

FINANCIAL STATEMENTS

The group's accounting policies are chosen by the directors to ensure that the financial statements present a true and fair view. All of the group's accounting policies are consistent with the requirements of International Financial Reporting Standards, interpretations issued by the International Financial Reporting Interpretations Committee and UK company law.

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Note	Group	
		2012 £m	2011 £m
Revenue	1,2	980.0	910.8
Finance costs	3	(74.7)	(69.6)
Operating costs		(478.8)	(450.1)
Administrative costs		(229.8)	(229.0)
Administrative costs before exceptional items		(245.4)	(229.0)
Exceptional items	1	15.6	–
Total costs		(783.3)	(748.7)
Profit before taxation	1,4	196.7	162.1
Profit before taxation and exceptional items	1,4	181.1	162.1
Exceptional items	1	15.6	–
Tax charge	5	(48.7)	(42.3)
Profit for the year attributable to equity shareholders		148.0	119.8

All of the above activities relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Group	
		2012 £m	2011 £m
Profit for the year attributable to equity shareholders		148.0	119.8
Other comprehensive income:			
– cash flow hedges	16	(0.6)	1.4
– actuarial movements on retirement benefit asset	18	(14.1)	(37.1)
– tax on other comprehensive income	5	3.5	9.4
– impact of change in UK tax rate	5	(0.1)	(0.1)
Other comprehensive income for the year		(11.3)	(26.4)
Total comprehensive income for the year		136.7	93.4

EARNINGS PER SHARE

For the year ended 31 December	Note	Group	
		2012 pence	2011 pence
Basic	6	110.4	89.6
Diluted	6	108.3	89.4

DIVIDENDS PER SHARE

For the year ended 31 December	Note	Group	
		2012 pence	2011 pence
Proposed final dividend	7	48.4	42.3
Total dividend for the year	7	77.2	69.0
Paid in the year*	7	71.1	64.8

*The total cost of dividends paid in the year was £96.1m (2011: £86.8m).

BALANCE SHEETS

As at 31 December	Note	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
ASSETS					
Non-current assets					
Goodwill	10	–	2.1	–	–
Other intangible assets	11	9.5	12.9	–	–
Property, plant and equipment	12	23.9	26.8	8.9	9.8
Investment in subsidiaries	13	–	–	376.0	375.3
Financial assets:					
– amounts receivable from customers	14	97.5	88.0	–	–
– derivative financial instruments	16	8.1	11.9	–	–
– trade and other receivables	17	–	–	842.2	649.0
Retirement benefit asset	18	23.0	13.5	1.9	4.2
Deferred tax assets	19	6.1	7.5	4.0	3.6
		168.1	162.7	1,233.0	1,041.9
Current assets					
Financial assets:					
– amounts receivable from customers	14	1,416.3	1,244.7	–	–
– derivative financial instruments	16	–	0.3	–	–
– cash and cash equivalents	20	79.1	49.6	2.6	2.1
– trade and other receivables	17	23.0	21.1	674.7	719.4
		1,518.4	1,315.7	677.3	721.5
Total assets	1	1,686.5	1,478.4	1,910.3	1,763.4
LIABILITIES					
Current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(169.8)	(50.5)	(7.4)	(16.3)
– derivative financial instruments	16	(2.0)	–	–	–
– trade and other payables	22	(60.6)	(53.0)	(174.2)	(121.1)
Current tax liabilities		(37.7)	(40.1)	(3.5)	(6.0)
		(270.1)	(143.6)	(185.1)	(143.4)
Non-current liabilities					
Financial liabilities:					
– bank and other borrowings	21	(1,031.6)	(999.1)	(771.9)	(594.4)
– derivative financial instruments	16	(9.4)	(9.5)	(9.4)	(9.5)
– trade and other payables	22	–	–	(48.6)	(86.9)
		(1,041.0)	(1,008.6)	(829.9)	(690.8)
Total liabilities	1	(1,311.1)	(1,152.2)	(1,015.0)	(834.2)
NET ASSETS	1	375.4	326.2	895.3	929.2
SHAREHOLDERS' EQUITY					
Share capital	23	28.7	28.5	28.7	28.5
Share premium		148.1	146.0	148.1	146.0
Other reserves	25	13.2	9.4	623.7	619.4
Retained earnings		185.4	142.3	94.8	135.3
TOTAL EQUITY		375.4	326.2	895.3	929.2

The financial statements on pages 102 to 155 were approved by the board of directors on 26 February 2013 and signed on its behalf by:

Peter Crook
Chief Executive

Andrew Fisher
Finance Director

Company number – 668987

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2011		28.1	144.0	0.9	136.4	309.4
Profit for the year		–	–	–	119.8	119.8
Other comprehensive income:						
– cash flow hedges	16	–	–	1.4	–	1.4
– actuarial movements on retirement benefit asset	18	–	–	–	(37.1)	(37.1)
– tax on other comprehensive income	5	–	–	(0.5)	9.9	9.4
– impact of change in UK tax rate	5	–	–	(0.1)	–	(0.1)
Other comprehensive income for the year		–	–	0.8	(27.2)	(26.4)
Total comprehensive income for the year		–	–	0.8	92.6	93.4
Transactions with owners:						
– issue of share capital	23	0.4	2.0	–	–	2.4
– purchase of own shares		–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards		–	–	6.2	(6.2)	–
– share-based payment charge	24	–	–	8.0	–	8.0
– transfer of share-based payment reserve		–	–	(6.3)	6.3	–
– dividends	7	–	–	–	(86.8)	(86.8)
At 31 December 2011		28.5	146.0	9.4	142.3	326.2
At 1 January 2012		28.5	146.0	9.4	142.3	326.2
Profit for the year		–	–	–	148.0	148.0
Other comprehensive income:						
– cash flow hedges	16	–	–	(0.6)	–	(0.6)
– actuarial movements on retirement benefit asset	18	–	–	–	(14.1)	(14.1)
– tax on other comprehensive income	5	–	–	0.1	3.4	3.5
– impact of change in UK tax rate	5	–	–	(0.1)	–	(0.1)
Other comprehensive income for the year		–	–	(0.6)	(10.7)	(11.3)
Total comprehensive income for the year		–	–	(0.6)	137.3	136.7
Transactions with owners:						
– issue of share capital	23	0.2	2.1	–	–	2.3
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	3.7	(3.7)	–
– share-based payment charge	24	–	–	6.4	–	6.4
– transfer of share-based payment reserve		–	–	(5.6)	5.6	–
– dividends	7	–	–	–	(96.1)	(96.1)
At 31 December 2012		28.7	148.1	13.2	185.4	375.4

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 is shown after directly writing off cumulative goodwill of £1.6m (2011: £1.6m). In addition, cumulative goodwill of £2.3m (2011: £2.3m) has been written off against the merger reserve in previous years.

Other reserves are further analysed in note 25.

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 2011		28.1	144.0	610.7	130.0	912.8
Profit for the year		–	–	–	102.1	102.1
Other comprehensive income:						
– cash flow hedges	16	–	–	1.6	–	1.6
– actuarial movements on retirement benefit asset	18	–	–	–	(8.8)	(8.8)
– tax on other comprehensive income		–	–	(0.4)	2.3	1.9
– impact of change in UK tax rate		–	–	(0.2)	(0.1)	(0.3)
Other comprehensive income for the year		–	–	1.0	(6.6)	(5.6)
Total comprehensive income for the year		–	–	1.0	95.5	96.5
Transactions with owners:						
– issue of share capital	23	0.4	2.0	–	–	2.4
– purchase of own shares		–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards		–	–	6.2	(6.2)	–
– share-based payment charge	24	–	–	4.0	–	4.0
– share-based payment movement in investment in subsidiaries	13	–	–	0.5	–	0.5
– transfer of share-based payment reserve		–	–	(2.8)	2.8	–
– dividends	7	–	–	–	(86.8)	(86.8)
At 31 December 2011		28.5	146.0	619.4	135.3	929.2
At 1 January 2012		28.5	146.0	619.4	135.3	929.2
Profit for the year		–	–	–	59.4	59.4
Other comprehensive income:						
– cash flow hedges	16	–	–	0.1	–	0.1
– actuarial movements on retirement benefit asset	18	–	–	–	(4.3)	(4.3)
– tax on other comprehensive income		–	–	(0.1)	1.1	1.0
– impact of change in UK tax rate		–	–	(0.1)	–	(0.1)
Other comprehensive income for the year		–	–	(0.1)	(3.2)	(3.3)
Total comprehensive income for the year		–	–	(0.1)	56.2	56.1
Transactions with owners:						
– issue of share capital	23	0.2	2.1	–	–	2.3
– purchase of own shares		–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards		–	–	3.7	(3.7)	–
– share-based payment charge	24	–	–	3.3	–	3.3
– share-based payment movement in investment in subsidiaries	13	–	–	0.6	–	0.6
– transfer of share-based payment reserve		–	–	(3.1)	3.1	–
– dividends	7	–	–	–	(96.1)	(96.1)
At 31 December 2012		28.7	148.1	623.7	94.8	895.3

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 £59.4m (2011: £102.1m).

Other reserves are further analysed in note 25.

STATEMENTS OF CASH FLOWS

For the year ended 31 December	Note	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
Cash flows from operating activities					
Cash generated from operations	29	89.6	138.7	48.8	24.4
Finance costs paid		(73.1)	(69.9)	(66.7)	(64.5)
Finance income received		–	–	87.3	95.2
Tax paid		(46.3)	(42.0)	(8.5)	(2.0)
Net cash (used in)/generated from operating activities		(29.8)	26.8	60.9	53.1
Cash flows from investing activities					
Purchase of intangible assets	11	(1.6)	(3.0)	–	–
Purchase of property, plant and equipment	12	(7.1)	(6.0)	(0.9)	(0.4)
Proceeds from disposal of property, plant and equipment	12	1.3	1.6	0.6	0.3
Long-term loans provided to subsidiaries		–	–	(200.0)	–
Repayment of long-term loans by subsidiaries		–	–	6.8	–
Dividends received from subsidiaries		–	–	55.0	85.0
Net cash (used in)/generated from investing activities		(7.4)	(7.4)	(138.5)	84.9
Cash flows from financing activities					
Proceeds from bank and other borrowings		531.8	330.1	310.6	190.4
Repayment of bank and other borrowings		(363.2)	(251.1)	(129.7)	(234.9)
Dividends paid to company shareholders	7	(96.1)	(86.8)	(96.1)	(86.8)
Proceeds from issue of share capital	23	2.3	2.4	2.3	2.4
Purchase of own shares	25	(0.1)	(0.2)	(0.1)	(0.2)
Repayment of loans from subsidiaries		–	–	–	(16.3)
Net cash generated from/(used in) financing activities		74.7	(5.6)	87.0	(145.4)
Net increase/(decrease) in cash, cash equivalents and overdrafts					
Cash, cash equivalents and overdrafts at beginning of year		32.2	18.4	(14.2)	(6.8)
Cash, cash equivalents and overdrafts at end of year		69.7	32.2	(4.8)	(14.2)
Cash, cash equivalents and overdrafts at end of year comprise:					
Cash at bank and in hand	20	79.1	49.6	2.6	2.1
Overdrafts (held in bank and other borrowings)	21	(9.4)	(17.4)	(7.4)	(16.3)
Total cash, cash equivalents and overdrafts		69.7	32.2	(4.8)	(14.2)

Cash at bank and in hand includes £52.3m (2011: £17.5m) in respect of the liquid assets buffer held by Vanquis Bank in accordance with the FSA's liquidity regime. This buffer is not available to finance the group's day-to-day operations.

The statutory cash flow statement reflects the cash inflow/(outflow) after funding the growth in the receivables book. The group's financial model is to fund the receivables book through a combination of 20% equity and 80% debt. Accordingly, to assess the group's capital generation to pay dividends to the company's shareholders, capital generation is calculated as net cash (used in)/generated from operating activities, after assuming that 80% of the growth in receivables is funded with borrowings, less net capital expenditure. Capital generated in 2012 on this basis was £107.7m (2011: £110.1m) compared with a dividend payable in respect of 2012 of £104.3m (2011: £93.0m).

STATEMENT OF ACCOUNTING POLICIES

GENERAL INFORMATION

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

The company is listed on the London Stock Exchange.

BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (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 to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the group and company's accounting policies.

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

(a) New and amended standards adopted by the group and company:

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that have had a material impact on the group or company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted:

IAS 19, 'Employee benefits' was amended in June 2011 and is applicable from 1 January 2013 with retrospective application required. The changes to the standard require the group to calculate its annual pension charge as the current service cost plus or minus the discount rate applied to the net pension asset. This replaces the current calculation which is the current service cost plus the expected return on plan assets less the unwinding of the discount rate on liabilities. In effect, this requires the group to replace its long-term rate of return on assets assumption (currently 5.3%) with its discount rate (currently 4.5%) thereby reducing the assumed return on assets and increasing the pension charge. The estimated impact on the income statement in 2013 is to increase the pension charge by approximately £2m.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and updated in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The classification is determined at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, changes in fair value due to an entity's own credit risk are recorded in other comprehensive income rather than in the income statement, unless this creates an accounting mismatch. The group is in the process of assessing the updates to IFRS 9, both those which have been issued and those aspects relating to hedge accounting and impairment which will be issued in due course. The group will adopt IFRS 9 in its entirety no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. All subsidiaries within the group are wholly owned and therefore the adoption of IFRS 10 will not have a material impact on the group.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. All subsidiaries within the group are wholly owned therefore the adoption of IFRS 12 will not have a material impact on the group or company.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. IFRS 13 will be adopted during the accounting period beginning on 1 January 2013 and will not have a material impact on the group or company.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group and company.

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 assumed to exist where more than 50% of the voting share capital is owned or where the group controls another entity either through the power to:

- govern the operating and financial policies of that entity;
- appoint or remove the majority of the members of the board of that entity; or
- cast the majority of the votes at a board meeting of that entity.

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 income earned by the Consumer Credit Division (CCD) and interest and fee income earned by Vanquis Bank.

Revenue excludes value added tax and intra-group transactions.

Within CCD, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers repaying early but excluding the anticipated impact of customers paying late or not paying at all. 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.

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

FINANCE COSTS

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

DIVIDEND INCOME

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

GOODWILL

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

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

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that 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 group's latest budget projections and the discount rate is based on the group's weighted average 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.

OTHER INTANGIBLE ASSETS

Other intangible assets, which comprise stand-alone computer software and computer software development costs, represent the costs incurred to acquire or develop the specific software and bring it into use. These are valued at cost less subsequent amortisation.

Directly attributable costs associated with the development of software that will generate future economic benefits are capitalised as an intangible asset. Directly attributable costs include the cost of software development employees and an appropriate portion of relevant directly attributable overheads.

Computer software is amortised on a straight-line basis over its estimated useful economic life which is generally estimated to be between five and ten years.

The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date.

Amortisation is charged to the income statement as part of administrative costs.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The group's subsidiaries primarily operate in the UK and Republic of Ireland, with a pilot credit card operation in Poland. The consolidated and 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.

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 to the higher of the net asset value of the relevant subsidiary and its discounted expected future cash flows.

AMOUNTS RECEIVABLE FROM CUSTOMERS

Customer receivables are initially recorded at the amount advanced to the customer plus directly attributable issue costs. Subsequently, receivables are increased by revenue and reduced by cash collections and any deduction for impairment.

The group assesses whether there is objective evidence that customer receivables are impaired at each balance sheet date. The principal criterion for determining whether there is objective evidence of impairment is delinquency in contractual payments.

Within the weekly home credit business of CCD, objective evidence of impairment is based on the payment performance of loans in the previous 12 weeks as this is considered to be the most appropriate indicator of credit quality. Loans are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate significantly. Loans with one missed weekly payment over the previous 12-week period are not deemed to be impaired. The amount of impairment loss is calculated on a portfolio basis by reference to arrears stages and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate. Subsequent cash flows are regularly compared to estimated cash flows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

Within Vanquis Bank, where repayments are typically made monthly, customer balances are deemed to be impaired when one monthly contractual payment is missed. Impairment is calculated as the difference between the carrying value of receivables and the present value of estimated future cash flows discounted at the original effective interest rate. Estimated future cash flows are based on the historical performance of customer balances falling into different arrears stages and are regularly reassessed.

