Provident Financial plc
Interim results for the six months ended 30 June 2014

Provident Financial plc is the market-leading provider of credit cards to non-standard consumers in the UK and the market-leading provider of home credit in the UK and Ireland. The group serves 2.5 million customers and its operations consist of Vanquis Bank and the Consumer Credit Division (CCD).

Highlights

Group performance supports further dividend increase

- First half pre-tax profit before exceptional restructuring cost up 23.0% to £94.1m[1] (2013: £76.5m).
- Adjusted earnings per share up 24.6% to 54.2p[1] (2013: 43.5p).
- Interim dividend per share up 10.0% to 34.1p (2013: 31.0p).

Robust funding and liquidity position

- Group fully funded until the seasonal peak in 2017.
- Gearing reduced to 2.9 times (2013: 3.1 times).

Strong growth and returns in Vanquis Bank

- UK pre-tax profit up by 36.1% to £68.3m (2013: £50.2m) and Polish start-up loss of £4.6m (2013: £3.6m).
- UK customer and average receivables growth of 17.3% and 32.4% respectively from addressing the under-served, non-standard credit card market.
- UK risk-adjusted margin[2] of 33.6% (2013: 34.4%), well ahead of minimum target of 30% with arrears at record lows.
- Development of Polish pilot operation showing encouraging momentum.

Repositioning of CCD progressing well

- Pre-tax profit up 2.5% to £37.0m[1] (2013: £36.1m).
- Significant improvement in credit quality and collections from tighter underwriting and standardised arrears processes with annualised impairment to revenue ratio reducing from 38.7% to 35.2% in the first half.
- Annualised risk-adjusted margin[2] of 62.9% at June 2014, up from 58.9% at December 2013.
- Deployment of technology to support step change in agent and branch productivity and reinforce compliance progressing ahead of schedule, resulting in a further proposed headcount reduction of 225, delivering savings in a full year of £4.0m at a one-off cost of £4.0m.
- Build-out of Satsuma's online instalment lending capability progressing well.

Key financial results

	H1 2014	H1 2013	Change
Profit before tax and exceptional costs[1]	£94.1m	£76.5m	23.0%
Profit before tax	£90.1m	£72.0m	25.1%
Adjusted earnings per share[1]	54.2p	43.5p	24.6%
Basic earnings per share	51.8p	41.0p	26.3%
Interim dividend per share	34.1p	31.0p	10.0%

Peter Crook, Chief Executive, commented:

"Vanquis Bank has delivered further strong growth through developing its presence in the under-served, non-standard credit card market with first-half UK profits up 36.1%. The positive momentum from evolving the marketing and distribution of the credit proposition in the Polish pilot operation is also encouraging.

CCD continues to make excellent progress in repositioning the home credit business as a leaner, better quality business focused on returns rather than growth, whilst the build-out of the capability to support the rapid development of the Satsuma online instalment lending business will be completed by the end of the year.

In the light of this strong trading performance, I am pleased to announce a 10.0% increase in the interim dividend which is also fully supported by adjusted earnings per share growth of 24.6%, strong capital generation and an extremely robust funding and liquidity position.

Credit quality in both businesses is very good and provides the foundation for delivering good quality growth for 2014 as a whole."

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[1] *2014 first half profit before tax is stated before an exceptional restructuring cost of £4.0m in respect of CCD (2013: £4.5m).*

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

INTERIM REPORT

Group results

The group has reported first half pre-tax profit prior to exceptional items up 23.0% to £94.1m (2013: £76.5m) reflecting strong growth and margins in Vanquis Bank and a stable profit performance in CCD. Adjusted earnings per share of 54.2p (2013: 43.5p) grew by 24.6%, a faster rate than pre-tax earnings reflecting the reduction in the statutory rate of UK corporation tax from 23% to 21% on 1 April 2014.

Vanquis Bank continues to generate strong growth and margins and has delivered an excellent performance in the first half of 2014 with UK profits up 36.1% to £68.3m (2013: £50.2m). Continuing investment in the customer acquisition programme has generated year-on-year customer growth of 17.3% and average receivables growth of 32.4%, against unchanged credit standards. Delinquency levels have remained favourable throughout the first half, reflecting the sound quality of the receivables book and the backdrop of an improving employment market. This has allowed Vanquis Bank to deliver an annualised risk-adjusted margin of 33.6% as at June 2014 (2013: 34.4%), well ahead of its minimum target of 30%.

Good progress is being made by Vanquis Bank in Poland in developing the marketing and distribution of its credit card as well as testing other products that deliver its revolving credit proposition and broaden its appeal to the target audience. As a result, monthly new account bookings in June were almost double the level achieved earlier in the year. The cost of the pilot in the first half of the year was £4.6m (2013: £3.6m), in line with plan, and the start-up losses associated with the pilot are expected to continue at a similar rate through the second half of 2014.

CCD's profit before tax and exceptional items in the first half of 2014 was up 2.5% to £37.0m (2013: £36.1m). Very good progress has been made in repositioning the home credit business as a leaner, better quality business focused on returns rather than growth. The credit tools and infrastructure to support the development of Satsuma is on-track to be completed during the second half of the year.

Demand from existing home credit customers remains relatively subdued as customer confidence remains at a low level and, as planned, the tighter credit standards introduced in September last year have significantly curtailed the recruitment of more marginal customers into the business. As a result, CCD customer numbers and period-end receivables showed year-on-year reductions of 24.9% and 17.9% respectively. However, the marked improvement in the quality of the receivables book and the implementation of standardised arrears and collections processes have combined to produce a significant reduction in credit losses with the annualised ratio of impairment to revenue improving from 38.7% at December 2013 to 35.2% at June 2014. This also supported an increase in the annualised risk-adjusted margin to 62.9% at June 2014, up from 58.9% at December 2013. Business performance is also benefitting from a year-on-year reduction in costs following the programme of cost savings implemented during the second half of 2013. The roll-out of the technology required to standardise best practice, access significant efficiency gains across the field organisation and implement market-leading compliance is running ahead of plan. Accordingly, the business has recently announced and initiated formal consultation in relation to a proposed 50% reduction in the field administration workforce, representing a headcount reduction of 225. This is expected to deliver savings in a full year of £4.0m and the associated redundancy cost of £4.0m has been taken as an exceptional charge in the first half.

The programme of work to build the capability to support CCD's online direct repayment loan product, Satsuma, is progressing well and is on-track to be completed during the second half of the year. Demand for the product is strong and the continued dislocation caused by the regulatory changes to the payday loans market provides an excellent opportunity to develop a sustainable business with a strong market position capable of delivering the group's target returns.

The group's funding and liquidity positions remain strong with gearing of 2.9 times (2013: 3.1 times). As at 30 June 2014, headroom on the group's committed facilities amounted to £307m and, including the additional capacity available for Vanquis Bank to take retail deposits, total funding capacity amounted to £629m. The group's committed debt facilities, together with the retail deposits programme at Vanquis Bank, are now sufficient to fund contractual maturities and projected growth in the business until the seasonal peak in 2017.

