

PFG | Provident
Financial Group

Purpose & progress

Provident Financial plc
Annual Report and
Financial Statements 2019



Purpose

We help put people on a path to a better everyday life. We are a specialist lender, here to provide financial inclusion to the 1 in 5 UK adults who are not well served by mainstream lenders. This unifies us and is something we can get behind both practically and emotionally.

[+ Read more on page 13](#)

Progress

The Strategic Blueprint provides guidance to make the right decisions to deliver our strategy on a daily basis. This entitles us to drive the business forward to deliver our Vision for the Future.

[+ Read more on page 12](#)



To find out more visit:
providentfinancial.com



View our Corporate
Responsibility Report online:
[providentfinancial.com/
corporate-responsibility/](https://providentfinancial.com/corporate-responsibility/)

Customer numbers

2,319k

(2018: 2,395k)

Adjusted basic earnings per share

47.3p

(2018: 48.7p)

Adjusted profit before tax

£162.6m

(2018: £160.1m)



Certain alternative performance measures (APMs) have been used in this report. See [page 237](#) for an explanation of relevance as well as their definition.

Amounts receivable from customers

£2,212.6m

(2018: £2,204.0m)

Basic earnings per share

33.3p

(2018: 27.3p)

Statutory profit before tax

£128.8m

(2018: £97.3m)

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Our businesses

We help put people on a path to a better everyday life through our market-leading businesses.

Founded in Bradford in 1880 by Sir Joshua Kelley Waddilove, we have been providing financial inclusion for consumers whose needs are not well met by mainstream lenders for nearly 140 years. We are a responsible lender providing tailored product and service propositions for 2.3 million customers throughout the UK and the Republic of Ireland.

We are the leader in our chosen market segments and today we meet the needs of our customers through our three divisions: Vanquis Bank, Moneybarn and our Consumer Credit Division (CCD), supported by a central corporate office. Vanquis Bank offers a

range of credit card products, unsecured personal loans for its existing customers and savings products. Moneybarn offers secured motor finance on a range of asset classes, including cars, motorbikes and light commercial vehicles. The Consumer Credit Division offers unsecured personal loans through Provident home credit and Satsuma online loans.

Our customers are served by our 4,900 colleagues based in Bradford, London, Chatham, Petersfield and in nearly 100 area offices across the UK and the Republic of Ireland. We are united by our purpose of 'helping to put people on a path to a better everyday life'.

[+ Read more on our business model on page 13](#)

Credit cards



Credit cards and personal loans

Customers:
1.7m

Credit card limits:
£250–£4,000

Loan range:
£1,000–£5,000

Loan terms:
1–3 years

[+ Read more on page 25](#)

Vehicle finance



Vehicle finance

Customers:
77,000

Loan range:
£4,000–£25,000

Loan terms:
3–5 years

[+ Read more on page 27](#)

Home credit and online loans



Home credit

Customers:
386,000

Loan range:
£100–£2,500

Loan terms:
13–104 weeks

[+ Read more on page 28](#)



Online lending

Customers:
136,000

Loan range:
£100–£1,000

Loan terms:
3–12 months

[+ Read more on page 29](#)

Our customers

We are a specialist lender here to serve the 1 in 5 UK adults who are not well served by mainstream lenders.

We feel consumers may not be well served by mainstream providers for a number of reasons:



Experienced a significant life event, e.g. divorce or loss of a job



Managing everyday life on low, irregular or average incomes with limited or no savings



New to credit in the UK and therefore have little or no credit history



Have variable incomes, e.g. self-employed or a number of part-time jobs



Looking to build or rebuild their credit rating



Value a more tailored product and service

The customers we specialise in serving have many similarities to mainstream credit customers. However, there are important differences due to their specific circumstances, requiring a tailored approach and a wider range of suitable and sustainable credit solutions to best serve their more varied needs and circumstances. These needs and circumstances also tend to change more over time, requiring us to provide a more flexible approach.

Our customers' typical characteristics

Provident	satsuma.	moneybarn Vehicle Finance	VANQUIS
Not working/benefits/part time and casual	Income source		Full-time salaried/15–20% self-employed
Below national average (£10–15k)	Income levels		Around national average (£20–30k)
Rented accommodation/social housing	Housing		Renters/c.20% mortgages
35–64 years	18–34 years	Typical age	25–44 years 35–54 years
>80%	100%	Bank account	100% 100%
Limited or no savings	Savings		Some savings for specific goals

Delivering our Vision for the Future



“

At the end of my first full year as Chairman of the Group, I am delighted with the progress that has been made by the Chief Executive Officer, the wider management team and all employees under extremely challenging circumstances. We have strengthened the business, continued to rebuild trust with regulators and defended an unsolicited takeover bid from NSF.

Patrick Snowball
Chairman

Introduction

2019 has been my first full year as the Chairman of the Group. As I set out last year, I joined the Board in the second half of 2018 as I felt I could provide support and assistance to the Chief Executive Officer in delivering on the commitments provided at the time of the rights issue. To recall, these were stabilising the home credit business, rebuilding trust with our regulators, strengthening the governance and culture across the Group, and refinancing the Group's bonds to ensure we had a robust funding and capital position to take the Group forward. We made good progress on these matters in 2018 and our objectives for 2019 were to build on this momentum by substantially completing the turnaround of the Group, clearly establishing our Vision for the Future and ensuring that we are well placed to begin to grow the business in 2020.

Despite the significant challenges we faced in 2019, particularly from the unsolicited bid from Non-Standard Finance plc (NSF) in the first half of the year and the ongoing economic uncertainty in the UK, I am very pleased to report that we have delivered on our 2019 objectives. I am confident that going forward we are well placed to continue to serve our customers with the products and services they need whilst delivering attractive returns to shareholders.

Unsolicited approach from NSF

The unsolicited approach for the Group, made by NSF in February 2019, was highly opportunistic. The Board did not believe the bid was in the best interests of the Group and its stakeholders. The lapse in June was therefore a relief. Despite being clearly in the best interests of all stakeholders, I deeply regret the unnecessary distraction, cost and impact of the uncertainty on the Group's customers and employees caused by NSF pursuing a poorly thought through bid.

The Board has carefully reflected on the terms of the offer and, having done so, clearly communicated the Group's strategy through our Vision for the Future. We remain focused on this strategy and committed to maximising value for all of the stakeholders in fulfilling the Group's potential.

Dividends

As a result of the Group's ongoing recovery and good performance in 2019, the Board has declared a final dividend of 16p per share (2018: 10p) which, together with the interim dividend of 9p per share (2018: £nil), results in a total dividend of 25p per share for 2019 (2018: 10p), a 150% increase on 2018.

As previously stated, the Board's policy is to maintain a dividend cover of at least 1.4 times as the home credit business recovers and moves into profitability. The resumption of dividend payments has led to a more diversified shareholder register through 2019. I look forward to meeting with many of our new shareholders, as well as those who have supported us in recent years, in 2020.

Our Vision for the Future

We recognise that operating in our market comes with extra responsibility, particularly as we are the market leader. For over 140 years, the Group has played a very important role in the financial services sector and in society more generally. We have a social purpose to provide financial inclusion to the 10 to 12 million adults in the UK and Ireland who are not well served by mainstream lenders. We help our 2.3 million customers build better financial futures by providing them with access to credit, which they may otherwise be unable to gain, and helping them to develop their credit profile.