Separate provisions are raised where forbearance is provided to the customer and alternative payment arrangements are established. Accounts under payment arrangements are separately identified according to the type of payment arrangement. The carrying value of receivables under each type of payment arrangement is calculated using historical cash flows used to predict future expected cash flows which are discounted at the original effective interest rate.

In CCD, impairment charges are deducted directly from the carrying value of receivables whilst in Vanquis Bank impairment is recorded through the use of an allowance account.

Impairment is charged to the income statement as part of operating costs.

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	–
Freehold and long leasehold buildings	2½	Straight line
Short leasehold buildings	Over the lease period	Straight line
Equipment (including computer hardware)	10 to 33⅓	Straight line
Motor vehicles	25	Reducing balance

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

LEASES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand and amounts invested in money market funds held as part of a liquid assets buffer in accordance with the FSA's liquidity regime. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

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.

Where borrowings are the subject of a fair value hedge, changes in the fair value of the borrowing that are attributable to the hedged risk are recognised in the income statement and a corresponding adjustment made to the carrying value of borrowings.

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.

DERIVATIVE FINANCIAL INSTRUMENTS

The group and company use derivative financial instruments, principally interest rate swaps, cross-currency swaps and forward contracts, to manage the interest rate and foreign exchange rate risk arising from the group's underlying business operations. No transactions of a speculative nature are undertaken.

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

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

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement as part of finance costs, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

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

Hedge accounting for both fair value and cash flow hedges is discontinued when:

- it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge; or
- the derivative expires, or is sold, terminated or exercised; or
- the underlying hedged item matures or is sold or repaid.

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve in shareholders' equity are shown in note 25. The full fair value of a derivative financial instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Net investment hedges

The group uses a combination of borrowings denominated in overseas currencies and foreign currency forward contracts as a hedge against the translation exposure on the parent's net investment in overseas branches. Where the hedge is fully effective at hedging the variability in the net assets of those operations and/or the parent's investment caused by changes in exchange rates, the changes in value of the borrowings and forward contracts are recognised in the statement of comprehensive income and accumulated in the hedging reserve. When a hedge is no longer deemed to be highly effective, the ineffective part of any change in value caused by changes in exchange rates is recognised in the income statement with previous gains or losses deferred within equity being recycled to the income statement.

PROVISIONS

Provisions are recognised when the group or company has a present obligation as a result of a past event, which is reliably measurable and when it is probable that the group or company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

DIVIDENDS PAID

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

- Final dividend: when approved by the company's shareholders at the annual general meeting.
- 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 charge on pension liabilities offset by the expected return on pension scheme assets. All charges are recognised within administrative costs in the income statement.

The retirement benefit asset recognised in the balance sheet in respect of defined benefit pension schemes is the fair value of the schemes' assets less the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised past service costs. 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, unless changes to the pension schemes are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortised on a straight-line basis over the vesting period.

Defined contribution pension schemes

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

SHARE-BASED PAYMENTS

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 the schemes are equity-settled.

The cost of providing options and awards to group and company employees is charged to the income statement of the group and company 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 credit to the share-based payment reserve within equity.

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

For the LTIS schemes prior to 2009, performance conditions were based on Total Shareholder Return (TSR). Accordingly, the fair value of awards was determined using a Monte Carlo option pricing model as this is the most appropriate model for valuing options with external related targets such as TSR. For the LTIS schemes from 2009 onwards, performance conditions are based on a combination of both EPS and TSR targets. Accordingly, 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. Where the Monte Carlo option pricing model is used to determine fair value, 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 or lapse.

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.

Where any group company purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is included within a treasury shares reserve and deducted from equity until the shares are no longer held by a group company or cancelled. Where such shares are reissued outside of the group, any consideration received, net of any directly attributable transaction costs, is included within the treasury shares reserve.

TAXATION

The tax charge represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantially 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 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 substantially 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.

EXCEPTIONAL ITEMS

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

KEY ASSUMPTIONS AND ESTIMATES

In applying the accounting policies set out above, the group and company make significant estimates and assumptions that affect the reported amounts of assets and liabilities as follows:

Amounts receivable from customers (£1,513.8m)

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 arrears stages as this is considered to be the most reliable indication of future payment performance. The group makes judgements to determine whether there is objective evidence which indicates that there has been an adverse effect on expected future cash flows. In the weekly home credit business, receivables are deemed to be impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 12 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly.

Customer accounts in Vanquis Bank are deemed to be impaired when one contractual monthly payment has been missed. The level of impairment in both 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.

To the extent that the net present value of estimated future cash flows differs by +/- 1%, it is estimated that the amounts receivable from customers would be approximately £15m (2011: £13m) higher/lower.

Tax (current tax liabilities £37.7m, deferred tax assets £6.1m)

The tax treatment of certain items cannot be determined precisely until tax audits or enquiries have been completed by the tax authorities. In some instances, this can be years after the item has first been reflected in the financial statements. The group recognises liabilities for anticipated tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due. If the outcome of such audits is that the final liability is different from the amount originally estimated, such differences will be recognised in the period in which the tax audit or enquiry is concluded. Any differences may necessitate a material adjustment to the level of tax balances held in the balance sheet.

If the probability assessment of uncertain tax liabilities was adjusted by +/- 5%, it is estimated that the group's tax liabilities would be £0.9m (2011: £1.3m) higher/lower.

Retirement benefit asset (£23.0m)

The principal assumptions used in the valuation of the retirement benefit asset as at 31 December 2012 are set out in note 18.

The valuation of the retirement benefit asset is dependent upon a series of assumptions; the key assumptions being mortality rates, the discount rate applied to liabilities, investment returns, salary inflation, the rate of pension increase and the extent to which members take up the maximum tax-free commutation on retirement.

Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the group's own 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. The returns on fixed asset investments are set to market yields at the valuation date to ensure consistency with the asset valuation. The returns on UK and overseas equities are set by considering the long-term expected returns on these asset classes using a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Inflation assumptions reflect the long-term expectations for the retail price inflation. The assumption as to how many members will take up the maximum tax-free commutation on retirement is based on the scheme's own experience of commutation levels.

A 0.1% movement in the discount rate would increase/decrease the retirement benefit asset by approximately £11m (2011: £10m).

If assumed life expectancies had been one year greater for the scheme, the retirement benefit asset would reduce by approximately £20m (2011: £20m).

FINANCIAL AND CAPITAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks, which can be categorised as credit risk, liquidity risk, interest rate risk and foreign exchange rate 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. These risks are monitored and managed through a centralised treasury function on a group basis. Accordingly, it would not be relevant to disclose the impact of these risks on an individual statutory entity basis.

Financial risk management is overseen by the risk advisory committee. Further details of the group's risk management framework are described on pages 69 to 75.

(a) Credit risk

Credit risk is the risk that the group will suffer loss in the event of a default by a customer or a bank counterparty. 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 2012 is the carrying value of amounts receivable from customers of £1,513.8m (2011: £1,332.7m).

CCD

Credit risk within CCD is managed by the CCD credit committee which meets at least every two months and is responsible for approving credit control policy and decisioning strategy.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, and a home visit 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 £500. The loans are underwritten in the home by an agent with emphasis placed on any previous lending experience with the customer and the agent's assessment of the credit risk based on a completed application form and the home visit. Once a loan has been made, the agent visits the customer weekly, or in some cases monthly, to collect payment. The agent 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 agent has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This can be in the form of taking part-payments, allowing missed payments or occasionally restructuring the debt in order to maximise cash collections.

Agents are primarily paid commission for what they collect and not for what they lend, so their main focus is on ensuring loans are affordable at the point of issue and then on collecting cash. Affordability is reassessed by the agent each time an existing customer is re-served, or not as the case may be. This normally takes place within 12 months of the previous loan because of the short-term nature of the product.

Arrears management within home credit is a combination of central letters, 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.

VANQUIS BANK

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

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

FINANCIAL RISK MANAGEMENT – CONTINUED

(ii) Bank counterparties

The group's maximum exposure to credit risk on bank counterparties as at 31 December 2012 was £15.4m (2011: £21.5m).

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

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

(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 and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fund 90% of its receivables book through retail deposits. As at 31 December 2012, the group's committed borrowing facilities had a weighted average maturity of 3.7 years (2011: 3.5 years) and the headroom on these committed facilities amounted to £191.9m (2011: £288.1m).

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business, the group's largest business, are of short-term duration (typically around one year) whereas the group's borrowings extend over a number of years.

As an FSA-regulated institution, Vanquis Bank is required to maintain a liquid assets buffer in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. As at 31 December 2012, the liquid assets buffer held by Vanquis Bank amounted to £52.3m (2011: £17.5m) in line with the liquidity guidance and transitional arrangements set by the FSA.

A maturity analysis of the undiscounted contractual cash flows of the group's bank and other borrowings, including derivative financial instruments settled on a net and gross basis, is shown below.

The table below shows the future cash payable under current drawings. 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 3 months at any time despite having the ability to draw the borrowings for much longer under the committed borrowing facility. In the table below, the cash flows of borrowings made under the group's syndicated revolving bank facilities 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 in May 2015.

Financial liabilities

	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
2012 – group						
Bank and other borrowings:						
– bank facilities	5.4	192.0	–	–	–	197.4
– senior public bonds	–	20.0	20.0	60.0	290.0	390.0
– private placement loan notes	–	55.8	41.6	48.2	117.3	262.9
– subordinated loan notes	–	0.3	0.3	6.4	–	7.0
– retail bonds	–	14.0	14.0	208.4	29.9	266.3
– retail deposits	–	120.4	56.5	190.5	–	367.4
Total bank and other borrowings	5.4	402.5	132.4	513.5	437.2	1,491.0
Derivative financial instruments – settled net	–	3.2	3.1	3.6	–	9.9
Trade and other payables	–	60.6	–	–	–	60.6
Total	5.4	466.3	135.5	517.1	437.2	1,561.5

Financial assets

	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
2012 – group						
Derivative financial instruments – settled gross	–	(0.1)	7.0	–	–	6.9
Trade and other receivables	–	23.0	–	–	–	23.0
Total	–	22.9	7.0	–	–	29.9

FINANCIAL RISK MANAGEMENT – CONTINUED

Financial liabilities

2011 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Bank and other borrowings:						
– bank facilities	22.2	331.3	–	–	–	353.5
– senior public bonds	–	20.0	20.0	60.0	310.0	410.0
– private placement loan notes	–	8.5	56.3	78.5	123.2	266.5
– subordinated loan notes	–	0.3	0.3	6.7	–	7.3
– retail bonds	–	5.6	5.6	63.2	31.8	106.2
– retail deposits	–	37.6	75.5	32.4	–	145.5
Total bank and other borrowings	22.2	403.3	157.7	240.8	465.0	1,289.0
Derivative financial instruments – settled net	–	2.7	2.6	5.0	–	10.3
Trade and other payables	–	53.0	–	–	–	53.0
Total	22.2	459.0	160.3	245.8	465.0	1,352.3

Financial assets

2011 – group	Repayable on demand £m	< 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Derivative financial instruments – settled gross	–	1.6	2.0	8.8	–	12.4
Derivative financial instruments – settled net	–	0.3	–	–	–	0.3
Total derivative financial instruments	–	1.9	2.0	8.8	–	12.7
Trade and other receivables	–	21.1	–	–	–	21.1
Total	–	23.0	2.0	8.8	–	33.8

(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 2012 and 2011 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.

(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 is monitored monthly by the treasury committee and is governed by a board-approved foreign exchange rate risk management policy which forms part of the group's treasury policies.

The group's exposures to foreign exchange rate risk arise solely from: (i) the issuance of US dollar private placement loan notes, which are fully hedged into sterling through the use of cross-currency swaps; and (ii) the home credit operations in the Republic of Ireland and the Polish branch of Vanquis Bank, which are hedged by matching euro/zloty-denominated net assets with euro/zloty-denominated borrowings or forward contracts as closely as practicable.

As at 31 December 2012, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.9m (2011: £1.0m) movement in external borrowings with an opposite movement of £0.9m (2011: £1.0m) in the hedging reserve within equity. Due to the hedging arrangements in place, there would have been no impact on reported profits (2011: £nil).

As at 31 December 2012, a 2% movement in the sterling to euro exchange rate would have led to a £1.1m (2011: £1.1m) movement in customer receivables with an opposite movement of £1.1m (2011: £1.1m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been no impact on reported profits or equity (2011: £nil).

As at 31 December 2012, a 2% movement in the sterling to zloty exchange rate would have led to a £nil (2011: £nil) movement in customer receivables with an opposite movement of £nil (2011: £nil) in the valuation of forward contracts. Due to the net investment hedge in place, there would have been no impact on reported profits or equity (2011: £nil).

(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.

CAPITAL RISK MANAGEMENT

The group's objective in respect of capital risk management is to maintain an efficient capital structure whilst satisfying the requirements of the group's banking covenants and the regulatory capital requirements set by the FSA. The group primarily manages its capital base against two measures as described below:

(a) Gearing

In order to maintain an efficient capital structure, the group has a maximum target gearing ratio of 3.5 times. This provides a comfortable level of headroom against the group's banking covenant of 5.0 times and regulatory capital requirements. The maximum target gearing ratio of 3.5 times is fully aligned with the group's target of distributing 80% of post-tax earnings by way of dividends whilst retaining sufficient capital to support receivables growth consistent with management's medium-term growth plans for the group.

As at 31 December 2012, the gearing ratio stood at 3.2 times (2011: 3.2 times), calculated as follows:

	Note	2012 £m	2011 £m
Borrowings	21	1,201.4	1,049.6
Exchange rate adjustment	21	(5.8)	(11.2)
Arrangement fees	21	9.8	6.4
Liquid assets buffer*	20	(52.3)	–
Borrowings for gearing purposes		1,153.1	1,044.8
Shareholders' equity		375.4	326.2
Pension asset	18	(23.0)	(13.5)
Deferred tax on pension asset	19	5.3	3.4
Hedging reserve	25	7.0	6.4
Equity for gearing purposes		364.7	322.5
Gearing (times)		3.2	3.2

*Following the renewal of syndicated bank facilities in February 2012, borrowings for the purposes of the gearing calculation were amended to deduct the liquid assets buffer held in Vanquis Bank. The prior year comparative has not been restated but shows gearing as reported against the covenant in that year.

The gearing ratio is lower than the maximum target of 3.5 times due to the strong capital generation of the group during 2011 and 2012.

(b) Regulatory capital

The group is the subject of consolidated supervision by the FSA. As part of this supervision, it is required to maintain a certain level of regulatory capital (known as its Individual Capital Guidance (ICG)) in order to mitigate against unexpected losses. The ICG remains confidential between the FSA and the relevant institution and cannot be publicly disclosed.

Regulatory capital differs from the group's shareholders' equity included in the balance sheet as it excludes intangible assets, the group's pension asset and the fair value of derivatives, both net of deferred tax, but includes the group's subordinated loan notes.

A reconciliation of the group's equity to regulatory capital is set out below:

	Note	2012 £m	2011 £m
Shareholders' equity		375.4	326.2
Intangible assets:			
– goodwill	10	–	(2.1)
– other intangible assets	11	(9.5)	(12.9)
Pension asset	18	(23.0)	(13.5)
Deferred tax on pension asset	19	5.3	3.4
Hedging reserve	25	7.0	6.4
Tier 1 capital		355.2	307.5
Tier 2 capital – subordinated loan notes		3.6	4.8
Total regulatory capital held		358.8	312.3

When tier 2 subordinated loan notes have less than five years until maturity, the amount eligible for inclusion within regulatory capital reduces by 20% per annum for each year. Accordingly, the amount of the subordinated loan notes eligible for regulatory capital purposes as at 31 December 2012 amounts to 60% of the balance outstanding (2011: 80%).