The group continues to be strongly capital generative and in the 12 months to 30 June 2014, generated capital of £152.9m (2013: £116.7m) compared with dividends declared through that period of £121.7m (2013: £108.4m).

The interim dividend has been increased by 10.0% to 34.1p (2013: 31.0p) reflecting the growth in earnings, strong capital generation and the stated policy of maintaining annual dividend cover of at least 1.25 times.

Market conditions

Vanquis Bank

Vanquis Bank promotes financial inclusion by bringing the benefits of credit cards to consumers who are typically declined by mainstream lenders, helping people to establish or rebuild their credit profiles and enjoy the increasing utility of card-based credit, including online shopping. Vanquis Bank's 'low and grow' approach to extending credit and high levels of customer contact underpin a sustainable, responsible lending model which produces consistently high levels of customer satisfaction approaching 90%.

The business continues to generate strong demand from developing the under-served, non-standard UK credit card market. The marketing activity of competitors has shown a moderate increase. However, Vanquis Bank's continued investment in its customer acquisition programme generated first-half new account bookings at a similar level to the previous year against unchanged credit standards.

Despite Vanquis Bank customers typically being in more regular employment than home credit customers, the business has demonstrated that it is considerably less sensitive to changes in the employment market than mainstream card issuers. Whilst UK unemployment continues to show further reductions, the business has maintained tight credit standards. As a result, delinquency levels have run at record lows for the business through the first half of the year.

CCD

The home credit business continues to fill an important need for consumers in the non-standard market, providing access to credit for those who might otherwise be more financially excluded. Consumers on low incomes and tight budgets require affordable credit in order to manage the peaks and troughs in their household budgets or one-off items of expenditure that may arise. They value the simple, flexible and transparent nature of the home credit product with its fixed weekly repayments and no additional fees or charges whatsoever, even if a payment is missed, as well as the weekly relationship with their agent who typically lives in the same community and genuinely understands their needs. This is demonstrated by consistently high levels of customer satisfaction in excess of 90%. The high contact between agents and customers together with agents' commission being based on collections, rather than amounts lent, further reinforces Provident Financial's responsible lending approach.

Home credit customers tend to be hourly paid with a bias towards more casual, temporary and part-time employment. The disposable incomes of home credit customers have shown a marginal improvement in recent months due to the moderation in the rate of inflation of household bills. However, measures of confidence across the customer base continue to run at very low levels as the broader UK economic recovery has not yet fed through to home credit customers in the form of increased working hours.

The competitive landscape in the home credit market remains unchanged with around 500 active participants in the UK. However, non-standard consumers have a greater choice than in the past because of the growth in alternative formats, including short-term payday or instalment credit products accessible online and high street credit providers including rent to own. These dynamics drive the revised strategy for CCD introduced in the second half of 2013 which involves updating the home credit business and focussing on returns as opposed to growth whilst investing in broadening the customer and product proposition through Satsuma in the online instalment lending segment of the non-standard market.

Satsuma addresses those applicants of sufficient credit quality whose preference is to access small-sum credit online and make weekly repayments direct from their bank account without the need for an agent visit. It is relevant to the significant audience of non-standard consumers that occupy the segment of the market between Vanquis Bank and the home credit business. In order to maintain the group's responsible approach to lending, the Satsuma product retains many of the features of the home credit product. There are no extra charges, weekly payments are fixed based on a predetermined schedule, customers have regular contact with a telephone agent and there are a number of forbearance procedures in place for those who get into financial difficulty. In addition, the back office processes of Satsuma are utilising the highly effective distribution, underwriting and collections capabilities of both CCD and Vanquis Bank.

The online loans market, in which payday lending is the most significant participant at present, is estimated to be some four times the size of the home credit market and is growing as customer preferences change. With the backdrop of clearer, tighter regulation around payday lending from 1 July 2014, there is likely to be a shift in demand from payday loans to instalment loans as the restrictions on the use of rollovers and continuous payment authorities by payday lenders take effect. A number of smaller payday loan companies have already exited the market and larger operators are having to reconfigure their business models. The FCA expects a further reduction in competition as a result of the introduction of a rate cap from 2 January 2015.

Vanquis Bank

Business performance

Vanquis Bank generated profit before tax of £63.7m in the six months ended 30 June 2014 (2013: £46.6m) analysed as follows:

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Change %
Profit/(loss) before tax:			
- UK	68.3	50.2	36.1%
- Poland	(4.6)	(3.6)	(27.8%)
Total Vanquis Bank	63.7	46.6	36.7%

UK

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Change %
Customer numbers ('000)	1,177	1,003	17.3%
Period-end receivables	954.0	723.6	31.8%
Average receivables	905.2	683.8	32.4%
Revenue	218.4	178.0	22.7%
Impairment	(72.3)	(64.6)	(11.9%)
Revenue less impairment	146.1	113.4	28.8%
Annualised risk-adjusted margin[1]	*33.6%*	*34.4%*	
Costs	(58.8)	(47.8)	(23.0%)
Interest	(19.0)	(15.4)	(23.4%)
Profit before tax	68.3	50.2	36.1%

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

Vanquis Bank has performed strongly in the first half of 2014, reporting UK profits 36.1% higher than the first half of last year. Further strong growth in the receivables book together with delinquency running at record lows for the business supported this performance and enabled the UK business to deliver a post-tax return on equity well above its target rate of 30%.

Whilst the marketing activity of competitors in both the direct mail and internet channels has increased moderately, investment in the customer acquisition programme delivered new account bookings of 193,000 (2013: 204,000) and reflecting an acceptance rate of 25% (2013: 25%) against unchanged underwriting standards.

The growth in customer numbers, together with the credit line increase programme (CLI) to customers who have established a sound payment history, generated a 32.4% increase in average receivables. The growth in receivables in the first half benefited from the introduction of upgraded CLI scorecards, following the decision to enhance the sourcing of credit bureau data. Returns from the 'low and grow' approach to extending credit remain consistently strong and are underpinned by average credit line utilisation of between 70% and 75% which delivers a strong stream of revenue whilst maintaining a relatively low level of contingent risk from undrawn credit lines.

The risk-adjusted margin has reduced by 0.8% to 33.6% over the past 12 months, comprising a 3.1% reduction in the revenue yield and a 2.3% reduction in the rate of impairment.

Although UK unemployment has shown a reduction over the last year, Vanquis Bank has, and will continue to, apply tight credit standards. The result is that the rate of delinquency has fallen to a new all time low for the business and produced a 2.3% reduction in the rate of impairment since June 2013. Over the same period, the improving quality of the book has seen the revenue yield from interest and late and over limit fees reduce by a similar amount.

As previously reported, during the second half of 2013 Vanquis Bank changed the timing of the sale of its Repayment Option Plan (ROP) product from the customer welcome call to the activation call, which is approximately one week later, and also made a number of enhancements to the product's features. As expected, these two changes have resulted in a moderation in the revenue yield earned by the business, and is the primary reason for the reduction of 0.8% in the annualised risk-adjusted margin since June 2013.