The Board and Group Executive Committee (ExCo) will continue to deliver on the Group's purpose to help put people on the path to a better everyday life. We will continue to provide customers with a broad product range appropriate for their circumstances through our wide distribution capabilities to deliver good customer outcomes. We aim to deliver attractive and sustainable returns for our shareholders by making sure that we appropriately balance the needs of all our stakeholders – customers, regulators, equity and debt investors and employees. Operating within our sector is quite rightly the focus of considerable external attention from regulators and politicians. We have learned that good governance, adherence to regulatory best practice and putting the customer at the forefront are absolutely fundamental to our ongoing success. These principles are clearly non-negotiable. The cost of not complying has been demonstrated in the past; the direction of travel for the whole industry is now very clear.

I was pleased that the Chief Executive Officer and wider management team were able to clearly communicate the detail as to how we intend to deliver the Group's strategy over the medium term at the Capital Markets Day presentation in November. Further detail is provided in the Chief Executive's Review.

Our shareholders

Our focus over the last two years has been on ensuring we maintain a regular dialogue with our existing major shareholders whilst we recovered from the events of 2017 and adapted our businesses to the emerging regulatory environment. The Capital Markets Day marked an important event in recent history in drawing a line on the past and clearly setting out our Vision for the Future. We have a clear financial model and we have communicated our medium-term financial targets, further detail on which is provided in the Chief Executive's Review.

By doing the right thing by our customers and our regulators we are confident we can deliver on these commitments and deliver attractive, sustainable returns to shareholders.

Our investor relations programme in 2020 will be more active, including overseas roadshows and greater attendance at broker conferences, as we seek to attract new investors into PFG and diversify the Group's share register.

Our governance

The Board is responsible for the effective oversight of the Group. We determine the strategic direction and objectives, the viability of the business and the governance structure. We remain committed to the highest standards of corporate governance when delivering in these areas and in delivering long-term, sustainable value to our stakeholders.

This has been a key area of focus and development over the past two years and a significant improvement of the governance and

culture across the Group is already evident through the delivery of the Strategic Blueprint and associated behaviours. We must ensure that the governance and culture continue to develop and remain a focus of both the Board and all employees.

I am delighted that we have appointed two new members to the Board in 2019. Graham Lindsay joined as Non-Executive Director in April 2019 and Robert East as Chairman of Vanquis Bank and Non-Executive Director of the Group from June 2019. This role on both the Group and the bank's boards will help improve decision making and coordination between the listed Group and Vanquis Bank boards.

I would like to thank Simon Thomas who joined the Board in 2018 as Chief Finance Officer (CFO), but who will retire in March due to personal health reasons. Simon has made a valuable contribution to the Group, and I would like to thank him for everything he has achieved and wish him all the best for the future. Simon will be replaced by Neeraj Kapur, an experienced CFO. Neeraj Kapur is the Group Chief Financial Officer of Secure Trust Bank plc, a UK retail and SME bank. He has a strong retail banking background, including consumer finance and savings products expertise.

We now have a strong Board with the right skills, experience and balance to run the Group centred around a PRA authorised and regulated bank, coordinated with smaller complementary consumer finance businesses authorised and regulated by the FCA and CBI.

[+ Read our Corporate Governance Report on pages 88 to 106](#)

Our people

The Board and I would like to thank Malcolm and the wider management team for their hard work this year in defending the hostile takeover bid and continuing to deliver the Group's objectives during a very difficult time. I would also like to thank all of our nearly 4,900 employees for their continuing diligence and hard work in the face of many months of uncertainty through 2019.

The new Cultural Blueprint was rolled out throughout the organisation in 2019. This is based on a renewed purpose and a defined set of behaviours which give employees the strategic direction and guidance to help them make the right decisions for our customers on a daily basis. It has continued to be embedded through management-led workshops and the development of an initial key performance indicator (KPI) dashboard which is monitored by our newly formed Customer, Culture and Ethics (CCE) Committee.

We have strong Group and divisional Executive Committees and strong divisional management teams that we have built and maintained. Key appointments made in the year include Neil Chandler as Managing Director of Vanquis Bank, Charlotte Davies as General Counsel of both the Group and Vanquis Bank, Gareth Cronin as Chief Internal Auditor of both the Group and Vanquis Bank and Cheryl Ball as Group HR Director. We will continue to fill key roles within the Group in 2020. The focus on divisional collaboration will create a more streamlined and efficient Group.

I am very much looking forward to working with the whole team to deliver our strategy to ensure that PFG is a strong and successful business to deliver for all of our stakeholders going forward.

Patrick Snowball Chairman

27 February 2020

A turning point for the Group



Introduction

Provident Financial is the market leader in helping the underserved access finance, as we have been for the past 140 years. We are excited about using our market-leading proposition as a platform for growth to provide more and better customer propositions. Growth can, and will, be achieved by attracting new customers, by launching new products as demanded by our customers, and by expanding into new markets. This is our Vision for the Future as we set out at our Capital Markets Day (CMD) in November 2019.

Our market

There are approximately 10 to 12 million adults in the UK, or 1 in 5 of the adult population, who are not well served by mainstream lenders. The market is reasonably dynamic with 1.5 to 2 million consumers moving in and out of it each year and it is often counter-cyclical with the number of consumers increasing during and immediately following a downturn as prime lenders tighten their risk appetite. Provident Financial is the biggest provider of consumer finance in this market and has 2.3 million customers.

There are no high street banks in our market, nor do we believe the more established banks have any desire to enter the space with a material presence. The more stringent regulatory environment requires companies to operate at much higher standards of compliance with positive customer outcomes a priority, which we fully support. To operate at these standards requires scale and smaller companies find this environment tougher to operate within. With our market-leading position, Provident Financial has a platform to deliver attractive and sustainable growth.

“

Provident Financial is the market leader in a large market, where there are clear opportunities to grow customers, market share, product, distribution, and move into new market segments.

Malcolm Le May
Chief Executive Officer

Our customers' core needs

Access and acceptance	Affordability	Empathy and flexibility	Ease and convenience	Reward
<p>“</p> <p>I need someone to say yes and give me credit</p> <hr/> <p>I need to trust you</p>	<p>“</p> <p>I need my repayments to be manageable and affordable</p> <hr/> <p>It's the cost per month/week that is important to me</p>	<p>“</p> <p>Recognise that my circumstances can change</p> <hr/> <p>I need to not feel judged or patronised</p>	<p>“</p> <p>I need dealing with you to be quick and easy</p> <hr/> <p>I need simplicity</p>	<p>“</p> <p>I need to improve my credit score (build and re-build)</p> <hr/> <p>I need the cost of credit to reduce over time</p>

1 in 5

adults in the UK are not well-served by mainstream lenders

Our businesses, products and customers

We operate through three divisions: Vanquis Bank, which provides credit cards, loans and savings products; Moneybarn, which provides vehicle finance; and CCD, which comprises Provident home credit and Satsuma digital loans. Each of our businesses seeks to lend responsibly and has a tailored business model and product suite for underserved customers.

Though served by different products from different divisions, our customers have common traits. They manage their everyday lives on low to average incomes; they may have irregular or variable earnings; they are often new to credit in the UK and have little or no credit history; or they may have experienced a significant life event, for example divorce or loss of a job. Our customers are also typically less sensitive to changes in economic conditions as they are more used to managing on tight budgets and they have lower levels of debt than prime customers. They are, therefore, often better placed to manage a recession than prime customers which is why our businesses have proven to be resilient during a downturn in economic conditions. Nevertheless, we have progressively tightened underwriting over the last two years to alleviate the impact of any weakening in the UK economy.