The treasury committee is responsible for monitoring the level of regulatory capital. The level of surplus regulatory capital against the ICG is reported to the board on a monthly basis in the group's management accounts. The group regularly forecasts regulatory capital requirements as part of the budgeting and strategic planning process. The group is required to report twice annually to the FSA on the level of regulatory capital it holds. As at 31 December 2012, the group's total regulatory capital of £358.8m (2011: £312.3m) was comfortably in excess of the ICG set by the FSA.

NOTES TO THE FINANCIAL STATEMENTS

1 SEGMENT REPORTING

IFRS 8 requires segment reporting to be based on the internal financial information reported to the chief operating decision maker. The group's chief operating decision maker is deemed to be the Executive Committee comprising Peter Crook (Chief Executive), Andrew Fisher (Finance Director) and Chris Gillespie (Managing Director, CCD) whose primary responsibility it is to manage the group's day-to-day operations and analyse trading performance. The group's segments comprise CCD, Vanquis Bank and Central which are those segments reported in the group's management accounts used by the Executive Committee as the primary means for analysing trading performance. The Executive Committee assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the group financial statements.

Group	Revenue		Profit/(loss) before taxation	
	2012 £m	2011 £m	2012 £m	2011 £m
CCD	696.9	697.1	125.1	127.5
Vanquis Bank	283.1	213.7	68.0	44.2
	980.0	910.8	193.1	171.7
Central:				
– costs	–	–	(12.0)	(10.2)
– interest receivable	–	–	–	0.6
Total central	–	–	(12.0)	(9.6)
Total group before exceptional items	980.0	910.8	181.1	162.1
Exceptional items	–	–	15.6	–
Total group	980.0	910.8	196.7	162.1

Revenue in CCD was in line with 2011 as the revenue yield in the year remained at 89.0%. This reflects the consistent mix of business over the last two years. The 32.4% growth in revenue in Vanquis Bank in 2012 reflects the 30.1% increase in UK customer numbers in the year together with the continued success of the credit line increase programme to existing customers.

Central costs reflect the cost of the group's corporate office including legal, finance, treasury, tax, pensions, internal audit, community programme and media and corporate affairs costs. The costs have increased in 2012 primarily due to higher pension charges and higher compliance and regulatory costs.

Exceptional items in 2012 comprise: (i) a £17.7m curtailment credit due to severing the link between past accrued benefits and final salary at retirement within the group's defined benefit pension scheme (see note 18); and (ii) a £2.1m charge relating to the impairment of goodwill in respect of Cheque Exchange Limited, a business originally acquired in 2001 and now subsumed within CCD (see note 10).

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

Group	Segment assets		Segment liabilities		Net assets/(liabilities)	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
CCD	947.8	962.0	(724.5)	(737.2)	223.3	224.8
Vanquis Bank	716.1	487.0	(564.1)	(385.5)	152.0	101.5
Central	53.9	52.4	(53.8)	(52.5)	0.1	(0.1)
Total before intra-group elimination	1,717.8	1,501.4	(1,342.4)	(1,175.2)	375.4	326.2
Intra-group elimination	(31.3)	(23.0)	31.3	23.0	–	–
Total group	1,686.5	1,478.4	(1,311.1)	(1,152.2)	375.4	326.2

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 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 £31.3m (2011: £23.0m) 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. During the first half of 2012, Vanquis Bank established a branch in Poland as part of a pilot credit card operation in that territory. The revenue in respect of the branch in 2012 amounted to £0.1m (2011: £nil) and the loss amounted to £3.3m (2011: £nil). The net liabilities of the branch amounted to £1.2m at 31 December 2012 (2011: £nil), comprising assets of £2.8m (2011: £nil) and liabilities of £4.0m (2011: £nil). These figures are included within the Vanquis Bank figures in the table above.

The intra-group elimination rebases CCD's borrowings to 80% of receivables to bring their borrowings in line with the group's maximum target gearing ratio of 3.5 times. This adjustment essentially eliminates goodwill and intercompany borrowings arising following the capital restructuring of the group in the late 1990s. Vanquis Bank's borrowings broadly equate to 80% of receivables in line with their regulatory capital requirement.

1 SEGMENT REPORTING – CONTINUED

Group	Capital expenditure		Depreciation		Amortisation	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
CCD	6.5	5.5	6.5	5.3	4.2	6.8
Vanquis Bank	1.3	3.1	0.9	1.0	0.8	0.7
Central	0.9	0.4	1.2	1.0	–	–
Total group	8.7	9.0	8.6	7.3	5.0	7.5

Capital expenditure in 2012 comprises expenditure on intangible assets of £1.6m (2011: £3.0m) and property, plant and equipment of £7.1m (2011: £6.0m). The amortisation charge in 2012 excludes £2.1m of impairment of goodwill (see note 10).

2 REVENUE

Revenue is recognised by applying the effective interest rate (EIR) to the carrying value of a loan. The effective interest rate 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 CCD the EIR takes account of customers repaying early.

	Group	
	2012 £m	2011 £m
Interest income	888.2	840.2
Fee income	91.8	70.6
Total revenue	980.0	910.8

All fee income earned relates to Vanquis Bank.

Interest income relates to the service charge on home credit loans and interest charges on Vanquis Bank credit cards. Fee income wholly relates to Vanquis Bank and predominantly reflects default and overlimit fees as well as other ancillary income streams such as interchange income and Repayment Option Plan (ROP), Identity Theft Alert and ValueSaver fees. Fee income in 2012 represented 32% (2011: 33%) of Vanquis Bank revenue.

3 FINANCE COSTS

	Group	
	2012 £m	2011 £m
Interest payable on bank borrowings	19.9	32.9
Interest payable on senior public and retail bonds	32.7	25.0
Interest payable on private placement loan notes	11.1	12.2
Interest payable on subordinated loan notes	0.3	0.3
Interest payable on retail deposits	10.7	0.8
Net hedge ineffectiveness and other fair value movements	–	(1.6)
Total finance costs	74.7	69.6

The credit of £1.6m in 2011 in respect of net hedge ineffectiveness and other fair value movements relates to derivatives which became ineffective in 2009 (see note 16(b)).

The group's blended funding rate in 2012 was 7.2%, down from 7.6% in 2011. This primarily reflects the development of the retail deposits programme in Vanquis Bank during 2012. Retail deposits represent approximately 27% of the group's funding at the end of 2012 compared with approximately 13% in 2011. The all-in blended cost of taking retail deposits in 2012, after the cost of holding a liquid assets buffer was 4.5% (2011: 5.3%). The group funding rate for 2013 is expected to be around 7%.

Interest cover continues to be one of the group's banking covenants. It is calculated as profit before tax, interest and amortisation divided by finance costs, excluding net hedge ineffectiveness, and has a minimum requirement of 2.0 times. Interest cover, prior to exceptional items, in 2012 was 3.5 times compared with 3.3 times in 2011.

4 PROFIT BEFORE TAXATION

	Group	
	2012 £m	2011 £m
Profit before taxation is stated after charging/(crediting):		
Amortisation of other intangible assets:		
– computer software (note 11)	5.0	7.5
Exceptional impairment of goodwill (note 10)	2.1	–
Depreciation of property, plant and equipment (note 12)	8.6	7.3
Loss on disposal of property, plant and equipment (note 12)	0.1	0.2
Operating lease rentals:		
– property	9.5	11.4
Employment costs, prior to exceptional pension credit (note 9(b))	141.4	135.7
Exceptional pension credit (note 18)	(17.7)	–
Impairment of amounts receivable from customers (note 14)	326.1	300.7

Operating costs include impairment of amounts receivable from customers; commission paid to self-employed agents (which broadly represents 40% of home credit's costs) and marketing and customer acquisition costs. Administrative costs reflect all other costs incurred in running the business, the largest of which is employment costs (see note 9).

During 2012, following a rigorous audit tender process, Deloitte LLP was appointed as auditor from 29 June 2012 and PricewaterhouseCoopers LLP, who had been the group's auditor for a number of years, resigned. The tables below set out the audit and non-audit fees of Deloitte LLP since 29 June 2012 and of PricewaterhouseCoopers LLP in 2012 and 2011.

	Group	
	2012 £m	2011 £m
Deloitte LLP		
Auditor's remuneration		
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	0.1	–
Fees payable to the company's auditor and its associates for other services:		
– audit of company's subsidiaries pursuant to legislation	0.2	–
– other services pursuant to legislation	0.2	–
Total auditor's remuneration payable to Deloitte LLP	0.5	–

	Group	
	2012 £m	2011 £m
PricewaterhouseCoopers LLP		
Auditor's remuneration		
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	–	0.1
Fees payable to the company's auditor and its associates for other services:		
– audit of company's subsidiaries pursuant to legislation	0.1	0.2
– other services pursuant to legislation	0.1	0.1
Total auditor's remuneration paid to PricewaterhouseCoopers LLP	0.2	0.4

5 TAX CHARGE

	Group	
	2012 £m	2011 £m
Tax charge in the income statement		
Current tax		
– UK	(43.0)	(37.7)
– overseas	(0.9)	–
Total current tax	(43.9)	(37.7)
Deferred tax (note 19)	(4.4)	(4.3)
Impact of change in UK tax rate (note 19)	(0.4)	(0.3)
Total tax charge	(48.7)	(42.3)

The tax charge in respect of exceptional items in 2012 amounted to £4.3m.

The effective tax rate for 2012 prior to exceptional items is 24.5% (2011: 26.1%), in line with the UK statutory corporation tax rate which reduced from 26.0% to 24.0% on 1 April 2012. The group is expected to benefit in future years from the progressive rate reductions announced in recent budgets.

As a result of the change in UK corporation tax rate which is effective from 1 April 2013, deferred tax balances have been re-measured. The temporary differences on which deferred tax balances have been calculated are expected to reverse after 1 April 2013 (2011: 1 April 2012). Accordingly, the balances have been calculated using a rate of 23% (2011: 25%). A tax charge of £0.4m in 2012 (2011: £0.3m) represents the income statement adjustment to deferred tax as a result of this change. An additional deferred tax charge of £0.1m in 2012 (2011: £0.1m) has been taken directly to other comprehensive income, reflecting the impact of the change in UK corporation tax rates on items previously reflected directly in other comprehensive income.

	Group	
	2012 £m	2011 £m
Tax credit on items taken directly to other comprehensive income		
Current tax credit/(charge) on cash flow hedges	0.1	(0.5)
Deferred tax credit on actuarial movements on retirement benefit asset	3.4	9.9
Tax credit on other comprehensive income prior to change in UK tax rate	3.5	9.4
Impact of change in UK tax rate	(0.1)	(0.1)
Total tax credit on items taken directly to other comprehensive income	3.4	9.3

The rate of tax charge on the profit before taxation for the year is higher than (2011: lower than) the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). This can be reconciled as follows:

	Group	
	2012 £m	2011 £m
Profit before taxation	196.7	162.1
Profit before taxation multiplied by the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(48.2)	(43.0)
Effects of:		
– benefit of lower tax rates overseas	1.0	–
– impairment of goodwill not deductible for tax purposes	(0.5)	–
– adjustment in respect of prior years	(0.5)	1.2
– expenses not deductible for tax purposes, net of non-taxable income	(0.1)	(0.2)
– impact of change in UK tax rate	(0.4)	(0.3)
Total tax charge	(48.7)	(42.3)

6 EARNINGS PER SHARE

The group presents basic and diluted EPS data on its ordinary shares. Basic EPS 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, adjusted for treasury shares (own shares held). 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 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, excluding the impact of any exceptional items.

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

Group	2012			2011		
	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 year		138.0			136.8	
Own shares held		(3.9)			(3.1)	
Basic earnings per share	148.0	134.1	110.4	119.8	133.7	89.6
Dilutive effect of share options and awards	–	2.5	(2.1)	–	0.3	(0.2)
Diluted earnings per share	148.0	136.6	108.3	119.8	134.0	89.4

The directors have elected to show an adjusted earnings per share prior to exceptional items in 2012 (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:

Group	2012			2011		
	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	148.0	134.1	110.4	119.8	133.7	89.6
Exceptional items, net of tax	(11.3)	–	(8.4)	–	–	–
Adjusted basic earnings per share	136.7	134.1	102.0	119.8	133.7	89.6
Diluted earnings per share	148.0	136.6	108.3	119.8	134.0	89.4
Exceptional items, net of tax	(11.3)	–	(8.2)	–	–	–
Adjusted diluted earnings per share	136.7	136.6	100.1	119.8	134.0	89.4

Adjusted basic EPS has grown by 13.8% in 2012 due to the strong performance of Vanquis Bank in the year. This growth is higher than the 11.7% growth in profit before tax and exceptional items due to the fall in corporation tax rate from 26% to 24% on 1 April 2012.

7 DIVIDENDS

		Group and company	
		2012 £m	2011 £m
2010 final	– 38.1p per share	–	51.0
2011 interim	– 26.7p per share	–	35.8
2011 final	– 42.3p per share	57.2	–
2012 interim	– 28.8p per share	38.9	–
Dividends paid		96.1	86.8

The directors are recommending a final dividend in respect of the financial year ended 31 December 2012 of 48.4p (2011: 42.3p) per share which will amount to a dividend payment of £65.4m (2011: £57.2m). If approved by the shareholders at the annual general meeting on 9 May 2013, this dividend will be paid on 21 June 2013 to shareholders who are on the register of members at 24 May 2013. This dividend is not reflected in the balance sheet as at 31 December 2012 as it is subject to shareholder approval.

At the time of the demerger of the international business in 2007, the board stated its intention to maintain a full-year dividend of 63.5p per share until a dividend cover of 1.25 times was reached and thereafter adopt a progressive dividend profile whilst maintaining a minimum dividend cover of at least 1.25 times. During 2011, the growth in profit before tax allowed the group to increase its full-year dividend for the first time by 8.7% which resulted in dividend cover of 1.30 times. As a result of adjusted EPS growth of 13.8% in 2012, the directors have proposed an increase in the final dividend of 14.4% which, together with the 7.9% increase in the interim dividend, makes a total full-year dividend increase of 11.9%. Accordingly, dividend cover, prior to exceptional items, in 2012 was 1.32 times.

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'. Further information in respect of directors' remuneration, share options and awards, pension contributions and pension entitlements is set out in the directors' remuneration report on pages 86 to 100.

		Group and company	
		2012 £m	2011 £m
Short-term employee benefits		4.0	3.8
Post-employment benefits		0.6	0.3
Share-based payment charge		2.7	3.2
Total		7.3	7.3

Short-term employee benefits comprise salary/fees, bonus and benefits earned in the year. Post-employment benefits represent the sum of: (i) the increase in the transfer value of the accrued pension benefits (less directors' contributions) for those directors who are members of the group's defined benefit pension scheme; (ii) company contributions into personal pension arrangements for all other directors; and (iii) amounts accrued under the Unfunded, Unapproved Retirement Benefit Scheme (UURBS). The share-based payment charge is the proportion of the group's share-based payment charge that relates to those options and awards granted to the directors.

9 EMPLOYEE INFORMATION

(a) The average monthly number of persons employed by the group was as follows:

	Group	
	2012 Number	2011 Number
CCD	3,003	3,070
Vanquis Bank	728	589
Central	55	54
Total group	3,786	3,713
Analysed as:		
Full time	3,189	3,117
Part time	597	596
Total group	3,786	3,713

Employees comprise all head office and branch employees within CCD, head office and contact centre employees within Vanquis Bank and Corporate Office employees and executive directors. It does not include the 9,800 self-employed agents within CCD. The 2% reduction in CCD employee numbers principally reflects improved efficiency and tight cost control throughout the business. Vanquis Bank employee numbers have increased by 24% during 2012 due to the growth of the business, including the expansion of the second contact centre in CCD's head office in Bradford.