In February 2014, Visa reached an agreement with the European Commission to reduce the interchange fees charged by credit card companies to retailers. Lower cross-border rates came into effect on 1 May 2014 and lower domestic rates will come into effect on 1 March 2016. Interchange revenue is a less significant source of income for Vanquis Bank than for more mainstream credit card providers. The impact is expected to be approximately £1m in 2014 but will increase to around £7m by 2016, based on current volumes, as the reduced fees on domestic transactions take effect.

Based on current delinquency trends, the changes made to the ROP product and the recent changes to interchange fees, the risk-adjusted margin is expected to moderate to around 33% for 2014 as a whole and remain above the target of 30% thereafter.

First half cost growth of 23.0% was well below receivables growth as the business continues to benefit from operational gearing. As previously reported, the business has outgrown its central London premises and new space has been secured nearby at 20 Fenchurch Street which will accommodate future growth. The lease on the new property commenced in April and the business is expected to move into it in late August following completion of fit-out. The business incurred additional property costs of approximately £1.6m in the first half of the year, of which approximately £1.3m was in respect of the new head office property. For the year as a whole, the business is expected to incur additional property costs of approximately £4m, of which £3.5m relates to the new head office property.

Interest costs increased by 23.4% during the first half of 2014 compared with growth in average receivables of 32.4%. This reflects the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 6.2% in the first half of 2013 to 5.7% in the first half of 2014 due to the progressive benefit from taking retail deposits. Assuming market rates remain unchanged, Vanquis Bank's overall funding rate in the second half of the year is expected to be similar to the first half due to the expectation that the mix of retail deposits funding will remain stable.

Business development

The pilot credit card operation in Poland is making good progress in developing the marketing and distribution of its credit proposition in order to lift new customer volumes. New account bookings in June were 4,500, roughly doubling from earlier in the year.

During April, the business launched a flexible credit line and flexible loan product to sit alongside the core credit card product. Both of these additional revolving credit products deliver cash into the customer's bank account, broadening Vanquis Bank's appeal to the target audience. In June, the business launched an above-the-line advertising campaign, including the use of TV advertising for the first time, which is expected to increase the flow of new business in the coming months.

A new country manager with extensive relevant local marketing experience joined the business at the start of July.

Credit quality remains satisfactory following the deployment of second generation scorecards in November last year.

At the end of June, the Polish pilot operation had 37,000 customers (2013: 21,000) and a receivables book of £9.3m (2013: £3.0m). The cost of the pilot in the first half of the year amounted to £4.6m (2013: £3.6m) and the operation is expected to incur a similar amount of expenditure in the second half of the year.

CCD

Business performance

CCD profits were £37.0m in the first half of 2014 (2013: £36.1m) analysed as follows:

	Six months ended 30 June		
	2014 £m	2013 £m	Change %
Customer numbers ('000)	1,252	1,668	(24.9%)
Period-end receivables	607.5	739.6	(17.9%)
Average receivables	632.6	755.2	(16.2%)
Revenue	313.6	365.6	(14.2%)
Impairment	(124.4)	(167.0)	25.5%
Revenue less impairment	189.2	198.6	(4.7%)
Annualised revenue yield[1]	*97.1%*	*92.4%*	
Annualised impairment % revenue[2]	*35.2%*	*36.8%*	
Annualised risk-adjusted margin[3]	*62.9%*	*58.4%*	
Costs	(133.1)	(141.5)	5.9%
Interest	(19.1)	(21.0)	9.0%
Profit before tax[4]	37.0	36.1	2.5%

[1] *Revenue as a percentage of average receivables for the 12 months ended 30 June.*
[2] *Impairment as a percentage of revenue for the 12 months ended 30 June.*
[3] *Revenue less impairment as a percentage of average receivables for the 12 months ended 30 June.*
[4] *First half profit before tax in 2014 is stated before an exceptional restructuring cost of £4.0m (2013: £4.5m).*

CCD generated profits 2.5% up on last year and in line with its internal plans. As expected, the benefits of an improved impairment performance and the cost reductions announced last year have offset the contraction in customer numbers and receivables as the business is repositioned as a leaner, better-quality, more modern business with an emphasis on driving returns rather than growth.

Customer confidence within the home credit customer base remains low and the broader UK economic recovery has not yet fed through to customers in the form of increased working hours. Accordingly, the demand for credit from better quality, existing customers remains relatively subdued. The tighter credit standards implemented during the final quarter of 2013 have continued to restrict the recruitment of more marginal customers into the business. Over the last 12 months the volume of customers in the lower-quality credit score bands has fallen by approximately 48% which has been the main driver of the 24.9% year-on-year reduction in customer numbers. Over the same period, customer numbers in the best grades have increased modestly.

Receivables at the end of June were 17.9% lower than the prior year, less marked than the reduction in customer numbers due to the focus on serving better quality established customers. The annualised revenue yield remained robust at 97.1% and was little changed from that achieved in the second half of 2013 reflecting a consistent mix of business.

The implementation of standardised arrears and collections processes coupled with tighter credit standards have produced a significant improvement in arrears and resulted in the annualised ratio of impairment to revenue reducing from 38.7% at December 2013 to 35.2% at June 2014. Some further benefits are anticipated in the second half of the year and the ratio of impairment to revenue is expected to moderate to around 34% for 2014 as a whole.

The improvement in credit quality has also resulted in the annualised risk-adjusted margin for the business strengthening to 62.9% at June 2014, up from 58.9% at December 2013.

Business performance is benefitting from the planned reduction in costs following the programme of cost savings implemented during the second half of 2013. Accordingly, first-half costs showed a year-on-year reduction of 5.9% which is stated after absorbing costs associated with business development activities and increased regulatory and compliance costs totaling approximately £10m.

The programme to deploy technology throughout the field operation to support an improvement in agent and branch productivity and reinforce compliance is running well ahead of schedule. As a result, the business has recently commenced consultation on a proposed headcount reduction of 225, representing approximately half of the field administration workforce. The proposed headcount reductions will secure savings of £2m in the second half of the year, rising to £4m in 2015 and will have no impact on customer service levels. An exceptional restructuring cost of £4.0m has been incurred in the first half in respect of associated redundancy costs (2013: £4.5m).

Interest costs were 9.0% lower than the first half of last year versus a reduction of 16.2% in average receivables. This reflects an increase in the funding rate for the business from 7.0% in the first half of 2013 to 7.5% in the first half of 2014 due to the cost of carrying increased headroom against committed bank facilities.

Business development

CCD is making excellent progress in executing its strategic plan to develop a broader-based lending business over the next 18 months.

<u>Home credit</u>

The roll-out of the technology required to standardise best practice, access significant efficiency gains across the field operation and implement market-leading compliance as regulation migrates to the Financial Conduct Authority (FCA) regime, is running well ahead of plan.

In February, the Android version of the collections app was released to supplement the iPhone version which was rolled out from September last year. Over 90% of agents are now using their smartphones to conduct their round, up from around 30% at the start of the year, saving time and evidencing high levels of compliance. In April, tablet devices were rolled out to field managers and have received a very positive reception. These devices effectively provide managers with a 'mobile office' and are starting to free up time, currently spent on office-based administration, for supporting and motivating agents as well as assisting with arrears cases. A pilot of a lending app to support electronic loans documentation commenced in May and has now been extended to over 50 agents. The app eliminates paper, saving a significant amount of agent and back office time, and allows the business to better enforce and evidence compliance. Full roll-out to iPhone users will take place in August with the Android version following later in the year.