Given their circumstances, it is not surprising our customers need a lender to deliver them the tailored products and service they need. Provident Financial is the largest specialist credit provider to this segment of society, and, if companies like us did not exist, alternative customer options would be severely limited.

Our customer quotes are set out opposite.

Adapting to regulation

Regulators have quite rightly had a more intensive focus on customer outcomes recently, which has led to increased regulatory standards. To do business in our markets, and have a sustainable business, stakeholders need to know we operate to both the highest customer conduct rules and with prudence.

Since early 2018, Provident Financial has been at the forefront of changing its business model and approach to evolving sector-wide regulation. We see this as a competitive advantage for us going forward.

There have been a significant number of changes within the Group over the last two years in response to the change in regulation and our focus on delivering the right customer outcomes. Provident home credit has changed and adapted to its employed business model, became Financial Conduct Authority (FCA) authorised in late 2018 and implemented the home credit part of the high-cost credit review earlier in 2019. Satsuma has continued to adapt its business model to reflect evolving FCA guidance following the high-cost, short-term credit review. Vanquis Bank has completed its Repayment Option Plan (ROP) remediation programme following the FCA investigation in 2017/2018, has introduced new affordability criteria at the end of 2018, and is on track in implementing measures to meet the new FCA persistent debt requirements.

Moneybarn has now completed its customer redress programme and received the final notice following the FCA investigation into affordability, forbearance and termination options. It also does not

pay variable commission so will not be impacted by the FCA review into motor finance that came out in the third quarter of 2019.

Regulation will of course continue to evolve in our sector, as it does in all financial sectors. We continue to work with the Financial Ombudsman Service (FOS), particularly in CCD, in respect of any customer complaints referred to them. In addition, we also continue to assist HM Revenue & Customs (HMRC) on its market-wide review of the self-employed status of agents prior to the change in the home credit operating model in 2017.

We believe we are well prepared given the changes we have made and the improved relationships we have with our regulators. Customer outcomes are now front and centre at Provident Financial, which benefits all stakeholders and will help to deliver long-term attractive sustainable growth.

[View our 2019 Corporate Responsibility Report at **providentfinancial.com**](#)

Our Blueprint

Linked closely to regulatory attitudes, we launched a new Blueprint in early 2019 to define our purpose and create a stronger culture across the Group. Our purpose sets out what we do for our customers and why we need to exist. A strong purpose running through the organisation improves the culture and helps deliver the right outcome for customers, and is increasingly an important consideration for all stakeholders.

Our purpose at Provident Financial is: "We help put customers on a path to a better everyday life." This purpose is the guiding principle for everything we do, and we have continued to successfully embed our purpose throughout the Group in 2019. Initial key performance indicators have been devised for the Blueprint, are being monitored by the Culture, Customer and Ethics Board Committee and are embedded in employee performance objectives.

Our purpose is supported by strategic business drivers and behaviours. These, in combination with our purpose and new culture, help to deliver more sustainable business models, increase customer centricity and unify colleagues, thereby creating a business advantage for Provident Financial.

Certain alternative performance measures (APMs) have been used in this report. [See page 237](#) for an explanation of relevance as well as their definition.

Our performance in 2019

Despite the distractions of the hostile NSF bid, we have made good operational and financial progress over the last 12 months. Adjusted profit before tax, prior to the impact of the amortisation of acquisition intangibles and exceptional items, of £162.6m was up 1.6% on 2018 (2018 (restated): £160.1m). Statutory profit before tax increased by 32.4% to £128.8m (2018 (restated): £97.3m) due to a reduction in exceptional costs from £55.3m in 2018 to £26.3m in 2019, of which £23.8m related to defending the NSF hostile bid.

Adjusted basic earnings per share, prior to the impact of the amortisation of acquisition intangibles and exceptional items, reduced by 2.9% to 47.3p (2018 (restated): 48.7p) due to the impact of the rights issue shares issued in April 2018. Basic earnings per share of 33.3p increased by 22.0% (2018 (restated): 27.3p) due to lower exceptional costs.

Divisional performance

Vanquis Bank

Vanquis Bank has continued to successfully evolve its business model in 2019, increasing its customer centricity and responding to the regulatory direction of travel. It introduced new measures in relation to the FCA's new persistent debt regime, which are designed to help customers pay debt off faster, pay less in total, and prevent customers getting into persistent debt.

Vanquis Bank continued

We have also made changes to our interest and fees structure, including downwards repricing for around 100,000 customers, and reduced late and over-limit fees. The ROP settlement was successfully completed in the year and we have been able to release, as an exceptional credit, £14.2m of the provisions originally established in 2017.

As expected, the transition to the new regulatory and customer-focused measures has impacted receivables and customer growth in 2019, but puts us in a strong position going forward. The receivables book ended the year 2.2% down on 2018, with customer numbers down 3.0% to 1.7 million. Vanquis Bank continues to proactively support customers meeting the definition of persistent debt and we are on track with our plans set out at the CMD to reduce the level of customers meeting the persistent debt definition as we approach the first 36-month checkpoint in March 2020.

Vanquis Bank's adjusted profit before tax, prior to the impact of exceptional items, of £173.5m was, as expected, 9.1% lower than last year (2018 (restated): £190.9m), mainly due to the £20m reduction in ROP income and 2018 benefiting from the release of £10m of remuneration-related accruals. Statutory profit before tax reduced by a lower amount of 2.6% to £185.9m (2018 (restated): £190.9m), principally due to the impact of the aforementioned exceptional provision release of £14.2m in respect of the ROP refund programme.

The business has already started delivering on the strategic objectives outlined at the CMD which focus on growth, cost efficiency and a number of funding and capital opportunities. Significant progress on these objectives is planned for 2020.

The bank came under new leadership with the appointment of Neil Chandler as Managing Director in the first half of 2019. Neil has made a number of management changes during the second half of 2019 and the business has a stronger leadership team to develop a broader bank offering for the underserved and return the business to profitable growth over the medium term.

Moneybarn

Moneybarn delivered a 10.0% increase in adjusted profit before tax, prior to the impact of exceptional items, to £30.9m (2018: £28.1m). The business has grown its customer numbers, receivables and profits for five consecutive years since its acquisition and the business now serves 77,000 customers with a receivables book of just over £500m. Statutory profit before tax increased by a higher rate of 19.2% to £33.5m (2018: £28.1m), due to an exceptional provision release of £2.6m following completion of the FCA investigation.

The strong growth in 2019 led to a modest pick-up in impairment. However, underwriting standards were quickly tightened and collections processes enhanced early in the fourth quarter and we expect impairments to stabilise in 2020.

Moneybarn successfully moved into a new office in Petersfield which will facilitate the growth plans of the business in the attractive and growing used-car finance sector.

The customer redress in respect of the FCA investigation into affordability, forbearance and termination was completed in 2019 and the final notice was received from the FCA in February 2020. The total cost of the investigation has come in below the £20m provision originally established in 2017 leading to the release, as an exceptional credit, of £2.6m of the provision as noted above.

After 12 years with the business, Moneybarn's Managing Director, Shamus Hodgson, will be stepping down from his role at the end of the first quarter of 2020 to pursue other career opportunities.

I would like to thank Shamus for his leadership of Moneybarn over the last three years and for building a strong team to take

the business forward as it continues its growth and becomes a larger part of the Group. A search for his successor is well underway.