(b) Employment costs

	Group	
	2012 £m	2011 £m
Aggregate gross wages and salaries paid to the group's employees	114.3	111.1
Employers' National Insurance contributions	12.7	12.4
Pension charge, prior to exceptional pension credit	8.0	4.2
Share-based payment charge (note 24)	6.4	8.0
Total employment cost prior to exceptional pension credit	141.4	135.7
Exceptional pension credit (note 18)	(17.7)	–
Total employment costs	123.7	135.7

The pension charge comprises the retirement benefit charge for defined benefit schemes, contributions to the stakeholder pension plan, contributions to personal pension arrangements and amounts accrued under the UURBS. The increase in the charge from £4.2m in 2011 to £8.0m in 2012 principally reflects a higher defined benefit charge as a result of a lower actuarially assessed return on assets assumption in respect of 2012, compared with the equivalent rate in respect of 2011 across both equities and bonds. The decrease in the share-based payment charge from £8.0m in 2011 to £6.4m in 2012, primarily reflects a release of prior year provisions due to lower than expected vesting levels from the 2009 Long Term Incentive Scheme.

10 GOODWILL

	Group	
	2012 £m	2011 £m
Cost		
At 1 January	93.1	93.1
Amounts written off	(91.0)	–
At 31 December	2.1	93.1
Accumulated amortisation		
At 1 January	91.0	91.0
Amounts written off	(91.0)	–
Exceptional impairment charge	2.1	–
At 31 December	2.1	91.0
Net book value at 31 December	–	2.1
Net book value at 1 January	2.1	2.1

During the year, the cost and accumulated amortisation of goodwill in relation to Yes Car Credit was fully written off as there are no future economic benefits expected from the business. The goodwill had previously been fully impaired in 2005 following the closure of that business. Based on expected future cash flows, the carrying value of goodwill in respect of Cheque Exchange Limited, a small subsidiary originally acquired in 2001 and now subsumed within CCD, was fully impaired in 2012.

11 OTHER INTANGIBLE ASSETS

Group	Computer software	
	2012 £m	2011 £m
Cost		
At 1 January	35.3	33.2
Additions	1.6	3.0
Disposals	(0.1)	(0.9)
At 31 December	36.8	35.3
Accumulated amortisation		
At 1 January	22.4	15.8
Charged to the income statement	5.0	7.5
Disposals	(0.1)	(0.9)
At 31 December	27.3	22.4
Net book value at 31 December	9.5	12.9
Net book value at 1 January	12.9	17.4

Other intangible assets represent purchased or internally developed software. The largest components of intangible assets are the field operating system within CCD (Focus) and the development associated with the core customer IT platform (First Vision) and underwriting software (Transact) at Vanquis Bank.

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 2012	4.1	0.8	50.5	55.4
Additions	0.5	–	6.6	7.1
Disposals	(0.5)	–	(4.5)	(5.0)
At 31 December 2012	4.1	0.8	52.6	57.5
Accumulated depreciation				
At 1 January 2012	3.2	0.6	24.8	28.6
Charged to the income statement	–	–	8.6	8.6
Disposals	–	–	(3.6)	(3.6)
At 31 December 2012	3.2	0.6	29.8	33.6
Net book value at 31 December 2012	0.9	0.2	22.8	23.9
Net book value at 1 January 2012	0.9	0.2	25.7	26.8

The loss on disposal of property, plant and equipment in 2012 amounted to £0.1m (2011: £0.2m) and represented proceeds received of £1.3m (2011: £1.6m) less the net book value of disposals of £1.4m (2011: £1.8m).

Additions in 2012 principally comprise the routine replacement of IT equipment in both CCD and Vanquis Bank and motor vehicles for field staff within CCD.

Group	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2011	4.2	0.7	76.8	81.7
Additions	–	0.1	5.9	6.0
Disposals	(0.1)	–	(32.2)	(32.3)
At 31 December 2011	4.1	0.8	50.5	55.4
Accumulated depreciation				
At 1 January 2011	3.2	0.5	48.1	51.8
Charged to the income statement	–	0.1	7.2	7.3
Disposals	–	–	(30.5)	(30.5)
At 31 December 2011	3.2	0.6	24.8	28.6
Net book value at 31 December 2011	0.9	0.2	25.7	26.8
Net book value at 1 January 2011	1.0	0.2	28.7	29.9

Following the move into a new head office in 2010, CCD conducted a thorough review of its property, plant and equipment in 2011 to identify old assets, primarily IT equipment and fixtures and fittings, which were not in use and had no net book value. Following this review, property, plant and equipment with a cost of £28.4m, accumulated depreciation of £28.4m and a net book value of £nil, was written off.

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 2012	4.1	0.2	10.7	15.0
Additions	0.5	–	0.4	0.9
Disposals	(0.5)	–	(0.2)	(0.7)
At 31 December 2012	4.1	0.2	10.9	15.2
Accumulated depreciation				
At 1 January 2012	3.2	0.1	1.9	5.2
Charged to the income statement	–	–	1.2	1.2
Disposals	–	–	(0.1)	(0.1)
At 31 December 2012	3.2	0.1	3.0	6.3
Net book value at 31 December 2012	0.9	0.1	7.9	8.9
Net book value at 1 January 2012	0.9	0.1	8.8	9.8

The loss on disposal of property, plant and equipment in 2012 amounted to £nil (2011: £nil) and represented proceeds received of £0.6m (2011: £0.3m) less the net book value of disposals of £0.6m (2011: £0.3m).

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2011	4.2	0.2	10.7	15.1
Additions	–	–	0.4	0.4
Disposals	(0.1)	–	(0.4)	(0.5)
At 31 December 2011	4.1	0.2	10.7	15.0
Accumulated depreciation				
At 1 January 2011	3.2	0.1	1.1	4.4
Charged to the income statement	–	–	1.0	1.0
Disposals	–	–	(0.2)	(0.2)
At 31 December 2011	3.2	0.1	1.9	5.2
Net book value at 31 December 2011	0.9	0.1	8.8	9.8
Net book value at 1 January 2011	1.0	0.1	9.6	10.7

13 INVESTMENT IN SUBSIDIARIES

	Company	
	2012 £m	2011 £m
Cost		
At 1 January	407.2	406.7
Additions	0.6	0.5
At 31 December	407.8	407.2
Accumulated impairment losses		
At 1 January	31.9	31.9
Credited to the income statement	(0.1)	–
At 31 December	31.8	31.9
Net book value at 31 December	376.0	375.3
Net book value at 1 January	375.3	374.8

The additions to investments in 2012 of £0.6m (2011: £0.5m) represent the issue of share options/awards by the company to its subsidiaries' employees. Under IFRIC 11, the fair value of these options/awards 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.

The directors consider the value of investments to be supported by their underlying assets.

The following are the subsidiary undertakings which, in the opinion of the directors, principally affect the profit or assets of the group. 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. All subsidiaries are consolidated and held directly by the company except for those noted below, which are held by wholly owned intermediate companies.

		Activity	Country of incorporation	Class of capital	% holding
CCD	Provident Financial Management Services Limited	Management services	England	Ordinary	100
	Provident Personal Credit Limited	Financial services	England	Ordinary	100*
	Greenwood Personal Credit Limited	Financial services	England	Ordinary	100*
Vanquis Bank	Vanquis Bank Limited	Financial services	England	Ordinary	100
Central	Provident Investments plc	Financial intermediary	England	Ordinary	100

* Shares held by wholly owned intermediate companies.

The above companies operate principally in their country of incorporation.

14 AMOUNTS RECEIVABLE FROM CUSTOMERS

On inception of a loan, receivables represent the amounts initially advanced to customers plus directly attributable issue costs. Subsequently, receivables are increased by the revenue recognised and reduced by cash collections and any deduction for impairment. Revenue is recognised on the net value of the receivable after deduction for impairment and not on the gross receivable prior to impairment.

Revenue, impairment and receivables example for home credit

The simple examples below illustrate the calculation of the receivables balance within the home credit business of CCD and its interaction with revenue and impairment. Within the home credit business, loans are deemed impaired when two payments are missed within a 12-week cycle.

The following examples are based on a £100 loan with a total amount payable of £182 over 52 weeks which equates to a weekly payment of £3.50. The effective interest rate applied to the loan is 2.5597% per week. In the first example, the customer pays in full in line with the loan agreement and in the second example the customer does not repay the full amount due.

Week	1. Customer pays to contract				2. Customer pays to contract for 4 weeks, misses 2 payments and then pays £2.00 per week for 50 weeks and nothing thereafter					
	Receivable B/F £	Revenue £	Collections £	Receivable C/F £	Receivable B/F £	Revenue £	Collections £	Impairment £	Receivable C/F £	
Issue	–	–	–	100.00	–	–	–	–	–	100.00
1	100.00	2.56	(3.50)	99.06	100.00	2.56	(3.50)	–	–	99.06
2	99.06	2.54	(3.50)	98.10	99.06	2.54	(3.50)	–	–	98.10
3	98.10	2.51	(3.50)	97.11	98.10	2.51	(3.50)	–	–	97.11
4	97.11	2.48	(3.50)	96.09	97.11	2.48	(3.50)	–	–	96.09
5	96.09	2.46	(3.50)	95.05	96.09	2.46	–	–	–	98.55
6	95.05	2.43	(3.50)	93.98	98.55	2.52	–	(45.02)*	–	56.05
7	93.98	2.41	(3.50)	92.89	56.05	1.43	(2.00)	–	–	55.48
8	92.89	2.38	(3.50)	91.77	55.48	1.42	(2.00)	–	–	54.90
51	6.74	0.17	(3.50)	3.41	11.00	0.28	(2.00)	–	–	9.28
52	3.41	0.09	(3.50)	–	9.28	0.24	(2.00)	–	–	7.52
55					3.85	0.10	(2.00)	–	–	1.95
56					1.95	0.05	(2.00)	–	–	–
Total		82.00	(182.00)			59.02	(114.00)	(45.02)		
Revenue less impairment = £82.00				Revenue less impairment = £14.00						

* Calculated as the difference between the receivable balance of £101.07 (£98.55 + £2.52) and expected cash flows of £2.00 per week over 50 weeks discounted at the weekly effective interest rate of 2.5597% which amounts to £56.05.

Where the customer pays to contract, the revenue of £82.00 equals the service charge on the loan. In the second example, the customer pays to contract for 4 weeks, misses 2 payments and then pays £2.00 per week for 50 weeks but then nothing thereafter. Cash collected amounts to £114.00 compared with the contractual amount due of £182.00. Revenue in this example is £59.02 and impairment is £45.02 which results in revenue less impairment of £14.00.

The above examples are simple examples produced to show the mechanics of how revenue and impairment within home credit works and are for illustrative purposes only. They ignore the impact of early settlement rebates on the calculation of the EIR and are not based on actual impairment rates used by the home credit business.

Group	2012			2011		
	Due within one year £m	Due in more than one year £m	Total £m	Due within one year £m	Due in more than one year £m	Total £m
CCD	773.0	97.5	870.5	791.3	88.0	879.3
Vanquis Bank	643.3	–	643.3	453.4	–	453.4
Total group	1,416.3	97.5	1,513.8	1,244.7	88.0	1,332.7

CCD receivables comprise £869.6m (2011: £876.7m) in respect of the home credit business and £0.9m (2011: £2.6m) in respect of the collect-out of the Real Personal Finance receivables book. Home credit receivables showed a modest 0.8% fall in 2012 reflecting relatively subdued demand for credit due to pressure on customers' disposable incomes from continued increases in food, fuel and utility prices. Vanquis Bank's UK receivables grew by 41.5% in 2012 as a result of growth in UK customer numbers of 30.1% together with the success of the credit line increase programme to good-quality existing customers through the 'low and grow' approach to lending. £1.8m of Vanquis Bank's receivables at the end of 2012 relate to the pilot credit card operation in Poland (2011: £nil).

The average effective interest rate for the year ended 31 December 2012 was 105% for CCD (2011: 102%) and 33% for Vanquis Bank (2011: 34%). The average period to maturity of the amounts receivable from customers within CCD is 6.0 months (2011: 5.8 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 1.5% of the amount owed plus any fees and interest charges in the month and £5.

14 AMOUNTS RECEIVABLE FROM CUSTOMERS – CONTINUED

The fair value of amounts receivable from customers is approximately £2.1 billion (2011: £1.8 billion). Fair value has been derived by discounting expected future cash flows (net of collection costs) at the group's weighted average cost of capital at the balance sheet date. The credit quality of amounts receivable from customers is as follows:

Credit quality of amounts receivable from customers	2012						2011					
	£m	CCD %	£m	Vanquis Bank %	£m	Group %	£m	CCD %	£m	Vanquis Bank %	£m	Group %
Neither past due nor impaired	296.4	34.0	580.9	90.3	877.3	58.0	309.0	35.1	403.4	89.0	712.4	53.5
Past due but not impaired	138.0	15.9	–	–	138.0	9.1	138.5	15.8	–	–	138.5	10.4
Impaired	436.1	50.1	62.4	9.7	498.5	32.9	431.8	49.1	50.0	11.0	481.8	36.1
Total	870.5	100.0	643.3	100.0	1,513.8	100.0	879.3	100.0	453.4	100.0	1,332.7	100.0

Past due but not impaired balances all relate to home credit loans within CCD. There are no accounts/loans within Vanquis Bank which are past due but not impaired. In home credit, past due but not impaired balances relate to loans which are contractually overdue. However, contractually overdue loans are not deemed to be impaired unless the customer has missed two or more cumulative weekly payments in the previous 12-week period since only at this point do the expected future cash flows from loans deteriorate materially. The arrears profile in CCD has been stable over a number of years. The marginal deterioration in 2012 reflects the relatively subdued demand for credit from the existing customer base which means certain customers who choose not to take further credit do not bring their account up to date. The favourable change in profile in Vanquis Bank reflects a strong impairment performance and record low delinquency due to the improving quality of the receivables book and the stable UK employment market.

The following table sets out the ageing analysis of past due but not impaired balances within the home credit business of CCD based on contractual arrears since the inception of the loan:

Ageing analysis of past due but not impaired balances	Group	
	2012 £m	2011 £m
One week overdue	90.7	89.8
Two weeks overdue	20.6	22.5
Three weeks or more overdue	26.7	26.2
Past due but not impaired	138.0	138.5

Impairment in Vanquis Bank is deducted from the carrying value of amounts receivable from customers by the use of an allowance account. The movement in the allowance account during the year is as follows:

Vanquis Bank allowance account	Group	
	2012 £m	2011 £m
At 1 January	62.4	45.9
Charge for the year	95.9	76.9
Amounts written off during the year	(71.2)	(71.0)
Amounts recovered during the year	4.3	10.6
At 31 December	91.4	62.4

The core customer IT platform within the home credit business of CCD is cash based. This reflects the fact that the business provides a product whereby all charges are fixed at the outset through the service charge and the focus of the business is on collecting cash. As a result, the system records the total contractual outstanding amount due from a customer (comprising the amount lent to the customer plus the service charge on the loan) less cash repayments to date. The system does not accrue interest revenue as is the case with Vanquis Bank and more mainstream lenders. In order to translate the cash transactions from the core home credit customer IT platform into an IFRS receivables balance, a separate database is used. IFRS permits revenue and impairment to be performed on a portfolio basis. Accordingly, home credit's loans are allocated into portfolios based on their product length. Initial recognition within each portfolio is the cash amount advanced to customers. Revenue is applied to each portfolio as a whole based on the effective interest rate of that product. Weekly cash repayments are deducted from each portfolio as cash is collected to arrive at a carrying value. On a weekly basis, an impairment review is conducted. Accounts within individual portfolios are placed into arrears stages based on the number of weekly payments missed in the last 12 weeks. The current carrying value of each arrears stage is then compared with the expected cash flows (based on historic performance) of each arrears stage discounted at the original effective interest rate (the net carrying value). The net carrying value is the carrying value to which revenue, cash repayments and impairment are applied in the future and the difference between the carrying value prior to impairment and the net carrying value is recorded as an impairment charge in the income statement. As revenue and impairment is calculated on the net receivable, a separate gross receivable and allowance (or provision) account similar to Vanquis Bank and more mainstream banks is not maintained. Vanquis Bank's systems are interest bearing and allow revenue and impairment to be calculated on an account-by-account basis and, therefore, it discloses a gross receivable and an allowance account. Whilst home credit and Vanquis Bank adopt different accounting approaches to recording receivables, the carrying value of receivables in the balance sheet and the income statement impact of revenue and impairment is not affected.

