisions for loan impairment.

The Group's provision for impairment against loans and receivables is £871.2m (restated 2018: £1,060.2m). Further detail in respect of these is set out on pages 179 and 183 and in note 15 of the financial statements and also within the strategic reporting section. The restatement in the previous year pertains to the change in accounting policy for the treatment of deferred acquisition costs in Vanquis Bank (see the revenue recognition key audit matter for further details).

Within Vanquis Bank modelling techniques are applied by management to estimate the provision for expected credit losses on credit card receivables. The total provision amounted to £432.0m (2018: £498.0m).

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

The expected credit loss estimate is driven by account-specific estimation of probability of default (PD) and loss given default (LGD) which represent the key areas of judgement.

Historical payment patterns are generated using data extracted from the Company's Data Warehouse. The extracted data are then used to calibrate the developed models, i.e. to update the coefficients in the PD model formulae and update the collection curves used to derive LGDs in line with the most recent historical data on portfolio performance. The updated models are then used to estimate account-specific PDs and LGDs. Inappropriate calibration of the models could materially affect the provision for expected credit losses.

Multiple possible macroeconomic scenarios have been considered and their estimated outcomes have been probability weighted to calculate the provision for expected credit losses.

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 credit loan. Management therefore performs a curve test in order to quantify and recognise the associated provision shortfall.

The collections curves used for the purposes of management's curve test are constructed based on recent collections data (four weeks post year end) and the net credit receivable generated by the curve test is materially sensitive to changes in collections data. We have therefore identified a significant risk that the recent collections data used in the curve test calculations may not be complete and/or accurate.

Within Moneybarn management uses SQL scripts to extract historical default and collections data, which are then used to manually create PD and LGD models using fitting curves, within Excel spreadsheets.

Multiple possible macroeconomic scenarios have also been considered by the Company and their estimated outcomes have been probability weighted to calculate the provision for expected credit losses.

The LGD is the most sensitive assumption within the ECL model and, based on our wider knowledge of market reports discussing the reduction in used car values, we identified a significant risk in relation to the valuation of the underlying collateral impacting the LGD assumptions.</td></tr>
</table>

Key audit matters continued

Provision for impairment losses against loans and receivables (Vanquis Bank, Home Credit Division and Moneybarn) continued	
How the scope of our audit responded to the key audit matter	**Controls procedures** Within Vanquis Bank we obtained an understanding of relevant controls relating to calibration of the expected credit loss models and the identification, valuation and recording of impairment provisions. Within the Home Credit Division we obtained an understanding and tested the operating effectiveness of relevant controls relating to calibration of the expected credit loss models and the identification, valuation and recording of impairment provisions. 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 obtained an understanding of the relevant controls relating to calibration of the expected credit loss models and the identification, valuation and recording of impairment provisions. **Substantive procedures** Across each of the three 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 estimation of the amount and timing of expected future cash flows. We also challenged whether the potential impact of economic uncertainty surrounding the UK has been appropriately incorporated into expected credit loss calculations. We tested completeness of post-model adjustments by understanding the deficiencies in model methodologies and in the data used in the models and evaluating whether a material post-model adjustment is required to address them. Within Vanquis Bank we obtained an understanding of the IFRS 9 methodology and models with a focus on including PD and LGD. We evaluated whether the methodology applied by management is compliant with the requirements of IFRS 9. In performing these procedures we further considered whether there were any indications of bias in the methodology applied by the management. For each material change to the models introduced by management in 2019 we understood and challenged the rationale and substantively tested how management has implemented them. We evaluated whether the changes are compliant with the financial reporting requirements and lead to a more accurate ECL estimate. We evaluated the methodology and the mechanics of the models with assistance of Deloitte credit modelling specialists. As part of this, we evaluated the methodology for identification of significant increase in credit risk and how it was implemented in the mechanics of the models. 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 is sourced by the Company from a third-party provider. This included considerations related to whether the macroeconomic forecasts are reflective of risks associated with Brexit. 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. 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 Moneybarn we obtained an understanding of the IFRS 9 methodology and models (including PD and LGD). We evaluated whether the methodology applied by management is compliant with the requirements of IFRS 9. In performing these procedures we further considered whether there were any indications of bias in the methodology applied by the Company and used market reports to challenge management on the modelling approach adopted for the LGD assumptions specifically. 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. In addition we engaged internal data specialists to evaluate the SQL scripts used for PD and LGD data extraction via a script translation, as well as a re-performance, using the previously verified data used in the models. We challenged whether there was any evidence to suggest that historical collections data would not appropriately estimate future performance by considering changes in the composition and credit risk profile of the loan book, using internal management information. In addition we performed back testing on a sample of used car sales to validate model expectations versus recent actual experience.