Consumer Credit Division

CCD has made significant operational and financial progress in 2019. The customer base has now started to stabilise at just over 500,000 and the receivables book ended the year at nearly £250m. The adjusted loss before tax, prior to the impact of exceptional items, was significantly reduced by 46.3% to £20.8m (2018: loss before tax of £38.7m) as the business has successfully introduced a new performance management framework and delivered on its cost efficiency programme. The business enters 2020 with an annual run rate cost base of around £200m, down from £260m in late 2017. CCD's statutory loss before tax reduced by 48.7% to £35.2m (2018: loss before tax of £68.6m), after taking account of exceptional costs in respect of the ongoing turnaround of the business.

CCD has successfully tested Provident Direct, which leverages the capabilities in both home credit and Satsuma, with the relationship managed in the home by a Customer Experience Manager (CEM) and payments collected remotely via Continuous Payment Authority (CPA). This product enhancement allows CCD to attract new and former customers of suitable quality who value the face-to-face home relationship but who either do not wish to have a weekly collections visit by a CEM or for whom it is simply inconvenient. The test has demonstrated that there is strong demand for Provident Direct from both the customer and the field force. I am excited about the potential of Provident Direct and it will be rolled out nationally in the UK during 2020.

Satsuma, CCD's online digital lending platform, took the decision to temporarily reduce volumes towards the end of the year as it continues to adapt its business model in line with the evolving dialogue with the FCA. A number of competitors have exited the market and we expect home credit and Satsuma to work more closely together going forward, especially with the roll-out of Provident Direct in 2020.

CCD remains the market leader in the UK and Republic of Ireland home credit markets and is now also a leading player in digital loans within the high-cost, short-term credit market through Satsuma. Our actions over the last two years and our ongoing strategic initiatives mean that we are well placed to return the business to breakeven in 2020 and profitable growth in the medium term.

Our significant growth opportunities

The work on reshaping the Group over the last two years under increased regulatory standards means we are well-placed to continue to evolve going forward. Indeed, we see our ability to adapt to the regulatory environment as a competitive advantage and a key underpin of the delivery of sustainable shareholder returns. We now also believe that, following our evolution, we are in a strong position to focus on growth in 2020 and beyond through a number of areas.

Firstly, we firmly believe that we can deliver organic growth in each of our key markets and gain market share, particularly as competitors find it difficult to adapt to increased regulatory standards and scrutiny.

Secondly, our businesses have the opportunity to expand their product range and distribution and increase their digitisation. For example, we will be rolling out Provident Direct in home credit in 2020 as well as launching a pilot of longer, larger digital personal loans in Satsuma towards the end of 2020 as we continue to develop a pathway to cheaper credit for our customers. We are also expanding into other non-mainstream segments, with digital personal loans in Vanquis Bank and near-prime motor sector in Moneybarn.

Thirdly, we are ensuring that Vanquis Bank and Moneybarn work much more closely together in developing a number of these areas to deliver increased synergies.

Provident Financial is the market leader in a large market, where there are clear opportunities to grow customers, market share, product, distribution, and move into new market segments. There are very few financial services companies out there that have this opportunity set, and we have built a management team with the appropriate skills which is committed to delivering our vision.

Capital, funding and cost efficiency

Capital, funding and cost efficiency will also play a part in delivering better customer propositions and sustainable returns for shareholders. The composition of our returns is changing due to lower revenue yields across our sector. Our response has been to tighten underwriting to improve quality and lower impairment, and we have also taken action to reduce the cost base by 7.5% in 2019. In addition, the Group has historically focused primarily on the assets side of the balance sheet and we see an opportunity on the liability side which will support delivery of our target returns to shareholders.

The Group's CET1 ratio at the end of 2019 was 30.7% which provides headroom of approximately £117m compared with the fully loaded minimum regulatory capital requirement of 25.5%. The headroom reduced to approximately £90m on 1 January 2020 following the third-year transitional impact of IFRS 9 and this level is consistent with the Board's risk appetite of maintaining regulatory

capital headroom in excess of £50m and progressively absorbing the remaining transitional impact of IFRS 9 on regulatory capital by 1 January 2023. The Group's next capital review (C-SREP) with the Prudential Regulation Authority (PRA) is scheduled for March 2020 with the results expected in the second quarter of the year. The Group has a strong capital base and we continue to review options to improve our capital efficiency.

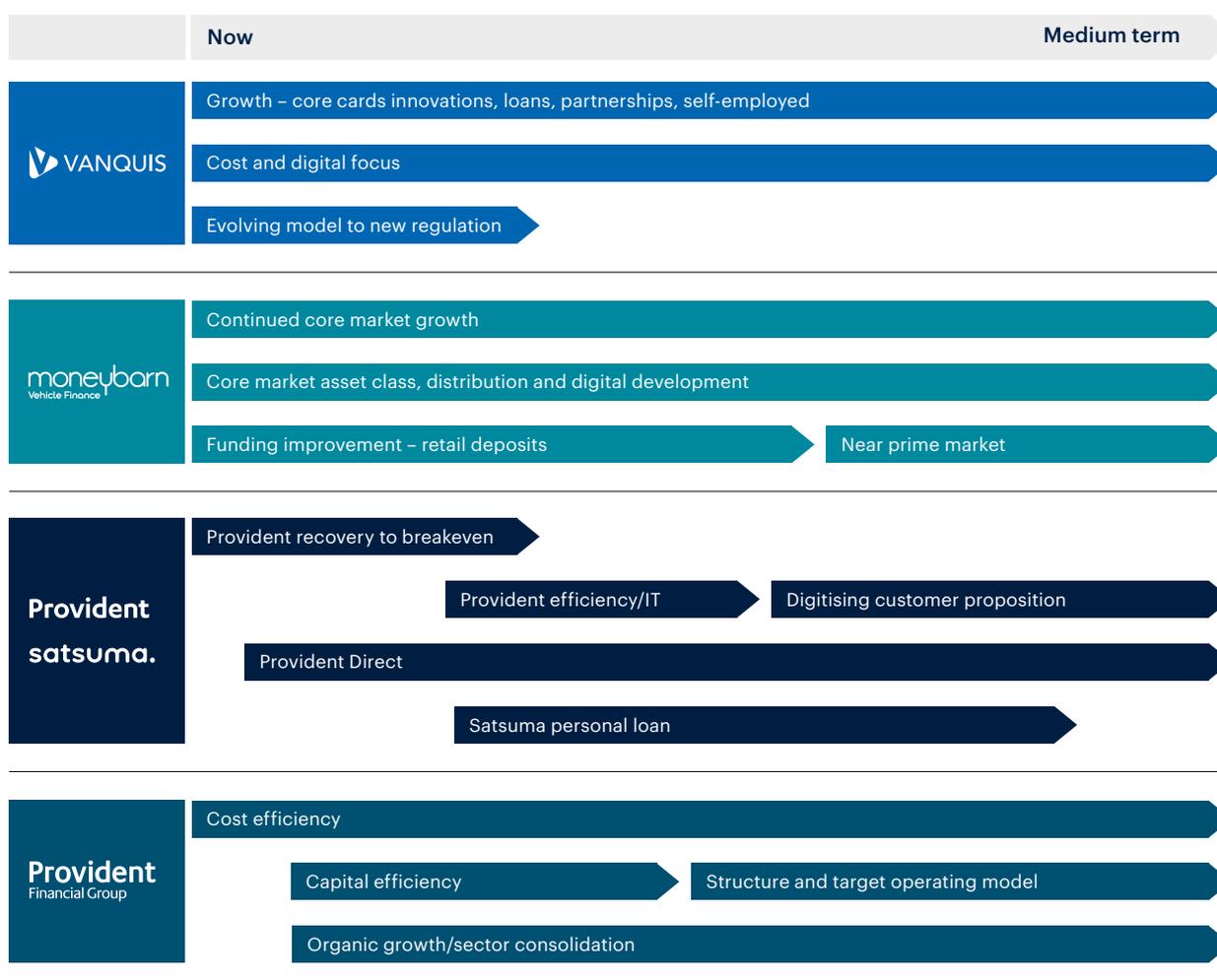
We have made excellent progress in strengthening the Group's funding position. In January 2020, the Group successfully completed a bilateral securitisation facility to fund Moneybarn business flows. This new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months. After taking account of this securitisation and the ongoing retail deposit programme in Vanquis Bank, the Group has sufficient facilities to fund contractual debt maturities and projected growth in the Group until mid-2022.