14 AMOUNTS RECEIVABLE FROM CUSTOMERS – CONTINUED

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

	Group	
	2012 £m	2011 £m
Impairment charge on amounts receivable from customers		
CCD	230.2	223.8
Vanquis Bank	95.9	76.9
Total group	326.1	300.7

Impairment in CCD increased by 2.9% during 2012 and the ratio of annualised impairment to revenue increased from 32.1% in 2011 to 33.0%. The increase primarily reflects the benefit to impairment in the second quarter of 2011 from an improvement in the arrears profile which resulted from the enhancements made to the agents' commission scheme in April of that year.

The impairment charge and impairment to revenue metric in CCD do not represent what is usually considered as 'bad debt'. 'Bad debt' is often deemed to be the amount of principal that is not recovered on loans made. Within the home credit business, the service charge on a loan is fixed regardless of the time taken by a customer to repay a loan. There is no penalty interest or penalty charges. Due to their personal circumstances and the variability of their income streams, home credit customers often take longer than the contracted period to repay their loans. IFRS requires revenue to be recognised on the outstanding receivables at the original effective interest rate (EIR) set at the outset. The EIR assumes that a customer pays in line with the contractual term of the loan. Therefore, when a customer misses a payment, revenue continues to be recognised at the EIR as though penalty interest was being charged to the customer even though contractually it is not. Because this revenue is never going to be charged to the customer, a corresponding impairment charge is made.

This 'gross up' of revenue and impairment is illustrated in the following example.

The example is based on a £100 loan with a total amount payable of £182 over 52 weeks which equates to a weekly payment of £3.50. The effective interest rate applied to the loan is 2.5597% per week. In this example, the customer pays to contract for 4 weeks, misses 2 payments and then pays £3.00 per week for the following 56 weeks. The total amount payable of £182 is received in full but over a total period of 62 weeks instead of 52 weeks.

Week	Receivable B/F £	Revenue £	Collections £	Impairment £	Receivable C/F £
Issue	–	–	–	–	100.00
1	100.00	2.56	(3.50)	–	99.06
2	99.06	2.54	(3.50)	–	98.10
3	98.10	2.51	(3.50)	–	97.11
4	97.11	2.48	(3.50)	–	96.09
5	96.09	2.46	–	–	98.55
6	98.55	2.52	–	(12.33)*	88.74
7	88.74	2.27	(3.00)	–	88.01
8	88.01	2.25	(3.00)	–	87.26
61	5.78	0.15	(3.00)	–	2.93
62	2.93	0.07	(3.00)	–	–
Total		94.33	(182.00)	(12.33)	

Revenue less impairment = £82.00

* Calculated as the difference between the receivable balance of £101.07 (£98.55+£2.52) and expected cash flows of £3.00 per week over 56 weeks discounted at the weekly effective interest rate of 2.5597% which amount to £88.74.

Revenue less impairment in this example is £82.00, consistent with a customer paying to contract. However, because the customer took 10 more weeks to pay their loan, revenue increases to £94.33 and is offset by impairment of £12.33. The 'gross up' of revenue and impairment is therefore £12.33.

The above is a simple example produced to show the mechanics of how the 'gross up' within the home credit business works and is for illustrative purposes only. It ignores the impact of early settlement rebates on the calculation of the EIR and is not based on actual impairment rates used by the home credit business.

The income statement for the home credit business therefore includes a 'gross up' of revenue and impairment representing the additional revenue and impairment on loans which take longer than contract to repay. In practice, based on the total amount of cash collected against the amount lent to a customer plus the service charge on loans, 'bad debt' in the home credit business is less than half of the 33% impairment to revenue metric.

Impairment in Vanquis Bank increased by 24.7% in 2012 compared with a 37.4% increase in UK average receivables. This reflects record low delinquency resulting from the stable employment market together with continued improvement in the underlying quality of the receivables book, resulting from the progressive tightening of underwriting between 2007 and 2009.

14 AMOUNTS RECEIVABLE FROM CUSTOMERS – CONTINUED

Interest income recognised on amounts receivable from customers which have been impaired can be analysed as follows:

	Group	
	2012 £m	2011 £m
Interest income recognised on impaired amounts receivable from customers		
CCD	344.8	346.7
Vanquis Bank	22.9	19.4
Total group	367.7	366.1

IFRS requires interest revenue to be recognised on the net carrying value of a receivable after deductions for impairment and not on the outstanding amount of the loan prior to impairment. Using Vanquis Bank as an example, whilst interest revenue for customer statement balances is broadly calculated on the gross receivables balance of £734.7m (subject to the normal suspension of interest where applicable and the timing of customer payments), interest revenue for IFRS purposes is calculated based on the net receivables balance of £643.3m, which is stated after the deduction of the impairment allowance account of £91.4m. The non-standard customers served by the group are generally more likely to miss payments compared with more mainstream customers. As the group recognises impairment events early – after missing 2 weekly payments in the last 12 weeks in home credit and after missing 1 monthly payment in Vanquis Bank – the group's level of revenue on impaired loans is comparatively high.

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

	Group	
	2012 £m	2011 £m
Currency profile of amounts receivable from customers		
Sterling	1,451.0	1,274.7
Euro	61.0	58.0
Zloty	1.8	–
Total group	1,513.8	1,332.7

Euro receivables represent loans issued by the home credit business in the Republic of Ireland, and amount to 7% of CCD's receivables (2011: 7%). Zloty receivables relate to the Vanquis Bank pilot credit card operation in Poland.

15 FINANCIAL INSTRUMENTS

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 IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Group	2012				
	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
Assets					
Cash and cash equivalents	79.1	–	–	–	79.1
Amounts receivable from customers	1,513.8	–	–	–	1,513.8
Derivative financial instruments	–	–	8.1	–	8.1
Trade and other receivables	23.0	–	–	–	23.0
Retirement benefit asset	–	–	–	23.0	23.0
Property, plant and equipment	–	–	–	23.9	23.9
Intangible assets (including goodwill)	–	–	–	9.5	9.5
Deferred tax assets	–	–	–	6.1	6.1
Total assets	1,615.9	–	8.1	62.5	1,686.5
Liabilities					
Bank and other borrowings	–	(1,201.4)	–	–	(1,201.4)
Derivative financial instruments	–	–	(11.4)	–	(11.4)
Trade and other payables	–	(60.6)	–	–	(60.6)
Current tax liabilities	–	–	–	(37.7)	(37.7)
Total liabilities	–	(1,262.0)	(11.4)	(37.7)	(1,311.1)

Group	2011				
	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/ liabilities £m	Total £m
Assets					
Cash and cash equivalents	49.6	–	–	–	49.6
Amounts receivable from customers	1,332.7	–	–	–	1,332.7
Derivative financial instruments	–	–	12.2	–	12.2
Trade and other receivables	21.1	–	–	–	21.1
Retirement benefit asset	–	–	–	13.5	13.5
Property, plant and equipment	–	–	–	26.8	26.8
Intangible assets (including goodwill)	–	–	–	15.0	15.0
Deferred tax assets	–	–	–	7.5	7.5
Total assets	1,403.4	–	12.2	62.8	1,478.4
Liabilities					
Bank and other borrowings	–	(1,049.6)	–	–	(1,049.6)
Derivative financial instruments	–	–	(9.5)	–	(9.5)
Trade and other payables	–	(53.0)	–	–	(53.0)
Current tax liabilities	–	–	–	(40.1)	(40.1)
Total liabilities	–	(1,102.6)	(9.5)	(40.1)	(1,152.2)

15 FINANCIAL INSTRUMENTS – CONTINUED

The following table sets out the carrying value of the company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Company	2012				
	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
Assets					
Cash and cash equivalents	2.6	–	–	–	2.6
Investment in subsidiaries	–	–	–	376.0	376.0
Trade and other receivables	1,516.9	–	–	–	1,516.9
Retirement benefit asset	–	–	–	1.9	1.9
Property, plant and equipment	–	–	–	8.9	8.9
Deferred tax assets	–	–	–	4.0	4.0
Total assets	1,519.5	–	–	390.8	1,910.3
Liabilities					
Bank and other borrowings	–	(779.3)	–	–	(779.3)
Derivative financial instruments	–	–	(9.4)	–	(9.4)
Trade and other payables	–	(222.8)	–	–	(222.8)
Current tax liabilities	–	–	–	(3.5)	(3.5)
Total liabilities	–	(1,002.1)	(9.4)	(3.5)	(1,015.0)

Company	2011				
	Loans and receivables £m	Amortised cost £m	Hedging derivatives £m	Non-financial assets/liabilities £m	Total £m
Assets					
Cash and cash equivalents	2.1	–	–	–	2.1
Investment in subsidiaries	–	–	–	375.3	375.3
Trade and other receivables	1,368.4	–	–	–	1,368.4
Retirement benefit asset	–	–	–	4.2	4.2
Property, plant and equipment	–	–	–	9.8	9.8
Deferred tax assets	–	–	–	3.6	3.6
Total assets	1,370.5	–	–	392.9	1,763.4
Liabilities					
Bank and other borrowings	–	(610.7)	–	–	(610.7)
Derivative financial instruments	–	–	(9.5)	–	(9.5)
Trade and other payables	–	(208.0)	–	–	(208.0)
Current tax liabilities	–	–	–	(6.0)	(6.0)
Total liabilities	–	(818.7)	(9.5)	(6.0)	(834.2)

16 DERIVATIVE FINANCIAL INSTRUMENTS

The majority of derivatives held by the group are interest rate swaps used to fix the interest rates paid on the group's borrowings and cross currency swaps to fix the foreign exchange rate on the group's borrowings denominated in US dollars. The group does not enter into speculative transactions or positions.

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

Group	2012			2011		
	Contractual/ notional amount £m	Assets £m	Liabilities £m	Contractual/ notional amount £m	Assets £m	Liabilities £m
Interest rate swaps	120.0	–	(9.4)	590.0	–	(9.5)
Cross-currency swaps	84.9	8.1	(1.9)	84.9	11.9	–
Foreign exchange contracts	7.5	–	(0.1)	6.7	0.3	–
Total group	212.4	8.1	(11.4)	681.6	12.2	(9.5)
Analysed as – due within one year		–	(2.0)		0.3	–
– due in more than one year		8.1	(9.4)		11.9	(9.5)
		8.1	(11.4)		12.2	(9.5)

Company	2012			2011		
	Contractual/ notional amount £m	Assets £m	Liabilities £m	Contractual/ notional amount £m	Assets £m	Liabilities £m
Interest rate swaps	120.0	–	(9.4)	590.0	–	(9.5)
Foreign exchange contracts	1.4	–	–	–	–	–
Total company	121.4	–	(9.4)	590.0	–	(9.5)
Analysed as – due within one year		–	–		–	–
– due in more than one year		–	(9.4)		–	(9.5)
		–	(9.4)		–	(9.5)

The fair value of derivative financial instruments has been calculated by discounting contractual future cash flows using relevant market interest rate yield curves and foreign exchange rates prevailing at the balance sheet date.

(a) Hedging reserve movements

The fair value of derivatives is required to be reflected in the balance sheet. Generally, providing the derivatives meet certain accounting requirements, any movement in the fair value of the derivatives caused by fluctuations in interest rates or foreign exchange rates is deferred in the hedging reserve and does not impact the income statement. The group's current derivatives all meet these criteria. If the interest rates payable on interest rate swaps are higher than the current interest rate at the balance sheet date, then a derivative liability is recognised. Conversely, if the interest rates payable on interest rate swaps are lower than the current floating interest rate at the balance sheet date, then a derivative asset is recognised.

The group's US private placement borrowings denominated in US dollars are recognised in the balance sheet at the year-end exchange rate. As these borrowings are subject to cross currency swaps which fix the translation rate of the borrowings the difference between the borrowing based on the contracted rate of exchange and the borrowing based on the year-end rate of exchange is recorded in the hedging reserve. The value of this adjustment at 31 December 2012 is £5.8m (2011: £11.2m).

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

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Interest rate swaps	0.1	1.6	0.1	1.6
2003 cross-currency swaps	–	(0.3)	–	–
2004 cross-currency swaps	(0.3)	(0.3)	–	–
Foreign exchange contracts	(0.4)	0.4	–	–
Net (charge)/credit to the hedging reserve	(0.6)	1.4	0.1	1.6

Under IFRS 7, 'Financial instruments: Disclosures', all derivative financial instruments are classed as Level 2 as they are not traded in an active market and the fair value is therefore determined through discounting future cash flows, using appropriate observable rates.

16 DERIVATIVE FINANCIAL INSTRUMENTS – CONTINUED

(b) Income statement charge/credit

The net credit/charge to the income statement of the group and the company in the year in respect of the movement in the fair value of ineffective interest rate swaps, previously designated as cash flow hedges, is £nil (2011: credit of £1.6m).

(c) Interest rate swaps

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

	Group and company	
	2012 £m	2011 £m
Liability at 1 January	(9.5)	(14.8)
Credited to the hedging reserve	0.1	1.6
Movement in fair value of ineffective interest rate swaps credited to the income statement	–	1.6
Cash settlement of interest rate swaps	–	2.1
Liability at 31 December	(9.4)	(9.5)

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

	2012			2011		
	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years	Weighted average interest rate %	Range of interest rates %	Weighted average period to maturity years
Group and company						
Sterling	3.2	3.1 – 3.3	3.1	2.0	1.0 – 3.4	1.4

(d) Cross-currency swaps

The group and company use cross-currency swaps in order to manage the interest rate and foreign exchange rate risk arising on the group's US private placement loan notes issued in 2001, 2003 and 2004.

2001 and 2003 private placement loan notes

The group and company put in place cross-currency swaps to swap the principal and fixed-rate interest of the 2001 and 2003 US dollar private placement loan notes into fixed-rate sterling liabilities. The maturity dates of the cross-currency swaps matched the underlying loan notes. These swaps were designated as cash flow hedges and were effective under IAS 39. The fair value movements in the swaps and the corresponding exchange rate movements on the underlying loan notes were deferred in the hedging reserve within equity.

The cross-currency swaps used to hedge the 2001 US dollar private placement loan notes matured in 2011 in line with the underlying borrowings. The movement in the fair value of the swaps can be analysed as follows:

	Group and company	
	2012 £m	2011 £m
Liability at 1 January	–	(1.4)
Exchange rate movement	–	1.4
Liability at 31 December	–	–

The exchange rate movement of £1.4m debit in 2011 reflected the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

16 DERIVATIVE FINANCIAL INSTRUMENTS – CONTINUED

The cross-currency swaps used to hedge the 2003 US dollar private placement loan notes have an interest rate of 6.8% (2011: 6.8%), and a weighted average period to maturity of 0.3 years (2011: 1.3 years). The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2012 £m	2011 £m
Asset at 1 January	0.3	0.4
Exchange rate movement	(2.2)	0.2
Charged to the hedging reserve	–	(0.3)
(Liability)/asset at 31 December	(1.9)	0.3

The difference between the translation of the 2003 US dollar private placement loan notes at the year-end exchange rate compared with the contracted exchange rate amounts to a credit of £1.9m (2011: debit of £0.3m). The exchange rate movement of £2.2m credit (2011: debit of £0.2m) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

The amount charged to the hedging reserve reflects the difference between the movement in the fair value of the cross-currency swaps and the exchange rate movements described above.

2004 private placement loan notes

The group has put in place cross-currency swaps to swap the principal and fixed rate interest of the US dollar private placement loan notes issued in 2004 into floating rate sterling-denominated interest liabilities. The maturity dates of the cross-currency swaps match the underlying loan notes.

The swaps comprise both cash flow hedges and fair value hedges. The cash flow hedge portion of the swaps were designated as cash flow hedges and continue to be effective under IAS 39 in the year ended 31 December 2012. The fair value movements in the swaps and the exchange movements in the underlying loan notes have been deferred in the hedging reserve within equity.