Key audit matters continued

Provision for impairment losses against loans and receivables (Vanquis Bank, Home Credit Division and Moneybarn) continued	
Key observations	Based on our substantive testing in Vanquis Bank we found that: • the methodology used is compliant with the requirements of IFRS 9; • the provision model calculations were found to be executed as intended and in compliance with the methodology; and • the data used in the models were found to be appropriate. As a result, we concluded that the provision for expected credit losses is appropriate. We found the Home Credit Division and Moneybarn provision calculated by management to be appropriate. The provision models across the Group were found to be working as intended and the methodologies used are compliant with the requirements of IFRS 9.

Provision for Repayment Option Plan forward flow (Vanquis Bank)	
Key audit matter description	On 27 February 2018, the Company reached a settlement with the Financial Conduct Authority (FCA) in respect of the FCA's investigation into the ROP product sold by the bank. The customer redress programme started in 2018 and was completed in early 2019. Whilst the proactive redress programme has been completed, Vanquis Bank continues to receive customer complaints in relation to ROP, which are considered on a case by case basis. Correspondingly, significant management judgement is required to assess the level of provision in relation to the redress expected to be paid on such complaints. The ROP provision is an area of management judgement where there is a risk of fraud due to the ability of management to introduce inappropriate bias to judgements made in the estimation process. The accounting policies in relation to the valuation of the provision and key sources of estimation uncertainty associated with the provision are discussed on page 182. As disclosed in note 25 on page 217 and the Strategic Report, the total provision remaining at 31 December 2019 amounts to £11.7m (2018: £45.7m).
How the scope of our audit responded to the key audit matter	In order to understand whether key assumptions in estimation of the provision remain appropriate we obtained and reviewed the correspondence between the Company and the regulator 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. Additionally we substantively tested the amount of refunds that have been paid out during 2019. We further independently developed a reasonable range for the provision based on alternative forecasts of future complaints to evaluate Vanquis Bank's estimate. We evaluated whether the provision disclosures contained within note 25 were appropriate and in accordance with the requirements of IAS 37.
Key observations	The valuation of the ROP forward flow provision was found to be appropriate. The disclosures are in line with the requirements of IAS 37.

Key audit matters continued

Revenue recognition (Vanquis Bank and Home Credit Division)	
Key audit matter description	The Group's revenue is £998.3m (restated 2018: £1,091.4m) and further detail in respect of the accounting policies and revenue recognised is set out in the accounting policies on pages 176 and 177 and note 2 of the financial statements. Within Vanquis Bank we concluded that manual adjustments posted to revenue pose a significant risk of material misstatement. These manual adjustments are necessary to ensure revenue is recognised in compliance with 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 in default. The loan administration system accrues revenue on a gross contractually billed basis, and therefore a manual adjustment is necessary for such assets. During 2019 management introduced an additional manual adjustment to revenue related to deferred certain customer acquisition costs. Respective costs incurred are capitalised and amortised over the life of the credit card. Vanquis Bank has voluntarily changed the respective accounting policy and the 2018 comparative information in the financial statements was restated in line with the requirements of IAS 8, which resulted in a £6.6m increase in 2018 profit before tax. Further information on the change in the accounting policy and the corresponding impact is disclosed on pages 176 and 177 and note 2 of the financial statements. The recognition of revenue in Home Credit Division is calculated using models based on SQL scripts. The calculation of interest revenue is heavily dependent on the completeness and accuracy of the flow of data from the Customer Experience Managers' (CEMs') applications in the field, through to the core IFRS 9 models.
How the scope of our audit responded to the key audit matter	**Controls procedures** We obtained an understanding of the controls over the manual adjustments to revenue recognised by management within Vanquis Bank. We engaged our IT specialists to test the completeness and accuracy of data flows across relevant system interfaces from the CEMs' field applications into the core business databases within the Home Credit Division. We obtained an understanding and tested the operating effectiveness of management's reconciliation controls over the completeness and accuracy of the flow of data through to the core IFRS 9 models. **Substantive procedures** Within Vanquis Bank, we assessed the methodology used to calculate the manual adjustments to interest income against the IFRS 9 requirements. With the involvement of our data specialists we reviewed the programming code used to perform the EIR calculation and evaluate whether it is performed in line with the methodology. We assessed the revised accounting policy on the accounting treatment of customer acquisition costs for compliance with IFRS 9. We substantively tested the calculations of the impact on the 2019 and 2018 financial statements. We assessed the results of our procedures for any indications of fraud or management bias. Within the Home Credit Division, we have assessed the revenue recognition policy against IFRS 9 requirements. We have 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 Vanquis Bank we concluded that the revenue recognised is appropriate based on the substantive testing performed. 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. The revised accounting policy on customer acquisition costs was found to be appropriate. The disclosures of the change in accounting policy and the restatement are in line with the requirements of IAS 8.