Looking ahead, we have identified a programme of further funding opportunities to diversify our funding sources and ultimately reduce the cost of funding, including potentially funding some of Moneybarn's receivables through retail deposits. By operating an efficient capital and funding structure, we are confident in delivering attractive and sustainable returns for shareholders.

Our medium-term vision to be a broader bank

Our aim in the medium term is to create a bank for the underserved. A market of 12 million customers needs a bank that can cater for all their financial needs.

Growth opportunities and efficiencies



Our medium-term vision to be a broader bank continued

To do this we are working towards bringing the Provident Financial Group and Vanquis Bank closer together. This will take time and will need regulatory approval and could potentially involve bringing Moneybarn into the bank structure. This would allow Moneybarn to be funded in part through retail deposits which would deliver further funding synergies. CCD remains an important part of the Group, but would not naturally sit under a bank umbrella.

Evolve Vanquis Bank to become a broader bank for the underserved



Funded through:

- Retail deposits (fixed term and instant access)
- Securitisation

Product offering:

- Revolving credit (Vanquis Bank)
- Secured finance (Moneybarn)
- Loans (Vanquis Bank)
- Financial Fitness
- Helping customers save

The role of CCD

CCD remains an important part of the Group, but would not naturally sit under a bank umbrella

Provident | satsuma.

Funded through:

- Revolving credit facility
- Wholesale

Product offering:

- | | |
|--------------------|-------------------------------|
| Provident: | Satsuma: |
| • Home credit | • High-cost short-term credit |
| • Provident Direct | • Personal loans |

This potential new Group structure would be optimal for all stakeholders – customers, employees, regulators and shareholders – allowing us to serve more customers with the products and services they need in the most efficient manner.

Our financial targets

As part of our Vision for the Future, we have developed a clear set of financial targets to measure our success. The outcome for our shareholders will be sustainable attractive returns based upon two very clear pillars.

Firstly, we plan to deliver receivables growth within a range of between 5% and 10% per annum over the next five years from a loan book which is currently £2.2 billion. We expect growth to be weighted more towards years three, four and five as our growth initiatives gain traction.

Secondly, through a series of management actions we plan to deliver a reduction in the cost income ratio from 43% in 2019 to 38% by 2022 as previously guided.

As a result, from the current return on equity (ROE) of approximately 18%, we expect to be delivering an ROE within our target range of 20% to 25% in 2021, sooner than the timeframes for the receivables and cost income targets.

Importantly, the returns that we generate will allow us to evolve our dividend cover to at least 1.4 times as the home credit business recovers and returns to profitability.

Sustainable, attractive shareholder returns based on medium-term targets



Loan book c.5–10% growth p.a.
over next 5 years (2019: £2.2bn)



ROE c.20–25%
in 2021
(2019: 18%)



Cost income ratio 38%
in 2022
(2019: 43%)



Dividend cover ≥ 1.4x
Evolving cover as CCD returns to profitability
(2019: 1.9x)

Chief Finance Officer (CFO)

As we announced in July 2019, Simon Thomas, CFO, informed the Board he was stepping down from the role for personal health reasons following the 2019 preliminary results announcement. Simon has been a great CFO and I would like to thank him for everything he has achieved and wish him all the best for the future.

In December 2019, we announced that Neeraj Kapur will join the Board and replace Simon as CFO on 1 April 2020. Neeraj has deep retail banking, consumer finance and savings experience and expertise, and will be an excellent addition to the senior leadership team as we continue to re-establish Provident Financial as the market-leading lender for the underserved.

Outlook

Our good performance in 2019 means that, despite continuing regulatory headwinds, we are well placed both operationally and financially as we enter 2020.

I am pleased to report that collections performance and impairment trends have remained stable in the important post-Christmas period.

Our focus in 2020 will be on progressing our strategic initiatives outlined in the CMD, in particular rolling out Provident Direct, developing Vanquis Bank loans, delivering funding and capital opportunities, and continuing to improve our cost efficiency through digitisation.

We will be relentless in adapting our businesses to evolving customer needs and working closely with the regulator to ensure that our businesses lead the way in our sector and provide us with a competitive advantage to deliver sustainable returns for our shareholders.

The economic outlook post-Brexit remains uncertain and we need to see the full impact of persistent debt regulation on receivables and impairment in Vanquis Bank. However, our actions in 2019, and our strong funding and capital positions, give me confidence that we will continue to make good progress towards our medium-term financial targets in 2020.

I would like to thank everyone in the Group for their hard work throughout 2019 and their continued efforts in helping put our customers on a path to a better everyday life.

Malcolm Le May
Chief Executive Officer

27 February 2020



Reasons to invest

Our investment case is based on five fundamental areas:

1

Market leader in a specialist and substantial market



Read more on page 24

- Specialist lender for the 1 in 5 UK adults not well served by the mainstream
- Market leader with 2.3m customers across the Group

2

A purpose-driven Blueprint for sustainable growth



Read more on page 12

- New Blueprint supports sustainable market leadership
- Successfully managing through tougher regulation

3

A customer-centric and responsible culture



Read more on page 5

- Clear strategic focus to deliver our Vision for the Future

4

Financial resilience and a strong capital base



Read more on page 9

- Medium-term direction to evolve Vanquis Bank to become a broader bank for the underserved
- Resilient customers and business with counter cyclical opportunity
- Substantial opportunities to take the Group forward:
 - Markets, products and digital
 - Costs, funding and capital

5

Medium-term targets for attractive, sustainable growth



Read more on page 56

- Receivables growth 5–10% p.a. (2019: £2.2bn)
- ROE 20–25% (2019: 18%)
- Cost income ratio 38% (2019: 44%)
- Dividend cover \geq 1.4x (2019: 1.9x)

Setting out the Blueprint

Our Blueprint brings together why the Group exists as an organisation, framed in the context of the role that our business plays in the lives of our customers. It also sets out the strategic drivers of focus and the key priorities that will drive both competitive advantage and commercial success for the whole Group.



The Group began to embed the Blueprint, to develop its culture through 2019. These strategic drivers are beginning to drive the right behaviours on a daily basis, putting the customer in mind with each decision. Each division has begun to define KPIs to evidence how they have progressed with each of the strategic drivers in the year. This will feed into Group metrics in future, allowing the development to be evidenced and reported.



Purpose

We help to put people on the path to a better everyday life.

[+ Read more on page 13](#)



Strategic drivers

Our purpose is built upon a number of strategic drivers. They will help drive our competitive advantage and provide a framework for our decision making, including how we prioritise our investment, set the strategic direction of our Group and operate to keep us true to our purpose and creating conditions for our collective success.

[+ Read more on pages 14 to 21](#)



Behaviours

Create a culture where we think 'customer' all the time; we constantly innovate and make things better for all our stakeholders; and we hold ourselves and each other personally accountable for success.