The fair value hedge portion of the swaps were designated and were effective under IAS 39 as fair value hedges during the year. As a result, fair value movements in the swaps were charged to the income statement with a corresponding entry made to the underlying loan notes within borrowings for the effective portion of the swaps, leaving a net charge within the income statement reflecting the net fair value loss on the fair value hedge in the year.

The swaps have a range of interest rates of LIBOR + 1.61% to LIBOR + 1.63% (2011: LIBOR + 1.61% to LIBOR + 1.63%) and a weighted average period to maturity of 1.6 years (2011: 2.6 years).

The movement in the fair value of the swaps can be analysed as follows:

	Group	
	2012 £m	2011 £m
Asset at 1 January	11.6	15.5
Exchange rate movement	(3.2)	(3.6)
Charged to the hedging reserve	(0.3)	(0.3)
Asset at 31 December	8.1	11.6

The difference between the translation of the 2004 US dollar private placement loan notes at the year-end exchange rate compared with the contracted exchange rate amounts to a debit of £7.7m (2011: debit of £10.9m). The exchange rate movement of £3.2m credit (2011: credit of £3.6m) reflects the movement in the year of this difference in translation. Corresponding entries are made within borrowings.

The amount charged to the hedging reserve reflects the difference between the movement in the fair value of the cash flow hedge portion of the cross-currency swaps and the cash flow hedge portion of the exchange rate movements described above.

(e) Foreign exchange contracts

The group uses foreign exchange contracts in order to manage the foreign exchange rate risk arising from CCD's euro operations in the Republic of Ireland and Vanquis Bank's branch in Poland. A liability of £0.1m is held in the group balance sheet as at 31 December 2012 in respect of foreign exchange contracts (2011: asset of £0.3m).

The group's foreign exchange contracts comprise forward foreign exchange contracts to buy sterling and sell euros for a total notional amount of £6.1m (2011: £6.7m) and zloty for £1.4m (2011: £nil). These contracts have a range of maturity dates from 31 January 2013 to 15 October 2013 (2011: 14 February 2012 to 13 November 2012). These contracts were designated as cash flow hedges and were effective under IAS 39. Accordingly, the movement in fair value of £0.4m has been charged to the hedging reserve within equity (2011: credit of £0.4m).

17 TRADE AND OTHER RECEIVABLES

	Company	
	2012 £m	2011 £m
Non-current assets		
Amounts owed by group undertakings	842.2	649.0

There are £nil amounts past due and there is no impairment provision held against amounts owed by group undertakings due for repayment in more than one year (2011: £nil). The amounts owed by group undertakings are unsecured, due for repayment in more than one year and accrue interest at rates linked to LIBOR.

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Current assets				
Trade receivables	0.1	0.1	–	–
Other receivables	12.1	8.3	–	–
Amounts owed by group undertakings	–	–	672.0	716.4
Prepayments and accrued income	10.8	12.7	2.7	3.0
Total	23.0	21.1	674.7	719.4

Trade and other receivables include utility prepayments, prepaid marketing costs, amounts receivable from CCD voucher providers and amounts paid on behalf of the group's pension scheme but not yet recharged.

There are no amounts past due in respect of trade and other receivables due in less than one year (2011: £nil). Within the company, an impairment provision of £123.3m (2011: £121.7m) is held against amounts owed by group undertakings due in less than one year representing the deficiency in the net assets of those group undertakings. The movement in the provision in the year of £1.6m has been charged to the income statement of the company (2011: credit of £1.3m).

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

The maximum exposure to credit risk of trade and other receivables equates to the carrying value (2011: carrying value) set out above. There is no collateral held in respect of trade and other receivables (2011: £nil).

18 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 2012, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded. The group's defined benefit pension scheme has been substantially closed to new members since 1 January 2003.

The group operates a defined benefit scheme: the Provident Financial Staff Pension Scheme. The scheme has been substantially closed to new members since 1 January 2003. The scheme covers 57% 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 will no longer apply. 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 valuation of the scheme was carried out as at 1 June 2009 by a qualified independent actuary. A valuation as at 1 June 2012 is currently in progress but is not yet finalised. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the preliminary results of the 2012 valuation, updated by the actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme as at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet date.

18 RETIREMENT BENEFIT ASSET – CONTINUED

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

	Group			
	£m	2012 %	£m	2011 %
Equities	249.2	44	218.4	42
Corporate bonds	187.4	33	173.9	33
Fixed interest gilts	–	–	28.4	5
Index-linked gilts	103.9	18	103.2	20
Cash and money market funds	30.2	5	1.1	–
Total fair value of scheme assets	570.7	100	525.0	100
Present value of funded defined benefit obligation	(547.7)		(511.5)	
Net retirement benefit asset recognised in the balance sheet	23.0		13.5	

The valuation of the pension scheme has increased from £13.5m at 31 December 2011 to £23.0m at 31 December 2012. A high level reconciliation of the movement is as follows:

	£m
Pension asset as at 31 December 2011	14
Cash contributions made by the group	10
Return on assets being held to meet pension obligations	51
Removing the link to final salary for active members	18
Actuarially based cost of new benefits	(7)
Reduction in discount rate used to discount future liabilities	(38)
Unwinding of discount on liabilities	(25)
Pension asset as at 31 December 2012	23

The discount rate applied to pension liabilities is calculated by reference to the yield on high-quality corporate bonds which, based on an appropriate index, have fallen from an average of 4.9% at 31 December 2011 to 4.5% at 31 December 2012.

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

	Company			
	£m	2012 %	£m	2011 %
Equities	65.0	44	56.4	42
Corporate bonds	48.7	33	44.9	33
Fixed interest gilts	–	–	7.3	5
Index-linked gilts	26.6	18	26.6	20
Cash and money market funds	7.4	5	0.3	–
Total fair value of scheme assets	147.7	100	135.5	100
Present value of funded defined benefit obligation	(145.8)		(131.3)	
Net retirement benefit asset recognised in the balance sheet	1.9		4.2	

The assets and liabilities of the group's defined benefit pension scheme have been allocated to the company on a pro rata basis based upon the actual employer cash contributions made by the company.

The amounts recognised in the income statement were as follows:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Current service cost	(6.8)	(7.0)	(2.1)	(2.1)
Interest cost	(24.9)	(25.4)	(7.7)	(7.8)
Expected return on scheme assets	27.5	32.0	9.3	9.8
Net charge recognised in the income statement before exceptional curtailment credit	(4.2)	(0.4)	(0.5)	(0.1)
Exceptional curtailment credit	17.7	–	2.1	–
Net credit/(charge) recognised in the income statement	13.5	(0.4)	1.6	(0.1)

The exceptional curtailment credit in 2012 of £17.7m for the group and £2.1m for the company relates to the change during the year to applying statutory revaluations to accrued final salary benefits, rather than in line with future salary increases.

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

18 RETIREMENT BENEFIT ASSET – CONTINUED

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

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Fair value of scheme assets at 1 January	525.0	514.1	135.5	132.1
Expected return on scheme assets	27.5	32.0	9.3	9.8
Actuarial movement on scheme assets	23.4	(18.4)	7.2	(3.0)
Contributions by the group/company	10.1	10.0	0.4	0.5
Net benefits paid out	(15.3)	(12.7)	(4.7)	(3.9)
Fair value of scheme assets at 31 December	570.7	525.0	147.7	135.5

The contributions to the defined benefit pension scheme in the year ending 31 December 2013 are expected to be approximately £16m.

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

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Present value of the defined benefit obligation at 1 January	(511.5)	(473.1)	(131.3)	(119.5)
Current service cost	(6.8)	(7.0)	(2.1)	(2.1)
Interest cost	(24.9)	(25.4)	(7.7)	(7.8)
Exceptional curtailment credit	17.7	–	2.1	–
Actuarial movement on scheme liabilities	(37.5)	(18.7)	(11.5)	(5.8)
Net benefits paid out	15.3	12.7	4.7	3.9
Present value of the defined benefit obligation at 31 December	(547.7)	(511.5)	(145.8)	(131.3)

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

	Group and company	
	2012 %	2011 %
Price inflation	3.00	3.00
Rate of increase in pensionable salaries	–	4.00
Rate of increase to pensions in payment	2.80	3.00
Inflationary increases to pensions in deferment	2.25	2.00
Discount rate	4.50	4.90
Long-term rate of return – equities	7.20	7.50
– bonds	4.50	4.90
– fixed interest gilts	–	2.50
– index-linked gilts	3.00	2.50
– cash and money market funds	2.50	2.50
– overall (weighted average)	5.30	5.40

The expected return on plan assets is determined by considering the expected returns available on the assets under the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect anticipated long-term real rates of return.

IAS 19 requires that the discount rate should be determined by reference to market yields at the balance sheet date on high-quality corporate bonds and that the term of the instruments chosen should be consistent with the estimated term of the defined benefit obligations. In the UK, this is usually interpreted to mean the yield on AA-rated corporate bonds of an appropriate term. A 0.1% movement in the discount rate would increase/decrease the retirement benefit asset by approximately £11m (2011: £10m).

The mortality assumptions used in the valuation of the 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 has updated the mortality assumption to be in line with the assumptions proposed for the 1 June 2012 actuarial valuation. The group uses the S1PA standard tables as the basis for projecting mortality adjusted for the following factors:

- A 5% upwards adjustment to mortality rates for males and a 15% upwards 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 CMI 2011 projections with long-term trend improvements of 1.25% per annum.

In more simple terms, it is now assumed that members who retire in the future at age 65 will live on average for a further 24 years if they are male (2011: 23 years) and for a further 26 years if they are female (2011: 25 years). If assumed life expectancies had been one year greater for the scheme, the retirement benefit asset would have been reduced by approximately £20m (2011: £20m).

18 RETIREMENT BENEFIT ASSET – CONTINUED

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

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Expected return on scheme assets	27.5	32.0	9.3	9.8
Actuarial movement on scheme assets	23.4	(18.4)	7.2	(3.0)
Actual return on scheme assets	50.9	13.6	16.5	6.8

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 comprehensive income is as follows:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Actuarial movement on scheme assets	23.4	(18.4)	7.2	(3.0)
Actuarial movement on scheme liabilities	(37.5)	(18.7)	(11.5)	(5.8)
Total loss recognised in other comprehensive income in the year	(14.1)	(37.1)	(4.3)	(8.8)
Cumulative amount of losses recognised in other comprehensive income	(99.1)	(85.0)	(26.5)	(22.2)

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

	Group				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	570.7	525.0	514.1	464.6	410.7
Present value of funded defined benefit obligation	(547.7)	(511.5)	(473.1)	(444.7)	(359.8)
Retirement benefit asset recognised in the balance sheet	23.0	13.5	41.0	19.9	50.9
Experience gains/(losses) on scheme assets					
– amount (£m)	23.4	(17.7)	22.9	29.9	(78.9)
– percentage of scheme assets (%)	4.1	(3.4)	4.5	6.4	(19.2)
Experience gains/(losses) on scheme liabilities					
– amount (£m)	16.3	(6.1)	–	10.3	–
– percentage of scheme liabilities (%)	3.0	(1.2)	–	2.3	–

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

	Company				
	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	147.7	135.5	132.1	116.8	99.9
Present value of funded defined benefit obligation	(145.8)	(131.3)	(119.5)	(110.7)	(83.8)
Retirement benefit asset recognised in the balance sheet	1.9	4.2	12.6	6.1	16.1
Experience gains/(losses) on scheme assets					
– amount (£m)	7.2	(2.9)	8.7	10.4	(24.5)
– percentage of scheme assets (%)	4.9	(2.1)	6.6	8.9	(24.5)
Experience gains/(losses) on scheme liabilities					
– amount (£m)	5.0	(1.9)	–	3.3	–
– percentage of scheme liabilities (%)	3.4	(1.4)	–	3.0	–

18 RETIREMENT BENEFIT ASSET – CONTINUED

(b) Pension schemes – defined contribution

The group operates a stakeholder 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 3.0% and 8.0%). The assets of the scheme are held separately from those of the group and company. The pension charge in the consolidated income statement represents contributions paid by the group in respect of the plan and amounted to £3.8m for the year ended 31 December 2012 (2011: £3.8m). Contributions made by the company amounted to £0.4m (2011: £0.4m). No contributions were payable to the fund at the year end (2011: £nil).

The group contributed £0.1m to personal pension plans in the year (2011: £0.1m).

In December 2011, the Finance Act introduced the Reduced Annual Allowance, which limited the benefits that can be provided by the group's registered pension schemes on a tax-efficient basis to £50,000 in any year. This limit is in addition to HMRC's Lifetime Allowance of £1.5m. As a result of these limits, those affected have been provided with a number of alternative options by the group, principally: (i) participation in an Unfunded, Unapproved Retirement Benefit Scheme (UURBS); (ii) a cash supplement payable in lieu of pension contributions payable; and (iii) contributions payable into a self-invested personal pension plan (SIPP). In 2012 both the group and company have contributed £0.3m (2011: £0.3m) into the UURBS, £0.1m (2011: £0.1m) into cash supplements and £0.1m (2011: £0.1m) into SIPPs.

19 DEFERRED TAX

Deferred tax is a future tax liability or asset, resulting from temporary differences or timing differences between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of derivatives, the group's pension asset and property, plant and equipment which are depreciated on a different basis for tax purposes.

Deferred tax is calculated in full on temporary differences under the balance sheet liability method. As a result of the change in UK corporation tax rate which is effective from 1 April 2013, deferred tax balances have been re-measured. The temporary differences, on which deferred tax balances have been calculated, are expected to reverse after 1 April 2013 (2011: 1 April 2012). Accordingly, the balances have been calculated using a tax rate of 23% (2011: 25%). The movement in the deferred tax asset during the year can be analysed as follows:

Asset	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
At 1 January	7.5	2.8	3.6	1.9
(Charge)/credit to the income statement (note 5)	(4.4)	(4.3)	(0.4)	0.1
Credit on other comprehensive income prior to change in UK tax rate (note 5)	3.5	9.4	1.0	1.9
Impact of change in UK tax rate:				
– charge to the income statement	(0.4)	(0.3)	(0.1)	–
– charge to other comprehensive income	(0.1)	(0.1)	(0.1)	(0.3)
At 31 December	6.1	7.5	4.0	3.6

The change in the UK tax rate relates to the impact of the change in UK corporation tax rate from 24% (2011: 26%) to 23% (2011: 25%) which will be effective from 1 April 2013 (2011: 1 April 2012) (see note 5).

An analysis of the deferred tax asset for the group is set out below:

Group – asset	2012				2011			
	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m
At 1 January	0.9	10.0	(3.4)	7.5	0.6	13.3	(11.1)	2.8
Credit/(charge) to the income statement	0.9	0.4	(5.7)	(4.4)	0.3	(2.5)	(2.1)	(4.3)
Credit/(charge) on other comprehensive income prior to change in UK tax rate	–	0.1	3.4	3.5	–	(0.5)	9.9	9.4
Impact of change in UK tax rate:								
– (charge)/credit to the income statement	(0.1)	(0.7)	0.4	(0.4)	–	(0.2)	(0.1)	(0.3)
– charge to other comprehensive income	–	(0.1)	–	(0.1)	–	(0.1)	–	(0.1)
At 31 December	1.7	9.7	(5.3)	6.1	0.9	10.0	(3.4)	7.5

19 DEFERRED TAX – CONTINUED

An analysis of the deferred tax asset for the company is set out below:

	2012				2011			
	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m	Accelerated capital allowances £m	Other temporary differences £m	Retirement benefit asset £m	Total £m
Company – asset								
At 1 January	(0.5)	5.2	(1.1)	3.6	(0.1)	5.4	(3.4)	1.9
(Charge)/credit to the income statement	(0.1)	0.1	(0.4)	(0.4)	(0.4)	0.4	0.1	0.1
(Charge)/credit on other comprehensive income prior to change in UK tax rate	–	(0.1)	1.1	1.0	–	(0.4)	2.3	1.9
Impact of change in UK tax rate:								
– charge to the income statement	–	(0.1)	–	(0.1)	–	–	–	–
– charge to other comprehensive income	–	(0.1)	–	(0.1)	–	(0.2)	(0.1)	(0.3)
At 31 December	(0.6)	5.0	(0.4)	4.0	(0.5)	5.2	(1.1)	3.6

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

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash at bank, floats held by agents within CCD and Vanquis Bank's liquid assets buffer held in accordance with the FSA's liquidity regime. The FSA requires regulated entities to maintain a liquid assets buffer to ensure they have a liquid source of funds to help protect against unforeseen circumstances. Vanquis Bank's liquid assets buffer amounts to £52.3m in 2012 (2011: £17.5m) and represents cash deposited in a designated money market fund which invests in UK Government bonds. Vanquis Bank has been operating under the FSA's transitional arrangements, whereby firms were only required to hold 30% of the amount calculated under the simplified regime until March 2012, increasing to 50% to July 2013, 70% to January 2016 and to 100% thereafter. Following the increase to 50% in March 2012, the FSA has subsequently confirmed there will be no further increases under the transitional arrangements for the foreseeable future. Vanquis Bank has been operating as a simplified firm under the liquidity regime and therefore the liquid assets buffer has been calculated as 10% to 20% of retail deposits taken, principally depending on maturity, plus 25% of the undrawn credit lines on credit cards.