Under the people agenda, the end-to-end enhancements to the process for attracting and training agents and driving improved agency performance put in place last year have resulted in a significant improvement in agent turnover and a halving in the number of vacant agencies. The first phase of the formal leadership training for managers throughout the business is now well underway and has been extremely well received.

Satsuma

The development of Satsuma as CCD's online instalment loan business capable of delivering the group's target returns continues to progress well.

The delivery of a new flexible IT platform remains on track to support scalable growth and in April the business switched over to using the proven and highly scalable collections capabilities of the Vanquis Bank contact centre in Chatham. The remaining focus is on refining underwriting and customer application processes, both of which continue to progress satisfactorily.

The quantity of new leads currently being generated by the business demonstrates that there is strong demand for the product. Nonetheless, as previously indicated, the volume of new loans issued is being deliberately moderated. The credit tools and infrastructure to support a scalable business will be completed during the second half of the year at which point a more rapid development of the business will take place through a step up in marketing, including more intensive TV advertising.

As at 30 June, Satsuma had 11,000 customers (2013: nil) and a receivables book of £2.4m (2013: £nil).

Guarantor loans

CCD launched a pilot into the guarantor loans market in early May in order to test whether a product could be established which is capable of delivering the group's target returns.

The guarantor loans proposition is additional and complementary to home credit and Satsuma, comprising larger, longer loans of between £1,000 and £7,000 repayable over a period of between one and five years. The customer is supported by a family member or friend with a good credit record who is prepared to guarantee the loan if the customer's circumstances change. CCD's proposition offers customers market-leading pricing and a very customer-centric approach to forbearance, including the high levels of personal service that the group deploys in all its offerings.

The pilot is being trialled initially using the broker channel only and, if successful, will be extended directly to the customer through the internet in due course. The pilot remains in its early stages as the business continues to refine the process for broker referrals and underwriting procedures through a 'test and learn' process.

Exceptional item

An exceptional item of £4.0m has been incurred in the first half of 2014 relating to the redundancy costs associated with 225 field administration employees following the ongoing successful deployment of technology within CCD.

The exceptional cost of £4.5m in the first half of 2013 related to redundancy costs associated with the restructuring of the field management force within CCD.

Taxation

The tax rate for the first half of 2014 of 21.50% (2013: 23.25%) is the estimated effective tax rate for the 2014 financial year and is in line with the UK statutory corporation tax rate which reduced from 23% to 21% on 1 April 2014. The group is expected to benefit in future years from the further rate reduction to 20% on 1 April 2015 announced by the Government and enacted in the 2013 Finance Act.

Dividends

The interim dividend per share has been increased by 10.0% to 34.1p (2013: 31.0p), consistent with the group's stated policy to grow dividends whilst maintaining a dividend cover of at least 1.25 times. The increase in the interim dividend is supported by the group's growth in earnings and strong capital generation.

Funding and capital

The group's funding and liquidity positions are strong with the balance sheet reflecting gearing of 2.9 times (2013: 3.1 times) against a banking covenant limit of 5.0 times. The reduction over the last 12 months reflects the shrinkage of the home credit receivables book resulting from the repositioning of the business.

As previously reported, in January 2014 the group entered into a new £382.5m syndicated bank facility maturing in May 2017 and cancelled the existing facility of £382.5m which was due to expire in May 2015. The syndicate continues to comprise the group's core relationship banks and the all-in cost of funds is lower than the previous facility with consistent terms, conditions and financial covenant package.

As at the end of June, Vanquis Bank had taken £474.7m of retail deposits, up from £435.1m at 31 December 2013, which represents 50% (31 December 2013: 51%) of Vanquis Bank's UK receivables. Due to the high level of committed debt funding and the contraction in the CCD receivables book, the flow of new funds from the retail deposits programme has been managed to relatively modest levels during the first half of 2014 through appropriate pricing.

Headroom on the group's committed facilities as at 30 June 2014 amounts to £307m and, including the additional capacity available for Vanquis Bank to take retail deposits, total funding capacity amounts to £629m. The group's committed debt facilities, together with the retail deposits programme at Vanquis Bank, are now sufficient to fund contractual maturities and projected growth in the business until the seasonal peak in 2017.

The group's funding rate during the first half of 2014 was 6.9%, marginally higher than 6.8% in the first half of 2013, as the increased benefit from the Vanquis Bank retail deposits programme has been offset by the cost of carrying increased headroom against committed bank facilities. The group's funding rate is expected to moderate to around 6.5% for the year as a whole.

The group's credit rating from Fitch Ratings was reviewed in June 2014 and remains unchanged at BBB. A negative outlook was attached to the rating reflecting Fitch's requirement to fully understand the impact of Vanquis Bank representing the largest proportion of the group's profits. Accordingly, Fitch will observe the development of Vanquis Bank over the next 12 to 24 months.

The group continues to be highly capital generative. In the 12 months to 30 June 2014, the group generated capital of £152.9m (2013: £116.7m) compared with dividends declared of £121.7m (2013: £108.4m).

The group maintains a strong capital position and, as at 30 June 2014, the core equity tier one ratio and leverage ratio of the group were 22.0% and 18.0% respectively. The ratios are published for the first time in line with best practice.

Regulation

Transfer of regulation to the FCA

The FCA regulation of the consumer credit industry commenced on 1 April 2014. Both Vanquis Bank and CCD have obtained written interim permissions under the new regime. The regulator has written to firms notifying them of their three-month application window during which each firm must submit their authorisation application, with the first entrants applying for full authorisation from October 2014. Vanquis Bank has recently been notified that it will be required to submit its application between 1 December 2014 and 28 February 2015 and CCD's window for application will be between 1 March 2015 and 31 May 2015. Both Vanquis Bank and CCD continue to have a constructive dialogue with the FCA and have followed a detailed work programme to prepare for full authorisation.

Payday rate cap

The FCA published its consultation on proposals for a price cap for payday lenders on 15 July 2014. The FCA proposes a cap of 0.8% per day of the amount borrowed on all interest, fees and charges. For instalment loans, the daily interest rate cap relates to the balance outstanding on each day, which typically declines over the term of the loan as it is repaid. If borrowers default, lenders will be able charge additional default fees up to a limit of £15, and can continue to charge interest on all outstanding amounts up to the same 0.8% per day limit. In addition, the FCA has set a total cost cap of 100% of the amount initially borrowed, including all interest, fees and charges ultimately incurred by the borrower over the life of the loan.

The cap applies to all high-cost short-term credit products as currently defined in the FCA's Handbook of Rules and Guidance, which explicitly excludes home credit, secured loans, pawn broking, logbook loans and overdrafts, as well as products offered by community finance organisations such as credit unions. Current Satsuma products fall within the scope of the proposed cap and its pricing is below the limit proposed by the FCA.