[+ Read more on pages 22 and 23](#)



Driven by our purpose

Our key relationships



Customers

Our 2.3 million customers are at the heart of what we do; they are the 20% of UK adults who at any one time are looking for something that mainstream lenders do not offer. We specialise in serving their needs and have adapted our business model to do so.



Colleagues

Our 4,900 colleagues are critical to delivering our tailored and understanding business model, balancing the personal touch with the use of technology where customers increasingly want and expect it.



Regulators and government

The nature of our customer base and the market we specialise in makes the building and maintaining of open and trusting dialogue with policy makers and our key regulators (the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and Central Bank of Ireland (CBI)) critical to a sustainable business model.



Equity and debt investors

We secure long-term, lower-rate funding through strong relationships with our lending banks, depositors and investors. We generate capital to deploy in growing our business and serving more customers as well as delivering returns to shareholders.



Suppliers

Our suppliers are essential to provide our divisions with the goods and services required to enable us to continue to meet our customers' needs. They play a vital role in our operations so it is important that we develop strong supplier relationships with them.



Communities

Our community investment strategy is aligned to our social purpose and seeks to invest in activities and initiatives which address the key factors that tend to reduce somebody's access to credit.

How we create value

We develop tailored products to meet customers' needs

We focus on the credit market in the UK and ROI, developing simple, transparent products with flexibility to help customers not well served by mainstream lenders manage life.

We attract customers who we can serve

We use many ways to reach consumers including increasingly digital methods, as well as face-to-face and partners such as agents and brokers.

We carefully assess customer affordability and creditworthiness

We use internal and external data, including face-to-face interactions, taking into account both the current situation and the likely future.

We lend responsibly

We tend to lend smaller amounts over shorter periods and take a 'low and grow' approach as customers demonstrate suitability and sustainability.

We collect payments due

We offer many ways to pay in cash and remotely, maintaining frequent customer contact. We stay close to customers through call centres, digital communications and face-to-face meetings in the home.

We manage arrears and customer difficulties

We establish early contact and an ongoing dialogue with customers who have difficulties, with a sympathetic approach, to understand their circumstances and offer forbearance.



Customer progression

We will build products, services and partnerships that change the game for our customers.

Vanquis Bank

Vanquis Bank credit cards can act as credit builder cards to help customers who are new to credit, or have had a life event, to build, or rebuild, their credit score. An improved credit score can provide access to cheaper borrowing, which can help to put people on a path to a better everyday life. 84% of Vanquis Bank customers felt that their card helped them to improve their credit rating. In 2019, Vanquis Bank began tracking 'Customer Progression' across the customer lifecycle, understanding more than 50 customer metrics. As customer progression is key for Vanquis Bank, it has reviewed when fees and charges are applied, and, most significantly, reduced the APRs for around 100,000 customers who, by using a Vanquis Bank credit card, have demonstrated responsible use of credit and therefore can access cheaper credit. In 2020, it plans to continue to deliver lower APRs for many more customers, launch a new loan proposition suitable for its target audience, and develop a proposition for the self-employed. Targets have also been established against over 20 of the customer metrics identified, with a particular focus on credit score improvement, downward re-pricing, and speed of complaint resolution.

Moneybarn

Moneybarn has listened to its customers and responded by increasing its product range. Unsurprisingly its customers did not want to just access credit for cars, but also for commercial vehicles and motorbikes. The commercial vehicles enable sole traders, plumbers, electricians, etc. to access work and support their local economies. In 2020, Moneybarn will develop its offering further in the near-prime space, allowing customers to move more easily up and down the credit spectrum, and develop a customer re-solicitation programme that will support customer access to cheaper credit should their loan end early.

CCD

Home credit traditionally has been based upon cash being lent and repaid on the doorstep. This model is clearly still appropriate for some customers, although others want and need a different service: a service with flexibility over how they apply, how they receive the loan and how they make repayments. In response, management has developed Provident Direct, a hybrid product which is originated in the home, but the collection is digital through CPA. This modernisation improves the customers' experience by freeing up their time, by no longer requiring routine collection visits, and by removing the necessity of cash by enabling the loan to be repaid online through a bank account. The hybrid product was successfully tested in 2019, and will be rolled out to all customers in the UK in 2020, where there is demand. In 2020, home credit will also roll out electronic card readers, which will enable customers who choose to pay via a collections visit, to have the choice to repay electronically or by using cash. Satsuma, our digital loans platform, will also launch a pilot of a personal loan product with APRs of less than 100% towards the end of 2020. This should enable customer progression to cheaper credit by creating a pathway from one Provident credit product to another.

KPIs

Vanquis Bank customers who were satisfied with their Vanquis Bank credit card

90%

(2018: 86%)

Home credit customers who believe that the product 'clearly meets their needs'

91%

(2018: 88%)

Moneybarn customer satisfaction (Feefo score)

4.6

(2018: 4.7)

Employee engagement scores which are aligned to the Group's purpose and culture

70%

Number of employee volunteering hours

2,224

(2018: 2,415)



**The Vanquis card
is giving me lots
of opportunities
I otherwise would
not have had.**

I also used a Vanquis loan to buy a car
to enable me to find work and take my
dogs to shows, which they love!

JANE





Human experiences

We will build enduring relationships by delivering experiences that seamlessly integrate the latest technology with our brilliant people.

Vanquis Bank

The internet has and is changing how we do business and interact with our customers. Change, though, only works for our customers if they see it as helpful and provides them with something they need and can use. Therefore Vanquis Bank has formed partnerships with aggregators and affiliates to aid the onboarding process for its customers. By rolling out soft search pre-application for all channels and the pre-approval and pre-population for all affiliate channels, it has made it easier and quicker for customers to apply for a credit card.

Vanquis Bank uses an app, chatbot and SMS to communicate with its customers. Customers can use these innovations if they want, or can interact with Vanquis through the more traditional routes of postal or telecoms. Customers have, though, embraced these new options with over 1 million registered to the app and over 300,000 customers opting for electronic statements, and the chatbot is enhancing the SMS customer response rates.

Moneybarn

Moneybarn has teamed up with the Vanquis Bank through the bank's app and made car finance available to Vanquis customers. Moneybarn has continued to develop its digital proposition with 200k views through its self-serve Portal and 500k visits to its website.

CCD

In home credit, we build relationships on a weekly basis through the Customer Experience Manager (CEM) collecting repayments from the home on a weekly basis. However, we have voice recordings of all our lending conversations, therefore providing our customers with clear and good conduct outcomes. Satsuma forms an important part of future strategy, particularly as Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020. This combines face to face origination with digital collections, and in 2020 we will roll out digital card readers. Both of these developments combine human interaction and digital to better serve our customers.

Satsuma is enhancing its onboarding process for its customers by increasing the human decision process in deciding if they can have the credit they are applying for. This enhancement will help to ensure customers get the right credit decision from us, again combining digital and human experiences to provide better outcomes for our customers.