Vanquis Bank no longer meets the definition of a simplified firm due to the mix of funding between retail deposits and intercompany funding. As a result, from 1 February 2013, Vanquis Bank is now a standard firm for liquidity purposes. This has two impacts: (1) the FSA will set revised liquidity requirements (called Individual Liquidity Guidance (ILG)) following completion by management of an Individual Liquidity Adequacy Assessment (ILAA). The ILAA is the liquidity equivalent of the ICAAP produced for regulatory capital purposes. Pending the completion of the ILAA, Vanquis Bank has agreed with the FSA that it will continue to operate to its historical liquidity requirements; and (2) the liquid assets buffer is required to be held in the form of Government gilts or in a Bank of England Reserve Account and can no longer be held in a designated money market fund.

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Cash at bank and in hand	79.1	49.6	2.6	2.1

In addition to cash and cash equivalents, the group had £9.4m of bank overdrafts at 31 December 2012 (2011: £17.4m) and the company had £7.4m of bank overdrafts (2011: £16.3m) both of which were disclosed within bank and other borrowings (see note 21).

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

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Sterling	78.1	49.6	2.6	2.1
Zloty	1.0	–	–	–
Total cash and cash equivalents	79.1	49.6	2.6	2.1

Cash and cash equivalents are non-interest bearing other than the amounts held by Vanquis Bank as a liquid assets buffer which bear interest at rates linked to sterling Government bonds.

21 BANK AND OTHER BORROWINGS

(a) Borrowing facilities and borrowings

Borrowings principally comprise syndicated and bilateral bank facilities arranged for periods of up to five years, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 21(d)), loan notes privately placed with US and UK institutions (see note 21(e)), retail bonds (see note 21(f)), retail deposits issued by Vanquis Bank (see note 21(g)) and subordinated loan notes (see note 21(h)). As at 31 December 2012, borrowings under these facilities amounted to £1,201.4m (2011: £1,049.6m).

(b) Maturity profile of bank and other borrowings

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

Group	2012		2011	
	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	24.1	9.4	25.2	17.4
In less than one year	162.2	160.4	33.1	33.1
Included in current liabilities	186.3	169.8	58.3	50.5
Between one and two years	89.3	96.9	740.1	459.2
Between two and five years	753.1	552.7	148.8	146.6
In more than five years	383.3	382.0	393.5	393.3
Included in non-current liabilities	1,225.7	1,031.6	1,282.4	999.1
Total group	1,412.0	1,201.4	1,340.7	1,049.6

Borrowings are stated after deducting £9.8m of unamortised arrangement fees (2011: £6.4m) and after a £5.8m credit in respect of the fair value adjustment of derivative financial instruments (2011: £11.2m) (see note 16(d)).

In order to reconcile the borrowings shown in the table above and the headroom on committed facilities shown in 21(i), the facilities and borrowings in respect of amounts repayable on demand should be deducted and unamortised arrangement fees should be added back to borrowings and the fair value adjustments in respect of derivative financial instruments should be deducted from borrowings as follows:

Group	2012		2011	
	Facilities £m	Borrowings £m	Facilities £m	Borrowings £m
Total group facilities and borrowings	1,412.0	1,201.4	1,340.7	1,049.6
Repayable on demand	(24.1)	(9.4)	(25.2)	(17.4)
Unamortised arrangement fees	–	9.8	–	6.4
Fair value adjustment in respect of derivatives	–	(5.8)	–	(11.2)
Total group committed facilities and borrowings	1,387.9	1,196.0	1,315.5	1,027.4
Headroom on committed facilities		191.9		288.1

Company	2012		2011	
	Borrowing facilities available £m	Borrowings £m	Borrowing facilities available £m	Borrowings £m
Repayable:				
On demand	24.1	7.4	25.2	16.3
In less than one year	–	–	–	–
Included in current liabilities	24.1	7.4	25.2	16.3
Between one and two years	–	–	417.3	125.2
Between two and five years	590.3	389.9	78.1	75.9
In more than five years	383.3	382.0	393.5	393.3
Included in non-current liabilities	973.6	771.9	888.9	594.4
Total company	997.7	779.3	914.1	610.7

As at 31 December 2012, the weighted average period to maturity of the group's committed facilities, including retail deposits, was 3.7 years (2011: 3.5 years) and for the company's committed facilities was 4.5 years (2011: 4.4 years). Excluding retail deposits, the weighted average period to maturity of the group's committed facilities was 4.2 years (2011: 3.3 years).

21 BANK AND OTHER BORROWINGS – CONTINUED**(c) Interest rate and currency profile of bank and other borrowings**

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

Group	2012			2011		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	777.7	271.2	1,048.9	471.7	427.5	899.2
US dollar	90.7	–	90.7	96.1	–	96.1
Euro	–	61.8	61.8	–	54.3	54.3
Total group	868.4	333.0	1,201.4	567.8	481.8	1,049.6

Company	2012			2011		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Sterling	448.3	269.2	717.5	330.0	226.4	556.4
Euro	–	61.8	61.8	–	54.3	54.3
Total company	448.3	331.0	779.3	330.0	280.7	610.7

As detailed in note 16, the group and company have entered into various interest rate swaps and cross-currency swap arrangements to hedge the interest rate and foreign exchange rate exposures on borrowings. After taking account of the aforementioned interest rate swaps, the group's fixed rate borrowings are £988.4m (2011: £897.8m) and the company's fixed rate borrowings are £568.3m (2011: £550.0m). After taking account of cross-currency swaps, the group and company have no foreign exchange rate exposure to borrowings denominated in US dollars (2011: £nil).

(d) Senior public bonds

On 23 October 2009, the company issued £250m of senior public bonds. The bonds have an annual coupon of 8.0% and are repayable on 23 October 2019.

(e) Private placement loan notes

On 10 May 2001, the company issued private placement loan notes as follows:

- (i) £42m of 7.21% loan notes matured and repaid on 10 May 2011;
- (ii) US\$64m of 7.40% loan notes matured and repaid on 10 May 2008; and
- (iii) US\$24m of 7.60% loan notes matured and repaid on 10 May 2011.

On 24 April 2003, the group issued loan notes as follows:

- (i) US\$44m of 5.81% loan notes matured and repaid on 24 April 2010; and
- (ii) US\$76m of 6.34% loan notes repayable on 24 April 2013.

On 12 August 2004, the group issued loan notes as follows:

- (i) US\$30m of 6.02% loan notes matured and repaid on 12 August 2011;
- (ii) US\$67m of 6.45% loan notes repayable on 12 August 2014; and
- (iii) £2m of 7.01% loan notes repayable on 12 August 2014.

As set out in note 21(c), cross-currency swaps have been put in place to swap the proceeds and liabilities for principal and interest under the US dollar-denominated loan notes into sterling.

On 13 January 2011, the company entered into a committed £100m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a 10-year term loan which amortises between years 5 and 10. The facility bears interest at rates linked to LIBOR.

The company subsequently entered into the following arrangements with third-party debt providers:

- 3 February 2011 – €10m facility agreement over a 7-year period at rates linked to EURIBOR;
- 4 March 2011 – £20m private placement loan notes over a 7-year period at rates linked to LIBOR; and
- 24 May 2011 – €14.5m private placement loan notes over a 4-year period at rates linked to EURIBOR. The company has the option to repay the notes after 3 years.

21 BANK AND OTHER BORROWINGS – CONTINUED

(f) Retail bonds

On 14 April 2010, the company issued £25.2m of retail bonds which have 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, and are repayable on 14 April 2020. On 25 March 2011, the company issued £50.0m of retail bonds which accrue interest at 7.5% and are repayable on 30 September 2016. On 4 April 2012, the company issued a further £120.0m of retail bonds which accrue interest at 7.0% and are repayable on 4 October 2017.

(g) Retail deposits

Vanquis Bank is an FSA regulated bank and commenced taking retail deposits in July 2011. As at 31 December 2012, £327.4m (2011: £139.7m) of fixed-rate, fixed-term retail deposits of 1, 2, 3 and 5 years had been taken. The deposits have been issued at rates of between 2.21% and 4.65%.

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

	Group	
	2012 £m	2011 £m
At 1 January	139.7	–
New funds received	204.8	139.7
Maturities	(33.5)	–
Maturities retained	16.4	–
At 31 December	327.4	139.7

The retention rate on retail deposits maturing was 49%.

(h) Subordinated loan notes

On 15 June 2005, the company issued £100.0m of subordinated loan notes repayable on 15 June 2015. £94.0m of the liability was settled in 2009. The rights of repayment to holders of the loan notes are subordinated to all other borrowings and liabilities of the company upon a winding up of the company and, in certain circumstances, upon its administration.

(i) 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 to fund growth and contractual maturities for at least the following 12 months, after assuming that Vanquis Bank will fund 90% of its receivables book through retail deposits.

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

	Group and company	
	2012 £m	2011 £m
Expiring within one year	–	197.9
Expiring within one to two years	–	90.2
Expiring in more than two years	191.9	–
Total group and company	191.9	288.1

The table above excludes the additional capacity for Vanquis Bank to take retail deposits up to the permitted level of 90% of its receivables set by the FSA. As an FSA-regulated business, Vanquis Bank cannot lend funds to its parent as this would breach its large exposures rules. As a result, the additional retail deposits capacity at 31 December 2012 is the lower of: (i) 90% of Vanquis Bank's receivables of £643.3m less retail deposits of £327.4m after setting aside the necessary liquid assets buffer of £18.9m. This amounts to £232.7m; and (ii) the Vanquis Bank intercompany loan from Provident Financial plc of £202.1m. Accordingly, Vanquis Bank's retail deposits capacity at 31 December 2012 amounts to £202.1m. The group's total funding capacity at the end of 2012 therefore amounts to £394.0m, being the group's headroom on undrawn committed borrowing facilities of £191.9m plus Vanquis Bank's additional retail deposits capacity based on year-end receivables of £643.3m.

(j) Weighted average interest rates and periods to maturity

Before taking account of the various interest rate swaps and cross-currency swap arrangements entered into by the group and company, the weighted average interest rate and the weighted average period to maturity of the group and company's fixed-rate borrowings is as follows:

	2012		2011	
	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Group				
Sterling	6.06	4.36	6.67	5.73
US dollar	6.39	0.87	6.39	1.87

21 BANK AND OTHER BORROWINGS – CONTINUED

Company	2012		2011	
	Weighted average interest rate %	Weighted average period to maturity years	Weighted average interest rate %	Weighted average period to maturity years
Sterling	7.62	5.9	7.84	7.31

After taking account of interest rate swaps and cross-currency swaps, the sterling-weighted average fixed interest rate for the group was 5.69% (2011: 5.01%) and for the company was 6.69% (2011: 5.24%). The sterling-weighted average period to maturity on the same basis is 4.6 years (2011: 4.1 years) for the group and 5.9 years (2011: 4.5 years) for the company. There is £nil foreign exchange or interest rate risk denominated in US dollars after taking account of cross-currency swaps (2011: £nil).

(k) Fair values

The fair values of the group and company's bank and other borrowings are compared to their book values as follows:

Group	2012		2011 (Restated)	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	196.0	196.0	351.4	351.4
Senior public bonds	250.0	268.1	250.0	240.9
Sterling private placement loan notes	122.0	144.4	122.0	135.9
US dollar private placement loan notes	84.9	85.4	84.9	89.0
Euro private placement loan notes	19.9	22.1	20.4	24.2
Retail bonds	195.2	209.6	75.2	78.4
Retail deposits	327.4	364.8	139.7	143.8
Subordinated loan notes	6.0	6.9	6.0	7.1
Total group	1,201.4	1,297.3	1,049.6	1,070.7

Company	2012		2011	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Bank loans and overdrafts	186.2	186.2	137.1	137.1
Senior public bonds	250.0	268.1	250.0	240.9
Sterling private placement loan notes	122.0	144.4	122.0	135.9
Euro private placement loan notes	19.9	22.1	20.4	24.2
Retail bonds	195.2	209.6	75.2	78.4
Subordinated loan notes	6.0	6.9	6.0	7.1
Total company	779.3	837.3	610.7	623.6

The fair value of the sterling, US dollar and euro private placement loan notes, the retail deposits and the subordinated loan notes have been calculated by discounting the expected future cash flows at the relevant market interest rate yield curves prevailing at the balance sheet date. The fair value of the senior public bonds and retail bonds equates to their publicly quoted market price at the balance sheet date.

The fair value of borrowings has been restated in 2011 to take account of future interest accruing on fixed rate, fixed term borrowings.

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Current liabilities				
Trade payables	3.9	3.7	–	–
Amounts owed to group undertakings	–	–	151.1	103.1
Other payables including taxation and social security	9.1	9.1	3.6	3.3
Accruals	47.6	40.2	19.5	14.7
Total	60.6	53.0	174.2	121.1

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

Accruals principally relate to normal operating accruals such as rent, rates and utilities, interest accrued on the group's borrowings and national insurance accrued in respect of share-based payments. Accruals have increased by £7.4m in 2012 reflecting an increase in the accrual for interest on retail deposits following the increase in retail deposits in the year, together with a general increase in business volumes.

	Company	
	2012 £m	2011 £m
Amounts owed to group undertakings	48.6	86.9

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

23 SHARE CAPITAL

	2012		2011	
	Authorised	Issued and fully paid	Authorised	Issued and fully paid
Group and company				
Ordinary shares of 20⁸/₁₁p each – £m	40.0	28.7	40.0	28.5
– number (m)	193.0	138.4	193.0	137.2

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

Group and company	2012 m	2011 m
At 1 January	137.2	135.7
Shares issued pursuant to the exercise/vesting of options and awards	1.2	1.5
At 31 December	138.4	137.2

The shares issued pursuant to the exercise/vesting of options and awards comprised 1,191,195 ordinary shares (2011: 1,554,530) with a nominal value of £246,902 (2011: £322,212) and an aggregate consideration of £2.3m (2011: £2.4m).

Provident Financial plc sponsors the Provident Financial plc 2007 Employee Benefit Trust (EBT) which is a discretionary trust established for the benefit of the employees of the group. The company has appointed Kleinwort Benson (Jersey) Trustees 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 2012, the EBT held 3,173,526 (2011: 2,969,888) shares in the company with a cost of £0.9m (2011: £3.9m) and a market value of £43.1m (2011: £21.2m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006.

Provident Financial plc also sponsors the Performance Share Plan Trust which was established to operate in conjunction with the Performance Share Plan (PSP). As at 31 December 2012, awards under the PSP, held in the name of the individual subject to the award, were 695,009 (2011: 754,132) ordinary shares with a cost of £0.1m (2011: £0.7m) and a market value of £9.4m (2011: £7.1m).

Until 7 February 2011, Provident Financial plc also sponsored the Provident Financial Qualifying Employee Share Ownership Trust (the QUEST) which was a discretionary trust established for the benefit of the employees of the group. The company established Provident Financial Trustees Limited to act as trustee of the QUEST and the trustee had waived the right to receive dividends on the shares it held. As the trust no longer held any ordinary shares in the company, the trust was wound up on 7 February 2011.