The FCA has indicated that it will consider evidence of compliance with the price cap and any potential price cap avoidance measures in assessing lenders for full authorisation from 1 December 2014, and any new entrants seeking authorisation beforehand. The consultation is open until 1 September 2014, and the FCA intends to publish the final version of the rate cap requirements in early November 2014 for implementation on 2 January 2015.

Polish cap on non-interest charges

The Ministry of Finance in Poland issued draft proposals containing amendments to Polish consumer law in August 2013. The draft proposals were updated in December 2013, and then revised again in March 2014. Draft legislation is currently being developed based on these proposals, which will then be published as a draft bill for consultation, prior to submission to parliament.

The most recent proposals seek to limit all non-interest charges to a proportion of the amount of credit granted, in addition to the existing limit on the interest element of four times the Lombard Rate (currently 4%, giving an interest limit of 16% per annum). The currently proposed non-interest limits allow for 25% upfront, followed by 30% per annum thereafter up to a total for all non-interest charges of 100%.

The draft proposals may well be subject to further amendment in the process of drafting the legislation, and, in any case, require clarification in a number of areas including how they might apply to revolving credit products. The final regulatory changes are expected to be published and incorporated in legislation later in 2014 or early 2015. Whilst the final legislation is not expected to have a material impact on Vanquis Bank, it is almost certain to have a significant impact on providers of high-cost, short-term credit, including payday lenders, that have grown very rapidly in Poland in recent years. This may alter the competitive landscape for consumer credit in Poland and allow Vanquis Bank to position its credit card and other revolving credit products to meet the opportunity this may present.

<u>Principal risks and uncertainties</u>

The principal risks and uncertainties affecting the group remain unchanged from 31 December 2013 and comprise regulatory risk, credit risk, business risk, reputational risk, operational risk, liquidity risk, financial risk and pension risk. A full assessment of the risks and uncertainties, together with the controls and processes which are in place to monitor and mitigate the risks where possible, are set out on pages 88 to 91 of the 2013 Annual Report & Financial Statements which is available on the company's website, www.providentfinancial.com.

The most relevant risks and uncertainties for the remaining six months of the 2014 financial year are as follows:

- Measures of confidence across the home credit customer base continue to run at very low levels as the broader UK economic recovery has not yet fed through to customers in the form of increased working hours. As a result, the demand for credit remains relatively subdued. Historically, the demand for credit increases in the run up to Christmas each year. If customer confidence remains very low there is a risk that credit issued is lower than expected in the important pre-Christmas trading period which in turn would impact receivables levels and the profitability of CCD in the final quarter of the year.
- An update on the more important regulatory developments affecting the group is set out in the regulation section of this report.

<u>Related party transactions</u>

There have been no changes in the nature of related party transactions as described in note 27 to the 2013 Annual Report & Financial Statements and there have been no new related party transactions which have had a material effect on the financial position or performance of the group in the six months ended 30 June 2014.

Outlook

Vanquis Bank continues to generate strong growth and margins through developing its presence in the under-served, non-standard UK credit card market whilst CCD continues to make excellent progress in repositioning the home credit business as a leaner, better quality business focused on returns rather than growth.

Looking to the medium term, the build-out of the capability to support the rapid development of CCD's Satsuma online instalment lending business will be completed in the second half of the year and the positive momentum now being established from evolving the marketing and distribution of Vanquis Bank's credit proposition in Poland is encouraging.

The group's funding and liquidity positions are strong, allowing it to meet contractual debt maturities and fund its internal growth plans through to the seasonal peak in 2017.

The group has produced a very good set of interim results and credit quality in both businesses is very sound as evidenced by the favourable impairment trends in the first half of the year. This provides the foundation for delivering good quality growth for 2014 as a whole.

Unaudited condensed consolidated interim financial information

Consolidated income statement

	Note	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Revenue	4	533.8	545.0
Finance costs		(38.2)	(36.4)
Operating costs		(272.2)	(311.1)
Administrative costs		(133.3)	(125.5)
Administrative costs before exceptional items		(129.3)	(121.0)
Exceptional items	4	(4.0)	(4.5)
Total costs		(443.7)	(473.0)
Profit before taxation	4	90.1	72.0
Profit before taxation and exceptional items	4	94.1	76.5
Exceptional items	4	(4.0)	(4.5)
Tax charge	5	(19.4)	(16.7)
Profit for the period attributable to equity shareholders		70.7	55.3

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

	Note	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Profit for the period attributable to equity shareholders		70.7	55.3
Other comprehensive income:			
– cash flow hedges		1.2	1.9
– actuarial movements on retirement benefit asset	9	2.3	(4.7)
– exchange differences on translation of foreign operations		0.4	-
– tax on items taken directly to other comprehensive income		(0.7)	0.4
– impact of change in UK tax rate		-	0.1
Other comprehensive income for the period		3.2	(2.3)
Total comprehensive income for the period		73.9	53.0

Earnings per share

	Note	Six months ended 30 June 2014 pence	Six months ended 30 June 2013 pence
Basic	6	51.8	41.0
Diluted	6	51.0	40.3

Dividends per share

		Six months ended 30 June 2014 pence	Six months ended 30 June 2013 pence
Interim dividend	7	34.1	31.0
Paid in the period*	7	54.0	48.4

* The total cost of dividends paid in the period was £74.4m (2013: £66.0m).

Consolidated balance sheet

	Note	30 June 2014 £m	31 December 2013 £m	30 June 2013 £m
ASSETS				
Non-current assets				
Other intangible assets		8.7	8.1	8.4
Property, plant and equipment		22.6	22.8	23.6
Financial assets:				
– amounts receivable from customers	8	61.7	79.7	69.0
– derivative financial instruments	11	-	-	10.2
Retirement benefit asset	9	35.9	29.2	22.7
Deferred tax assets		2.8	3.5	6.9
		131.7	143.3	140.8
Current assets				
Financial assets:				
– amounts receivable from customers	8	1,509.1	1,526.9	1,397.2
– derivative financial instruments	11	3.5	5.5	-
– cash and cash equivalents		114.4	119.0	92.4
– trade and other receivables		21.8	15.5	28.8
		1,648.8	1,666.9	1,518.4
Total assets	4	1,780.5	1,810.2	1,659.2
LIABILITIES				
Current liabilities				
Financial liabilities:				
– bank and other borrowings		(174.4)	(121.2)	(152.9)
– derivative financial instruments	11	-	-	(0.3)
– trade and other payables		(71.4)	(65.8)	(64.9)
Current tax liabilities		(40.3)	(36.3)	(37.5)
		(286.1)	(223.3)	(255.6)
Non-current liabilities				
Financial liabilities:				
– bank and other borrowings		(1,068.5)	(1,163.4)	(1,028.8)
– derivative financial instruments	11	(5.0)	(6.7)	(7.3)
		(1,073.5)	(1,170.1)	(1,036.1)
Total liabilities		(1,359.6)	(1,393.4)	(1,291.7)
NET ASSETS	4	420.9	416.8	367.5
SHAREHOLDERS' EQUITY				
Share capital		29.1	28.9	28.9
Share premium		151.0	150.6	148.5
Other reserves		14.8	17.2	15.0
Retained earnings		226.0	220.1	175.1
TOTAL EQUITY		420.9	416.8	367.5