KPIs

58%

of Vanquis Bank customers engage with the app or online service

55%

increase in adoption of online statements by Vanquis Bank customers over the last 6 months

76%

increase in 2019 in Moneybarn customer visits to the website to 527,065 sessions

109%

increase in 2019 in applications through the Moneybarn website to become a new customer

16.8m

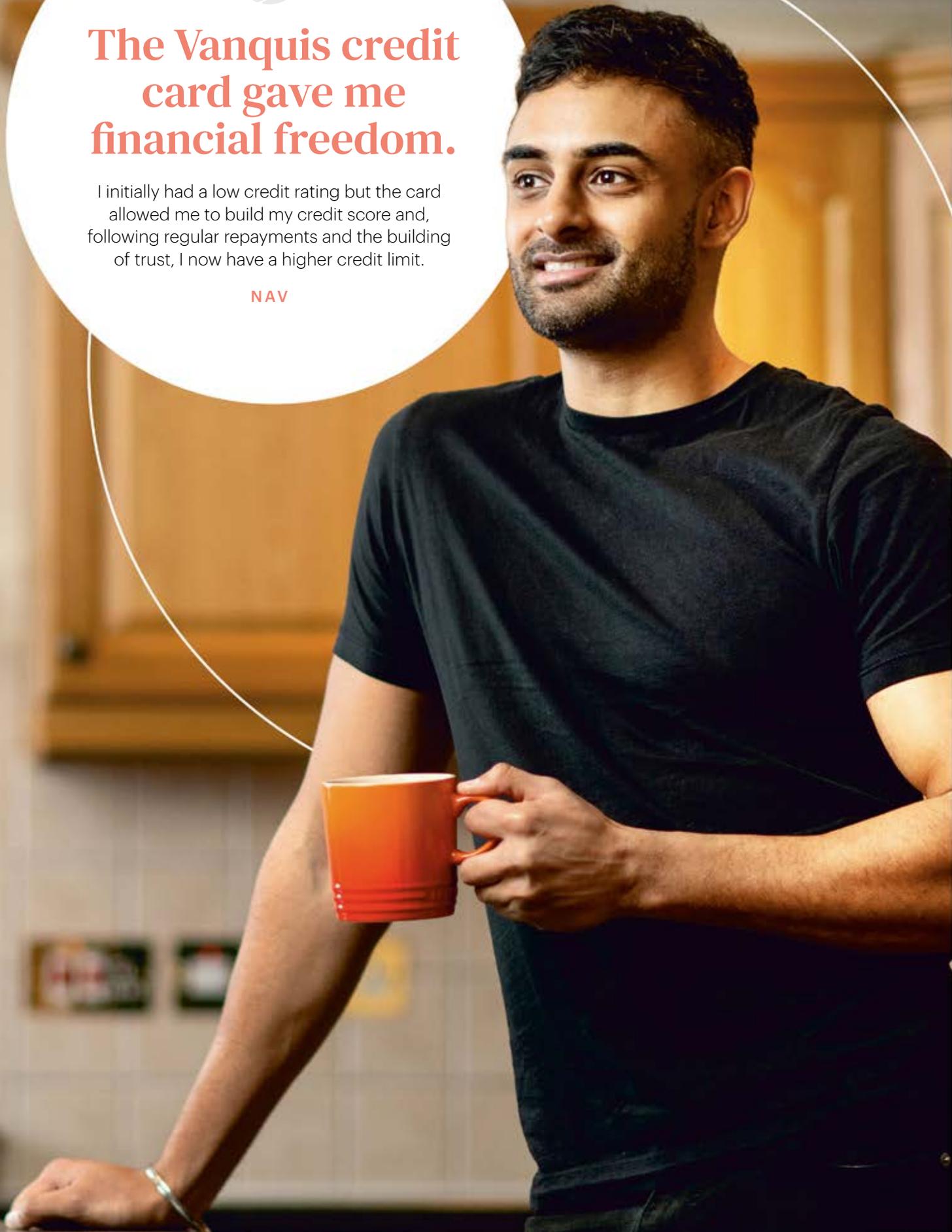
collection visits made by home credit CEMs in 2019



The Vanquis credit card gave me financial freedom.

I initially had a low credit rating but the card allowed me to build my credit score and, following regular repayments and the building of trust, I now have a higher credit limit.

NAV





Head AND heart decisions

We will deliver for our stakeholders by balancing: (i) data and insight; (ii) financial return and doing the right things; and (iii) customer need and customer want, in order to build a long-term sustainable business.

Customers need credit to live their everyday lives; try using public transport or shopping online without it. As a company we have to make the decision whether it is appropriate for a customer to have the credit they have applied for or not. We need to use our head and heart to decide whether a person should have credit and, if they get into financial difficulty, how we help them to pay off their debt.

The biggest decision we make is to give credit to someone. We need to get the decision right, and to do this we use strict affordability and creditworthiness criteria to ensure we do. For Vanquis Bank, Moneybarn, home credit and Satsuma, we only accept 27%, 48%, 45% and 4% respectively of customers who have applied for credit. Of course we do not get all our decisions right, and in those cases we apply forbearance. All these decisions are head and heart, balancing customer need against customer want, whilst challenging our data and insight to ensure we are delivering the right outcome for the customer.

In Vanquis Bank we no longer offer the 69% APR rate for new credit card customers, and Moneybarn has removed the bottom tier of lending within its 48.9% APR. In Vanquis Bank we have also increased the minimum payment due on credit cards and introduced a recommended payment for credit card users. These changes are designed to help customers repay their balances quicker and therefore save them money. We took these decisions as we believed they were the right thing to do for our customers.

Home credit and Satsuma also do not charge any additional fees or charges to their customers. They are told what they need to pay back at the start of the loan, and that does not change. In 2020, the Group will continue to balance head and heart decisions when helping its customers, by putting people on a path to a better everyday life.

 Read more about how we are lending responsibly to our customers in our 2019 CR Report at [providentfinancial.com](https://www.providentfinancial.com)

KPIs

Vanquis customer satisfaction score

90%

(2018: 86%)

Provident (UKHC) customer satisfaction

89%

(2018: 87%)

Satsuma customer satisfaction

82%

(2018: 80%)

Moneybarn Feefo Score

4.6

(2018: 4.7)



I would have been stuck without my Moneybarn car.

Moneybarn was my last shot as I couldn't get finance anywhere else. I trust them and would definitely go back. I feel like they are understanding and would try to help with any issues.

KELLY





Fighting fit

We will continually challenge our cost base, efficiency and effectiveness, and change our capability to ensure we remain the most competitive player in the market.

Progress in the year

As part of our Vision for the Future, we have developed a clear set of financial targets to measure our success. The outcome for our shareholders will be sustainable attractive returns.

Returns

Through our clear strategy and complementary, synergistic and industry-leading businesses, we will deliver an attractive investment for shareholders. As communicated at the Capital Markets Day in November, we will target a return on equity of between 20% and 25%. We expect to be delivering an ROE within our target range of 20% to 25% in 2021.

There are two key areas management currently focuses on as part of the Vision for the Future.

Costs culture

We are focused on realising synergies which arise from common processes across the Group. We will target a 500 basis point reduction in the cost income ratio from 43% in 2018 to approximately 38% in 2022. These plans include leveraging:

- capabilities and best practice in distribution, credit, collections and digital throughout the Group to improve efficiency; and
- the migration of customers towards their preferred digital application and servicing channels, such as the Vanquis Bank app, to reduce the need for capacity in high-cost human contact centres.

Both the Group synergies and digital options available for our customers will continue to reduce the cost income ratio below 43% in 2020.

Funding efficiencies

The Group refinanced its revolving syndicated bank facility in July 2019 and successfully signed a bilateral securitisation facility with NatWest Markets to fund Moneybarn business flows in January 2020. Together with the ongoing retail deposits programme, this is sufficient to fund contractual debt maturities and projected growth in the non-bank group until mid-2022, when the Group's syndicated revolving bank facility matures.

The Group is currently exploring a number of potential structures to enable Moneybarn to access Vanquis Bank's retail deposits capability and the Group is aiming to provide a formal proposal to the PRA in the first quarter of 2020.