24 SHARE-BASED PAYMENTS

The group issues share options and awards to senior employees as part of its employee remuneration packages. The group operates three 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 previously operated senior executive share option schemes (ESOS/SESO), although no options have been granted under these schemes since 2006.

When a share option or award is granted, a fair value is calculated based on the current share price, probability of the option/award vesting, the group's recent share price volatility, and the risk associated with the option/award. The fair value of all options is charged to the income statement on a straight-line basis over the vesting period of the underlying option/award.

The charge to the income statement in 2012 was £6.4m for the group (2011: £8.0m) and £3.3m for the company (2011: £4.0m).

During 2012, awards/options have been granted under the LTIS, PSP and SAYE schemes (2011: awards/options granted under the LTIS, PSP and SAYE schemes). The reduction in the share-based payment charge from £8.0m in 2011 to £6.4m in 2012, principally reflects a release of prior year provisions due to lower than expected vesting levels from the 2009 LTIS.

The fair value per award/option granted and the assumptions used in the calculation of the share-based payment charge are as follows:

Group	2012			2011		
	PSP	LTIS	SAYE	PSP	LTIS	SAYE
Grant date	26 Mar 2012	26 Mar 2012	28 Sep 2012	4 Mar 2011	4 Mar 2011	31 Aug 2011
Share price at grant date (£)	11.62	11.62	13.75	9.53	9.53	11.04
Exercise price (£)	–	–	10.56	–	–	8.68
Shares awarded/under option (number)	311,150	572,857	275,940	314,382	884,129	282,052
Vesting period (years)	3	3	3 and 5	3	3	3, 5 and 7
Expected volatility	23.8%	23.8%	24.3%-30.9%	32.9%	32.9%	29.8%-32.6%
Award/option life (years)	3	3	Up to 5	3	3	Up to 7
Expected life (years)	3	3	Up to 5	3	3	Up to 7
Risk-free rate	0.65%	0.65%	0.30%-0.69%	1.86%	1.86%	0.98%-2.19%
Expected dividends expressed as a dividend yield	n/a	n/a	5.8%	n/a	n/a	7.3%
Fair value per award/option (£)	11.62	7.47	2.18-2.51	9.53	6.76	1.79-2.04

Company	2012			2011		
	PSP	LTIS	SAYE	PSP	LTIS	SAYE
Grant date	26 Mar 2012	26 Mar 2012	28 Sep 2012	4 Mar 2011	4 Mar 2011	31 Aug 2011
Share price at grant date (£)	11.62	11.62	13.75	9.53	9.53	11.04
Exercise price (£)	–	–	10.56	–	–	8.68
Shares awarded/under option (number)	205,800	346,610	8,403	215,594	427,348	6,914
Vesting period (years)	3	3	3 and 5	3	3	3 and 5
Expected volatility	23.8%	23.8%	24.3%-30.9%	32.9%	32.9%	29.8%-32.6%
Award/option life (years)	3	3	Up to 5	3	3	Up to 5
Expected life (years)	3	3	Up to 5	3	3	Up to 5
Risk-free rate	0.65%	0.65%	0.30%-0.69%	1.86%	1.86%	0.98%-1.61%
Expected dividends expressed as a dividend yield	n/a	n/a	5.8%	n/a	n/a	7.3%
Fair value per award/option (£)	11.62	7.47	2.18-2.51	9.53	6.76	1.96-2.04

The expected volatility is based on historical volatility over the last three, five or seven 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.

24 SHARE-BASED PAYMENTS – CONTINUED

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

Group	PSP		LTIS		SAYE		ESOS/SESO	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2012	669,855	–	2,580,917	–	1,321,589	7.05	14,890	5.77
Awarded/granted	311,150	–	572,857	–	275,940	10.56	–	–
Lapsed	(33,692)	–	(497,662)	–	(92,278)	7.41	–	–
Exercised	(323,427)	–	(384,370)	–	(319,906)	6.60	–	–
Outstanding at 31 December 2012	623,886	–	2,271,742	–	1,185,345	7.97	14,890	5.77
Exercisable at 31 December 2012	–	–	–	–	50,757	6.62	14,890	5.77

Share awards outstanding under the LTIS scheme at 31 December 2012 had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.1 years (2011: 1.2 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2012 had an exercise price of 577p (2011: 577p) and a weighted average remaining contractual life of nil years (2011: nil years). Share options outstanding under the SAYE schemes at 31 December 2012 had exercise prices ranging from 491p to 1,056p (2011: 453p to 868p) and a weighted average remaining contractual life of 2.1 years (2011: 2.3 years). Share awards outstanding under the PSP schemes at 31 December 2012 had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.7 years (2011: 1.1 years).

Group	PSP		LTIS		SAYE		ESOS/SESO	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2011	600,255	–	2,445,472	–	1,467,970	6.48	58,728	6.31
Awarded/granted	314,382	–	884,129	–	282,052	8.68	–	–
Lapsed	–	–	(283,923)	–	(116,513)	6.71	–	–
Exercised	(244,782)	–	(464,761)	–	(311,920)	5.94	(43,838)	6.49
Outstanding at 31 December 2011	669,855	–	2,580,917	–	1,321,589	7.05	14,890	5.77
Exercisable at 31 December 2011	–	–	–	–	53,420	6.25	14,890	5.77

Company	PSP		LTIS		SAYE		ESOS/SESO	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2012	469,903	–	1,283,496	–	37,885	7.07	4,070	5.77
Awarded/granted	205,800	–	346,610	–	8,403	10.56	–	–
Lapsed	(33,692)	–	(229,968)	–	(2,739)	6.56	–	–
Exercised	(222,263)	–	(202,182)	–	(7,517)	6.75	–	–
Outstanding at 31 December 2012	419,748	–	1,197,956	–	36,032	7.97	4,070	5.77
Exercisable at 31 December 2012	–	–	–	–	3,429	6.56	4,070	5.77

Share awards outstanding under the LTIS scheme at 31 December 2012 had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.2 years (2011: 1.2 years). Share options outstanding under the ESOS/SESO schemes at 31 December 2012 had an exercise price of 577p (2011: 577p) and a weighted average remaining contractual life of nil years (2011: nil years). Share options outstanding under the SAYE schemes at 31 December 2012 had exercise prices ranging from 491p to 1,056p (2011: 491p to 868p) and a weighted average remaining contractual life of 1.7 years (2011: 1.9 years). Share awards outstanding under the PSP schemes at 31 December 2012 had an exercise price of £nil (2011: £nil) and a weighted average remaining contractual life of 1.7 years (2011: 1.1 years).

24 SHARE-BASED PAYMENTS – CONTINUED

Company	PSP		LTIS		SAYE		ESOS/SESO	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2011	416,605	–	1,184,110	–	50,870	6.28	28,666	6.54
Awarded/granted	215,594	–	427,348	–	6,914	8.68	–	–
Lapsed	–	–	(113,853)	–	(3,646)	6.95	–	–
Exercised	(162,296)	–	(214,109)	–	(16,253)	5.39	(24,596)	6.68
Outstanding at 31 December 2011	469,903	–	1,283,496	–	37,885	7.07	4,070	5.77
Exercisable at 31 December 2011	–	–	–	–	–	–	4,070	5.77

25 OTHER RESERVES

Group	Profit retained by subsidiary £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2011	0.8	3.6	(7.2)	(10.6)	14.3	0.9
Other comprehensive income:						
– cash flow hedges (note 16)	–	–	1.4	–	–	1.4
– tax on other comprehensive income	–	–	(0.5)	–	–	(0.5)
– impact of change in UK tax rate	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	0.8	–	–	0.8
Transactions with owners:						
– purchase of own shares	–	–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards	–	–	–	6.2	–	6.2
– share-based payment charge (note 24)	–	–	–	–	8.0	8.0
– transfer of share-based payment reserve	–	–	–	–	(6.3)	(6.3)
At 31 December 2011	0.8	3.6	(6.4)	(4.6)	16.0	9.4
At 1 January 2012	0.8	3.6	(6.4)	(4.6)	16.0	9.4
Other comprehensive income:						
– cash flow hedges (note 16)	–	–	(0.6)	–	–	(0.6)
– tax on other comprehensive income	–	–	0.1	–	–	0.1
– impact of change in UK tax rate	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	(0.6)	–	–	(0.6)
Transactions with owners:						
– purchase of own shares	–	–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards	–	–	–	3.7	–	3.7
– share-based payment charge (note 24)	–	–	–	–	6.4	6.4
– transfer of share-based payment reserve	–	–	–	–	(5.6)	(5.6)
At 31 December 2012	0.8	3.6	(7.0)	(1.0)	16.8	13.2

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

The hedging reserve reflects the corresponding entry to the fair value of hedging derivatives held on the balance sheet as either assets or liabilities (see note 16).

The treasury shares reserve represents shares acquired by the company, through various trusts, both from the market and through a fresh issue to satisfy awards under the group's various share schemes (see note 23). The cost of the shares is treated as a deduction from equity. When the relevant awards vest, the cost of the shares provided to employees is transferred to retained earnings.

The share-based payments 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.

25 OTHER RESERVES – CONTINUED

Company	Non-distributable reserve £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Treasury shares reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2011	609.2	2.3	3.6	(8.1)	(10.6)	14.3	610.7
Other comprehensive income:							
– cash flow hedges (note 16)	–	–	–	1.6	–	–	1.6
– tax on other comprehensive income	–	–	–	(0.4)	–	–	(0.4)
– impact of change in UK tax rate	–	–	–	(0.2)	–	–	(0.2)
Other comprehensive income for the year	–	–	–	1.0	–	–	1.0
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.2)	–	(0.2)
– transfer of own shares on vesting of share awards	–	–	–	–	6.2	–	6.2
– share-based payment charge (note 24)	–	–	–	–	–	4.0	4.0
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	0.5	0.5
– transfer of share-based payment reserve	–	–	–	–	–	(2.8)	(2.8)
At 31 December 2011	609.2	2.3	3.6	(7.1)	(4.6)	16.0	619.4
At 1 January 2012	609.2	2.3	3.6	(7.1)	(4.6)	16.0	619.4
Other comprehensive income:							
– cash flow hedges (note 16)	–	–	–	0.1	–	–	0.1
– tax on other comprehensive income	–	–	–	(0.1)	–	–	(0.1)
– impact of change in UK tax rate	–	–	–	(0.1)	–	–	(0.1)
Other comprehensive income for the year	–	–	–	(0.1)	–	–	(0.1)
Transactions with owners:							
– purchase of own shares	–	–	–	–	(0.1)	–	(0.1)
– transfer of own shares on vesting of share awards	–	–	–	–	3.7	–	3.7
– share-based payment charge (note 24)	–	–	–	–	–	3.3	3.3
– share-based payment movement in investment in subsidiaries (note 13)	–	–	–	–	–	0.6	0.6
– transfer of share-based payment reserve	–	–	–	–	–	(3.1)	(3.1)
At 31 December 2012	609.2	2.3	3.6	(7.2)	(1.0)	16.8	623.7

The non-distributable reserve was created as a result of an intra-group reorganisation to create a more efficient capital structure that more accurately reflects the group's management structure.

26 COMMITMENTS

Commitments under operating leases are as follows:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Due within one year	11.4	11.8	1.9	2.7
Due between one and five years	29.7	31.6	8.5	9.0
Due in more than five years	17.0	16.8	14.2	12.3
Total	58.1	60.2	24.6	24.0

Operating lease commitments relate to the future rental payments until the first break on: (i) the CCD head office property in Bradford; (ii) the 400 CCD branches nationwide; and (iii) the Vanquis Bank head office in London and contact centre in Chatham.

Other group commitments are as follows:

	Group and company	
	2012 £m	2011 £m
Capital expenditure commitments contracted with third parties but not provided for at 31 December	–	0.1

The company had £nil capital expenditure commitments contracted with third parties but not provided for at 31 December 2012 (2011: £nil).

	Group	
	2012 £m	2011 £m
Unused committed credit card facilities at 31 December	251.4	161.9

The company has £nil unused committed credit card facilities at 31 December 2012 (2011: £nil).

27 RELATED PARTY TRANSACTIONS

The company recharges the pension scheme referred to in note 18 with a proportion of the costs of administration and professional fees incurred by the company. The total amount recharged during the year was £0.3m (2011: £0.3m) and the amount due from the pension scheme at 31 December 2012 was £0.2m (2011: £0.3m).

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:

Company	2012			2011		
	Management recharge £m	Interest charge/ (credit) £m	Outstanding balance £m	Management recharge £m	Interest charge/ (credit) £m	Outstanding balance £m
CCD	6.8	72.5	1,220.0	6.2	71.7	1,060.3
Vanquis Bank	2.3	26.8	203.2	1.8	24.1	223.8
Other central companies	–	(24.6)	14.6	–	(26.1)	13.0
Total	9.1	74.7	1,437.8	8.0	69.7	1,297.1

The outstanding balance represents the gross intercompany balance receivable by the company, against which a provision of £123.3m (2011: £121.7m) is held.

During 2012, the company received a dividend of £50.0m from Provident Financial Management Services Limited, a subsidiary within CCD (2011: £80.0m) and a £5.0m dividend from Vanquis Bank Limited (2011: £5.0m). Subsequent to the year end, Vanquis Bank Limited paid a further dividend to the company of £15.0m in respect of 2012. This dividend was not reflected in the company's 2012 income statement as it had not been paid as at 31 December 2012.

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

28 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. The only contingent liabilities within the group relate to bank guarantees provided from one subsidiary to another and a charge in respect of the Unfunded Unapproved Retirement Benefits Scheme (UURBS).

The company has a contingent liability for guarantees given in respect of borrowing facilities of certain subsidiaries to a maximum of £286.6m (2011: £547.3m). At 31 December 2012, the fixed and floating rate borrowings in respect of these guarantees amounted to £94.7m (2011: £299.2m). No loss is expected to arise. These guarantees are defined as financial guarantees under IAS 39 and their fair value at 31 December 2012 was £nil (2011: £nil).

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

29 RECONCILIATION OF PROFIT AFTER TAXATION TO CASH GENERATED FROM OPERATIONS

		Group		Company	
	Note	2012 £m	2011 £m	2012 £m	2011 £m
Profit after taxation		148.0	119.8	59.4	102.1
Adjusted for:					
Tax charge	5	48.7	42.3	6.5	5.1
Finance costs	3	74.7	69.6	65.6	63.6
Finance income		–	–	(87.3)	(95.2)
Dividends received	27	–	–	(55.0)	(85.0)
Share-based payment charge	24	6.4	8.0	3.3	4.0
Retirement benefit charge prior to exceptional pension credit	18	4.2	0.4	0.5	0.1
Exceptional pension credit	18	(17.7)	–	(2.1)	–
Amortisation of intangible assets	11	5.0	7.5	–	–
Exceptional impairment of goodwill	10	2.1	–	–	–
Depreciation of property, plant and equipment	12	8.6	7.3	1.2	1.0
Loss on disposal of property, plant and equipment	12	0.1	0.2	–	–
Release of impairment provision in investments in subsidiaries	13	–	–	(0.1)	–
Changes in operating assets and liabilities:					
Amounts receivable from customers		(181.1)	(113.4)	–	–
Trade and other receivables		(2.3)	0.9	44.3	42.7
Trade and other payables		3.0	8.2	12.9	(11.4)
Contributions into the retirement benefit scheme	18	(10.1)	(10.0)	(0.4)	(0.5)
Derivative financial instruments		–	(2.1)	–	(2.1)
Cash generated from operations		89.6	138.7	48.8	24.4

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROVIDENT FINANCIAL PLC

We have audited the financial statements of Provident Financial plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the group and company balance sheets, the group and company statements of changes in shareholders' equity, the group and company statements of cash flows, the statement of accounting policies and the related notes 1 to 29 of the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the statement of directors' responsibilities in relation to the financial statements, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with 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.

OPINION 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; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 84, in relation to going concern;
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Peter Birch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
26 February 2013