Consolidated statement of changes in shareholders' equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2013	28.7	148.1	13.2	185.4	375.4
Profit for the period	-	-	-	55.3	55.3
Other comprehensive income:					
– cash flow hedges	-	-	1.9	-	1.9
– actuarial movements on retirement benefit asset (note 9)	-	-	-	(4.7)	(4.7)
– tax on items taken directly to other comprehensive income	-	-	(0.5)	0.9	0.4
– impact of change in UK tax rate	-	-	-	0.1	0.1
Other comprehensive income for the period	-	-	1.4	(3.7)	(2.3)
Total comprehensive income for the period	-	-	1.4	51.6	53.0
Transactions with owners:					
– issue of share capital	0.2	0.4	-	-	0.6
– purchase of own shares	-	-	(0.1)	-	(0.1)
– transfer of own shares on vesting of share awards	-	-	0.5	(0.5)	-
– share-based payment charge	-	-	4.6	-	4.6
– transfer of share-based payment reserve	-	-	(4.6)	4.6	-
– dividends (note 7)	-	-	-	(66.0)	(66.0)
At 30 June 2013	28.9	148.5	15.0	175.1	367.5
At 1 July 2013	28.9	148.5	15.0	175.1	367.5
Profit for the period	-	-	-	85.7	85.7
Other comprehensive income:					
– cash flow hedges	-	-	0.8	-	0.8
– actuarial movements on retirement benefit asset	-	-	-	0.8	0.8
– exchange differences on translation of foreign operations	-	-	-	(0.2)	(0.2)
– tax on items taken directly to other comprehensive income	-	-	(0.1)	-	(0.1)
– impact of change in UK tax rate	-	-	(0.2)	0.4	0.2
Other comprehensive income for the period	-	-	0.5	1.0	1.5
Total comprehensive income for the period	-	-	0.5	86.7	87.2
Transactions with owners:					
– issue of share capital	-	2.1	-	-	2.1
– purchase of own shares	-	-	(0.4)	-	(0.4)
– transfer of own shares on vesting of share awards	-	-	0.1	(0.1)	-
– share-based payment charge	-	-	2.8	-	2.8
– transfer of share-based payment reserve	-	-	(0.8)	0.8	-
– dividends (note 7)	-	-	-	(42.4)	(42.4)
At 31 December 2013	28.9	150.6	17.2	220.1	416.8
At 1 January 2014	28.9	150.6	17.2	220.1	416.8
Profit for the period	-	-	-	70.7	70.7
Other comprehensive income:					
– cash flow hedges	-	-	1.2	-	1.2
– actuarial movements on retirement benefit asset (note 9)	-	-	-	2.3	2.3
– exchange differences on translation of foreign operations	-	-	-	0.4	0.4
– tax on items taken directly to other comprehensive income	-	-	(0.2)	(0.5)	(0.7)
Other comprehensive income for the period	-	-	1.0	2.2	3.2
Total comprehensive income for the period	-	-	1.0	72.9	73.9
Transactions with owners:					
– issue of share capital	0.2	0.4	-	-	0.6
– purchase of own shares	-	-	(0.2)	-	(0.2)
– transfer of own shares on vesting of share awards	-	-	0.2	(0.2)	-
– share-based payment charge	-	-	4.2	-	4.2
– transfer of share-based payment reserve	-	-	(7.6)	7.6	-
– dividends (note 7)	-	-	-	(74.4)	(74.4)
At 30 June 2014	29.1	151.0	14.8	226.0	420.9

Consolidated statement of cash flows

	Note	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Cash flows from operating activities			
Cash generated from operations	10	169.6	160.9
Finance costs paid		(38.7)	(34.3)
Tax paid		(15.4)	(17.2)
Net cash generated from operating activities		115.5	109.4
Cash flows from investing activities			
Purchase of intangible assets		(3.5)	(3.6)
Purchase of property, plant and equipment		(2.8)	(0.9)
Proceeds from disposal of property, plant and equipment		0.5	0.5
Net cash used in investing activities		(5.8)	(4.0)
Cash flows from financing activities			
Proceeds from bank and other borrowings		61.2	185.5
Repayment of bank and other borrowings		(108.8)	(212.9)
Dividends paid to company shareholders	7	(74.4)	(66.0)
Proceeds from issue of share capital		0.6	0.6
Purchase of own shares		(0.2)	(0.1)
Net cash used in financing activities		(121.6)	(92.9)
Net (decrease)/increase in cash, cash equivalents and overdrafts		(11.9)	12.5
Cash, cash equivalents and overdrafts at beginning of period		109.7	69.7
Cash, cash equivalents and overdrafts at end of period		97.8	82.2
Cash, cash equivalents and overdrafts at end of period comprise:			
Cash at bank and in hand		114.4	92.4
Overdrafts (held in bank and other borrowings)		(16.6)	(10.2)
Total cash, cash equivalents and overdrafts		97.8	82.2

Cash at bank and in hand includes £83.8m (2013: £67.3m) in respect of the liquid assets buffer, including other liquidity resources, held by Vanquis Bank in accordance with the Prudential Regulation Authority's liquidity regime. This buffer is not available to finance the group's day-to-day operations.

Notes to the unaudited condensed consolidated interim financial information

1. General information

The company is a limited liability company, incorporated and domiciled in the UK. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU.

The company is listed on the London Stock Exchange.

The unaudited condensed consolidated interim financial information does not constitute the statutory financial statements of the group within the meaning of section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2013 were approved by the board of directors on 25 February 2014 and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498 of the Companies Act 2006.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 has been reviewed, not audited, and was approved for issue by the board of directors on 23 July 2014.

2. Basis of preparation

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The unaudited condensed consolidated interim financial information should be read in conjunction with the statutory financial statements for the year ended 31 December 2013 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors have reviewed the group's budgets, plans and cash flow forecasts for 2014 and for 2015 together with outline projections for the three subsequent years. Based on this review, they are satisfied that the group has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the unaudited condensed consolidated interim financial information.

3. Accounting policies

Except as described below, the accounting policies applied in preparing the unaudited condensed consolidated interim financial information are consistent with those used in preparing the statutory financial statements for the year ended 31 December 2013.

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

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date (or date of early adoption). There are no new IFRSs or IFRICs that are effective for the first time for the six months ended 30 June 2014 which have a material impact on the group.

4. Segment reporting

	Revenue		Profit/(loss) before taxation	
	Six months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	£m	£m	£m	£m
Vanquis Bank	220.2	179.4	63.7	46.6
CCD	313.6	365.6	37.0	36.1
	533.8	545.0	100.7	82.7
Central				
– costs	-	-	(6.8)	(6.3)
– interest	-	-	0.2	0.1
Total central	-	-	(6.6)	(6.2)
Total group before exceptional items	533.8	545.0	94.1	76.5
Exceptional items	-	-	(4.0)	(4.5)
Total group	533.8	545.0	90.1	72.0

An exceptional item of £4.0m has been recognised in the first half of 2014 relating to the redundancy costs associated with 225 field administration employees following the ongoing deployment of technology within CCD. The exceptional item of £4.5m in the first half of 2013 related to the redundancy costs of 170 employees following a restructuring of the field management force within CCD.