Key audit matters continued

Valuation of the defined benefit scheme	
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. We identified the key risk of material misstatement as the valuation of the pension obligation of £764.6m (2018: £704.4m). This valuation involves judgements in relation to inflation, discount and mortality rates. The most critical element identified was the discount rate assumption as set out in the sensitivity analysis in note 19. Further detail in respect of these assumptions is set out in the accounting policies on page 180, page 182 and note 19 of the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the review of management's assumptions used in the valuation of the defined benefit scheme. 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 2019 and considering the consistency of those judgements compared to the prior year.
Key observations	All assumptions, including the discount rate adopted by management, are within what we considered to be an acceptable range.

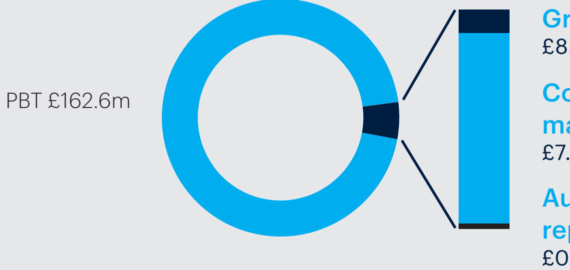
Carrying value of the parent company's investment in CCD	
Key audit matter description	The Company's total exposure to CCD is £443.1m and comprises investment in equity shares and intercompany balances. There are indicators of impairment identified as a result of the trading performance following the implementation of the employed operating model in 2017. The estimated recoverable amount of these balances is subjective due to inherent uncertainty in forecasting future cash flows and judgements required in determining an appropriate discount rate and terminal growth rate for the purposes of the value in use calculation. We have therefore identified a key audit matter in relation to the valuation of the investment in the subsidiary. The impairment charge recognised in the income statement for the period ending 31 December 2019 is £74.7m (2018: £62.2m), as disclosed in note 14 on page 197 and the Strategic Report.
How the scope of our audit responded to the key audit matter	**Controls procedures** We obtained an understanding of the key control relating to the review of the key assumptions used in the value in use calculation. **Substantive procedures** We critically assessed the assumptions underpinning the valuation of the CCD business including the discount rate, terminal growth rate and the forecast future cash flows. We evaluated management's valuation methodology against the requirements of IAS 36 and engaged internal valuation specialists to challenge the discount rate assumption. We evaluated the methodology used to determine value in use and tested the accuracy of the underlying calculation.
Key observations	We did not identify any issues in relation to key assumptions including the discount rate, the terminal growth rate and the forecast future cash flows and concur with management's valuation of the CCD business.

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 in evaluating 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	£8.1m (2018: £8.6m)	£6.5m (2018: £5.4m)
Basis for determining materiality	5% of profit before tax and exceptional items (2018: 4.5% profit before tax and exceptional items averaged over the previous three years).	5% of profit before tax and exceptional items (2018: 0.75% of net assets).
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. In 2017 and 2018 we calculated materiality based on a three-year average profit before tax and exceptional items benchmark due to the fact the Group made losses in 2017. We have revised our benchmark from the prior year to reflect the fact that the Group's profitability is now more stable and the Group's recovery is largely complete. We therefore consider it appropriate to return to a measure based on current year profit before tax and exceptional items. Additionally, we have increased our benchmark for materiality from 4.5% on three-year average profit before tax and exceptional items to 5% of profit before tax and exceptional items. This is due to the reduced risk in the current year in comparison to the prior year owing to the recapitalisation through syndicated financing and reduced uncertainty surrounding the conduct provisions and HCD performance.	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. In the prior year materiality was calculated as 0.75% of net assets due to the entity making a loss. In the current year we have returned to a profit-based measure as this remains the financial measure most relevant to the users of the financial statements.



Group materiality
£8.1m

Component materiality range
£7.30m to £0.03m

Audit Committee reporting threshold
£0.20m

PBT   Group materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the quality of the control environment and whether we were able to rely on controls, nature of the balance and the level of audit adjustments identified in the prior period.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2m (2018: £0.2m), 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 which has 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 and non-compliance with regulations 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.