All of the above activities relate to continuing operations.

Revenue between business segments is not significant.

	Segment assets			Net assets/(liabilities)		
	30 June 2014	31 December 2013	30 June 2013	30 June 2014	31 December 2013	30 June 2013
	£m	£m	£m	£m	£m	£m
Vanquis Bank	1,072.4	969.8	815.6	246.1	216.5	182.0
CCD	658.5	783.8	819.5	150.0	171.3	196.3
Central	84.6	85.4	39.8	24.8	29.0	(10.8)
Total before intra-group elimination	1,815.5	1,839.0	1,674.9	420.9	416.8	367.5
Intra-group elimination	(35.0)	(28.8)	(15.7)	-	-	-
Total group	1,780.5	1,810.2	1,659.2	420.9	416.8	367.5

Segment net assets are based on the statutory accounts of the companies forming the group's business segments adjusted to assume repayment of intra-group balances and rebasing of the borrowings of CCD to reflect a borrowings to receivables ratio of 80%. The impact of this is an increase in the notional allocation of group borrowings to CCD of £35.0m (31 December 2013: £28.8m, 30 June 2013: £15.7m) and an increase in the notional cash allocated to central activities of the same amount. The intra-group elimination adjustment removes this notional allocation to state borrowings and cash on a consolidated group basis.

The group's operations operate principally in the UK and Republic of Ireland. Vanquis Bank established a branch in Poland as part of a pilot credit card operation during the first half of 2012. The revenue in respect of the branch in the six months ended 30 June 2014 amounted to £1.8m (2013: £1.4m) and the loss amounted to £4.6m (2013: £3.6m). The net liabilities of the branch amounted to £11.7m at 30 June 2014 (31 December 2013: £9.5m, 30 June 2013: £3.8m) comprising assets of £15.7m (31 December 2013: £16.0m, 30 June 2013: £7.1m) and liabilities of £27.4m (31 December 2013: £25.5m, 30 June 2013: £10.9m). These figures are included within the Vanquis Bank figures in the tables above.

5. Tax charge

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the financial year of 21.50% (2013: 23.25%), to the profit before tax for the period. The reduction in tax rate reflects the change in UK corporation tax rate from 23% to 21% which was effective from 1 April 2014.

6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding own shares held (treasury shares), which are treated, for this purpose, as being cancelled. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume 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.

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

	Six months ended 30 June					
		2014			2013	
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Earnings per share						
Shares in issue during the period		139.9			138.9	
Own shares held		(3.5)			(3.9)	
Basic earnings per share	70.7	136.4	51.8	55.3	135.0	41.0
Dilutive effect of share options and awards	-	2.3	(0.8)	-	2.2	(0.7)
Diluted earnings per share	70.7	138.7	51.0	55.3	137.2	40.3

The directors have elected to show an adjusted earnings per share prior to exceptional items (see note 4). 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:

	Six months ended 30 June					
		2014			2013	
	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	70.7	136.4	51.8	55.3	135.0	41.0
Exceptional items, net of tax	3.2	-	2.4	3.4	-	2.5
Adjusted basic earnings per share	73.9	136.4	54.2	58.7	135.0	43.5
Diluted earnings per share	70.7	138.7	51.0	55.3	137.2	40.3
Exceptional items, net of tax	3.2	-	2.3	3.4	-	2.5
Adjusted diluted earnings per share	73.9	138.7	53.3	58.7	137.2	42.8

7. Dividends

		Six months ended 30 June 2014 £m	2013 £m
2012 final	- 48.4p per share	-	66.0
2013 final	- 54.0p per share	74.4	-
Dividends paid		74.4	66.0

The directors have declared an interim dividend in respect of the six months ended 30 June 2014 of 34.1p per share (2013: 31.0p) which will amount to a dividend payment of £47.3m (2013: £42.4m). This dividend is not reflected in the balance sheet as it will be paid after the balance sheet date.

8. Amounts receivable from customers

	30 June 2014 £m	31 December 2013 £m	30 June 2013 £m
Vanquis Bank	963.3	866.6	726.6
CCD	607.5	740.0	739.6
Total group	1,570.8	1,606.6	1,466.2
Analysed as:			
– due within one year	1,509.1	1,526.9	1,397.2
– due in more than one year	61.7	79.7	69.0
Total group	1,570.8	1,606.6	1,466.2

Vanquis Bank receivables comprise £954.0m in respect of the UK business (31 December 2013: £861.3m, 30 June 2013: £723.6m) and £9.3m in respect of the Polish pilot operation (31 December 2013: £5.3m, 30 June 2013: £3.0m).

CCD receivables comprise £605.1m in respect of the home credit business (31 December 2013: £738.2m, 30 June 2013: £739.6m) and £2.4m in respect of Satsuma (31 December 2013: £1.8m, 30 June 2013: £nil).

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

	Six months ended 30 June 2014 £m	2013 £m
Vanquis Bank	73.5	67.0
CCD	124.4	167.0
Total group	197.9	234.0

The Vanquis Bank impairment charge comprises £72.3m in respect of the UK business (2013: £64.6m) and £1.2m in respect of the Polish pilot operation (2013: £2.4m).

Impairment in Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The Vanquis Bank allowance account as at 30 June 2014 amounted to £153.8m (31 December 2013: £128.8m, 30 June 2013: £116.8m). Within CCD, impairments are deducted directly from amounts receivable from customers without the use of an allowance account.

9. Retirement benefit asset

The group operates a defined benefit pension scheme: the Provident Financial Staff Pension Scheme. The scheme has been substantially closed to new members since 1 January 2003. The scheme covers 32% of employees with company-provided pension arrangements and is of the funded, defined benefit type.

Following a full group review of pension scheme arrangements, from 1 April 2006 members were provided with a choice of paying higher member contributions to continue accruing benefits based on final salary or paying a lower member contribution and accruing benefits based on a percentage of salary which would be revalued each year. For members that switched to paying lower member contributions, the benefits accrued before they switched would retain a link to their final salary at retirement. During 2012, the group further reviewed its pension arrangements and from 31 December 2012 the link to final salary at retirement no longer applies. Furthermore, no future final salary benefits will accrue, with all members now accruing benefits based on a percentage of salary that is revalued each year. As a result of this change, the past accrued final salary benefits will increase in the future in line with statutory revaluations (now linked to CPI inflation), rather than in line with future salary increases.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out as at 1 June 2012 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee Benefits' has been based on the results of this valuation which has been updated by the actuary 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 at the balance sheet date.

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

	30 June 2014 £m	31 December 2013 £m	30 June 2013 £m
Fair value of scheme assets	621.4	613.8	594.1
Present value of defined benefit obligation	(585.5)	(584.6)	(571.4)
Net retirement benefit asset recognised in the balance sheet	35.9	29.2	22.7

The amounts recognised in the income statement were as follows:

	Six months ended 30 June	
	2014 £m	2013 £m
Current service cost	(3.1)	(3.6)
Interest on scheme liabilities	(12.8)	(12.2)
Interest on scheme assets	13.5	12.8
Net charge recognised in the income statement	(2.4)	(3.0)

The net charge recognised in the income statement has been included within administrative costs.

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

	Six months ended 30 June	
	2014 £m	2013 £m
Fair value of scheme assets at 1 January	613.8	570.7
Interest on scheme assets	13.5	12.8
Actuarial movements on scheme assets	8.5	11.9
Contributions by the group	6.8	7.4
Net benefits paid out	(21.2)	(8.7)
Fair value of scheme assets at 30 June	621.4	594.1

9. Retirement benefit asset (continued)

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

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Present value of defined benefit obligation at 1 January	(584.6)	(547.7)
Current service cost	(3.1)	(3.6)
Interest on scheme liabilities	(12.8)	(12.2)
Actuarial movements on scheme liabilities	(6.2)	(16.6)
Net benefits paid out	21.2	8.7
Present value of defined benefit obligation at 30 June	(585.5)	(571.4)

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

	30 June 2014 %	31 December 2013 %	30 June 2013 %
Price inflation – RPI	3.30	3.40	3.40
Price inflation – CPI	2.30	2.40	2.65
Rate of increase to pensions in payment	3.10	3.10	3.10
Inflationary increases to pensions in deferment	2.30	2.40	2.65
Discount rate	4.30	4.40	4.60

The mortality assumptions used in the valuation of the group's defined benefit pension scheme are based on the mortality experience of self-administered pension schemes and allow for future improvements in life expectancy.

The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upward adjustment to mortality rates for males and a 15% upward adjustment for females is made in order to reflect lower life expectancies within the scheme compared to average pension schemes; and
- Future mortality improvements are in line with the CMI 2013 projections with long-term trend improvements of 1.25% per annum.

In more simple terms, members who retire in the future at age 65 will live on average for a further 24 years if they are male (31 December 2013: 24 years, 30 June 2013: 24 years) and for a further 25 years if they are female (31 December 2013: 25 years, 30 June 2013: 26 years). If assumed life expectancies had been one year greater for the scheme, the net retirement benefit asset would have reduced by approximately £18m (31 December 2013: £18m, 30 June 2013: £23m).

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

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Actuarial movements on scheme assets	8.5	11.9
Actuarial movements on scheme liabilities	(6.2)	(16.6)
Actuarial movements recognised in the statement of comprehensive income in the period	2.3	(4.7)

10. Reconciliation of profit after taxation to cash generated from operations

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Profit after taxation	70.7	55.3
Adjusted for:		
– tax charge	19.4	16.7
– finance costs	38.2	36.4
– share-based payment charge	4.2	4.6
– retirement benefit charge (note 9)	2.4	3.0
– amortisation of intangible assets	2.2	2.0
– depreciation of property, plant and equipment	3.1	3.3
– loss on disposal of property, plant and equipment	0.1	0.1
Changes in operating assets and liabilities:		
– amounts receivable from customers	35.9	47.6
– trade and other receivables	(6.4)	(5.9)
– trade and other payables	6.8	5.3
– contributions into the retirement benefit scheme (note 9)	(6.8)	(7.4)
– derivative financial instruments	(0.2)	(0.1)
Cash generated from operations	169.6	160.9

11. Fair value disclosures

The group holds the following financial instruments at fair value:

	30 June 2014 £m	31 December 2013 £m	30 June 2013 £m
Recurring fair value measurements:			
Financial assets			
Cross-currency swaps	3.4	5.4	10.2
Foreign exchange contracts	0.1	0.1	-
Total	3.5	5.5	10.2
Financial liabilities			
Interest rate swaps	(5.0)	(6.7)	(7.3)
Foreign exchange contracts	-	-	(0.3)
Total	(5.0)	(6.7)	(7.6)

All financial instruments held at fair value include the use of level 2 inputs as they are not traded in an active market and are valued using discounted contractual cash flows, incorporating interest rates and yield curves observable at commonly quoted intervals and foreign exchange rates as at the balance sheet date. There have been no transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

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

	Carrying amount			Fair value		
	30 June 2014 £m	31 December 2013 £m	30 June 2013 £m	30 June 2014 £m	31 December 2013 £m	30 June 2013 £m
Financial assets						
Amounts receivable from customers	1,570.8	1,606.6	1,466.2	2,200.0	2,300.0	2,100.0
Financial liabilities						
Bank and other borrowings	(1,242.9)	(1,284.6)	(1,181.7)	(1,314.5)	(1,371.5)	(1,264.8)

12. Seasonality

The group's peak period of lending to customers is in the lead-up to the Easter holidays in the first half of each financial year and then more significantly in the lead-up to Christmas in the second half of the financial year. Typically, approximately 60% of home credit loans issued by CCD are made in the second half of the financial year and the group's peak borrowing requirement arises in December. In addition, the group's accounting policies relating to revenue and impairment are an important influence on the recognition of the group's profit between the first and second halves of the financial year. The interest income earned on loans and receivables is spread on an effective yield basis over the contractual term of the group's loans and receivables resulting in revenue being split broadly evenly between the first and second halves of the financial year, notwithstanding that the larger proportion of credit is issued in the second half of the financial year. The accounting policy relating to the impairment of customer receivables requires impairments to be recognised only when there is objective evidence of impairment of a customer balance, such as a missed payment. This results in the group's largest impairment charges arising early in each financial year when customers default on loans they received in the lead-up to Christmas. Typically, the first half impairment charge in CCD represents approximately 60% of the full year impairment charge.

The analysis set out above relates to CCD only. Vanquis Bank is still in a growth phase and at this stage of its development the influence of its growth has a much more significant impact on the profits reported by the business during the financial year than the underlying seasonality.

Statement of directors' responsibilities

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

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

The current directors of Provident Financial plc are listed in the 2013 Annual Report & Financial Statements. John van Kuffeler retired from the board and Malcolm Le May and Alison Halsey were appointed to the board on 1 January 2014. There have been no other changes in directors during the six months ended 30 June 2014. A list of current directors is also maintained on the Provident Financial website: www.providentfinancial.com.

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

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

By order of the board

Peter Crook – Chief Executive
23 July 2014

Andrew Fisher – Finance Director

Independent review report to Provident Financial plc

We have been engaged by the company to review the unaudited condensed consolidated interim financial information in the interim report for the six months ended 30 June 2014, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and the related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the unaudited condensed consolidated interim financial information.

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

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

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the unaudited condensed consolidated interim financial information in the interim report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
23 July 2014

Information for shareholders

1. The interim report will be posted to shareholders on 7 August 2014.

2. The shares will be marked ex-dividend on 30 October 2014.

3. The interim dividend will be paid on 28 November 2014 to shareholders on the register at the close of business on 31 October 2014. Dividend warrants/vouchers will be posted on 26 November 2014.