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; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;

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

Identifying and assessing potential risks related to irregularities continued

- 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, forward flow ROP provision, defined benefit obligation 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, pension legislation and 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's forward flow ROP 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 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 light of the knowledge and understanding of the Group and the parent company and their 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 eight years, covering the years ending 31 December 2012 to 31 December 2019.

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
27 February 2020

In addition to statutory results and key performance indicators (KPIs) reported under International Financial Reporting Standards (IFRS), the Group provides certain alternative performance measures (APMs). These APMs are used internally by management and are also deemed helpful in understanding of the Group's underlying performance. These non-statutory measures should not be considered as replacements for IFRS measures. The definition of these non-statutory measures may not be comparable to similarly titled measures reported by other companies.

APM	Method of calculation	Relevance
Adjusted profit before tax	A reconciliation of adjusted profit before tax to statutory profit before tax is shown below:	Adjusted profit before tax excludes the impact of amortisation of acquisition intangibles and exceptional items and is used to provide further clarity on the ongoing, underlying financial performance of the divisions and Group.

	Year ended 31 December		
	2019 **£m**	2018 (restated)[1] £m	Change %
Adjusted profit/(loss) before tax:			
– Vanquis Bank	**173.5**	190.9	(9.1)
– Moneybarn	**30.9**	28.1	10.0
– CCD	**(20.8)**	(38.7)	46.3
– Central costs	**(21.0)**	(20.2)	(4.0)
Adjusted profit before tax	**162.6**	160.1	1.6
Amortisation of acquisition intangibles	**(7.5)**	(7.5)	—
Exceptional items	**(26.3)**	(55.3)	52.4
Statutory profit before tax	**128.8**	97.3	32.4

Adjusted profit before tax is stated before: £7.5m (2018: £7.5m) of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 and exceptional items. Exceptional items in 2019 represent net exceptional charges of £26.3m (2018: exceptional charges of £55.3m) comprising: (i) £23.8m (2018: £nil) of defence costs associated with Non-Standard Finance plc's (NSF's) unsolicited offer for the Group; (ii) £19.3m (2018: £29.9m) of restructuring costs, primarily in respect of the ongoing turnaround of the home credit business in CCD following the migration to the employed operating model in July 2017; (iii) a credit of £14.2m (2018: £nil) in Vanquis Bank in respect of the release of provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally; and (iv) a credit of £2.6m (2018: £nil) in Moneybarn in respect of the release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options. Exceptional costs in 2018 also included £18.5m in respect of the refinancing of the senior bonds maturing in October 2019 and £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.

1 2018 comparatives have been restated for: (i) the change in treatment of directly attributable acquisition costs in Vanquis Bank following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profits and a benefit of £10.5m to 2019 profits and is expected to result in a reduction of approximately £6m in 2020 profits compared with previous plans; and (ii) the change in recognition of revenue on credit impaired receivables in Moneybarn which has resulted in a reduction in revenue and impairment but has had no impact on Moneybarn's profits.

APM	Method of calculation	Relevance
Adjusted basic earnings per share (EPS)	Profit after tax, excluding the amortisation of acquisition intangibles and exceptional items, divided by the weighted average number of shares in issue.	This is used to assess the Group's operational performance from continuing operations per ordinary share. It removes the effect of amortisation of acquisition intangibles and exceptional items.
Average receivables	Average of month-end receivables for the 12 months ended 31 December.	This is used to smooth the seasonality of receivables across the divisions in calculating performance KPIs.
Dividend cover	Adjusted basic earnings per share divided by dividend per share.	This shows the rate that the Company is paying its dividends out of earnings. The dividend policy will reflect the Board's risk appetite of maintaining a regulatory capital headroom in excess of £50m and the remaining transitional impact of IFRS 9.
Cost income ratio	Costs, compromising administrative and other operating costs, as a percentage of revenue for the 12 months ended 31 December.	This ratio is a measure of the efficiency of the Group's cost base.
Return on assets (ROA)	Adjusted profit before interest after tax as a percentage of average receivables.	This measures the return a company generates from its assets prior to the impact of funding strategy for each division.
Return on equity (ROE)	Adjusted profit after tax as a percentage of average equity. Equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments.	ROE shows the return being generated from the shareholders' equity retained in the business.
Customer satisfaction	The percentage of customers surveyed who are satisfied (or more than satisfied) with the service they have been provided.	
Common equity tier 1 (CETI) ratio	The ratio of the Group's regulatory capital to the Group's risk-weighted assets measured in accordance with CRD IV.	
Funding headroom	Committed bank and debt facilities less borrowings on those facilities.	This represents the difference between the total amount of committed contractual debt facilities provided by banks, bond holders and other lenders and the amount of funds drawn on those facilities.