The Group also continues to actively consider issuing further senior bonds, private placements and potentially a tier 2 instrument. In addition, the Group is also assessing ways in which to manage the Vanquis Bank balance sheet more efficiently. In respect of funding this would be through diversifying the funding mix into instant access deposits or into wholesale markets through further securitisation. In respect of liquidity, this would be in respect of revisiting the mix of the assets held in the liquid assets buffer rather than solely relying on the Bank of England Reserve Account. The Group aims to make further progress on these areas through 2020.

KPIs

Cost-to-income ratio

43.8%

(2018: 43.0%)

Return on equity (PFG)

18.2%

(2018: 19.2%)

Regulatory capital in excess of £50m

£117m

(2018: £96m)

Funding headroom committed maturities

May 2022

(2018: May 2020)



Moneybarn gave us a chance to get a nice car that ticks all the boxes.

We were declined by other lenders, but the process with Moneybarn was simple and really easy. We would use again and are already looking for our next car!

ADAM





Our behaviours

To make sure we deliver on our purpose, it is essential we create a culture where: 1) we think 'customer' all the time; 2) we constantly innovate and make things better for all our stakeholders; and 3) we hold ourselves and each other personally accountable for success. As a result, we have developed a set of behaviours we are now beginning to embed in our overall culture.



Be hungry for better

This is seeking out opportunities for constant improvement, as well as having conversations that will help us move the dial, even when it is tough.

During the year, we launched the 'Better Everyday' recognition scheme with the dual purpose of encouraging colleagues to consider the Blueprint behaviours in all they do to be hungry for better and giving them the means to recognise others when they see the behaviours in action.

Better Everyday is a Group-wide colleague recognition scheme which will help to create a culture where we can all say 'well done' to colleagues who are showing the Blueprint spirit by living our Group behaviours. Through the scheme, anyone can send a colleague an eCard to say thank you, and nominate them for an award. Everyone has the power to say thank you, and senior leaders can award colleagues with vouchers.

 Read more about how we are supporting colleagues in our workplace in our 2019 CR Report at [providentfinancial.com](https://www.providentfinancial.com)





Feedback from the colleague survey showed that colleagues did not connect enough to the customer and felt a lack of clarity around what our customer proposition is. The results indicated that colleagues want more opportunity to engage with leadership and more visibility of them.

To achieve this, Tom Allder, Customer Director at Vanquis Bank, hosted and delivered nine Customer Cafés – a forum to explore the customer proposition and collect a broad range of viewpoints. Cafés were held in London, Chatham and Bradford with over 200 colleagues attending.



It was really good to refocus the customer-centric heart of our roles and re-motivate why we are working on all of the initiatives that we are. It was also great to see that we are already heading in the right direction with many of our actions due for 2020. I thought it was great to look at what ‘good’ looks like and different great experiences people have had with other companies and why.



Put the customer on the team

This is making every decision with our customers in mind, as well as owning the trade-off between commercial and customer impact.



Act like it's yours

This is using resources with the same respect and consideration you would your own, as well as doing your bit to step-change our performance and maximise value.

Simon Thomas, Chief Finance Officer, created a Strategic Cost forum in 2019 which brought together the divisional Finance Directors, senior Group Finance leaders and the Group Chief Information Officer. The objective of the forum is to support and continue to drive the reduction in the cost base across the Group and share thoughts on how savings have been delivered in each division.

The forum's aim is to deliver the externally stated target of a cost income ratio of 38% by 2022. This target will be delivered by a three stage project. Stage 1 was a detailed cost reduction exercise by each division. Stage 2 is a full review, including a detailed cost/benefit exercise, of the support areas which could be centralised to reduce cost. Stage 3 is a wider strategic review to assess the Group's target operating model and the potential to consolidate operational activities.

Our marketplace

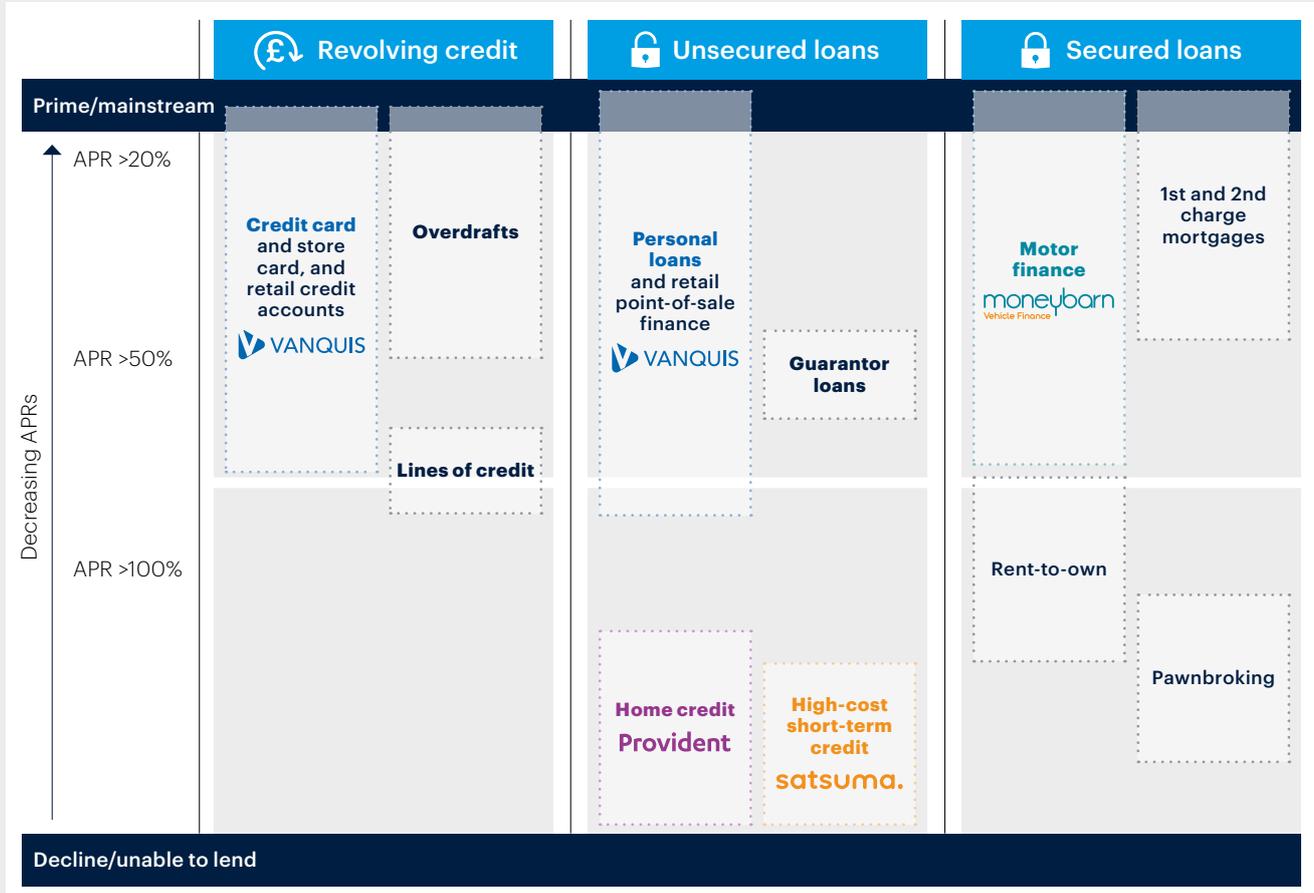
The market we serve is large, with c.1 in 5 adults (10 to 12 million people) in the UK not well served by mainstream lenders. Because consumers' participation in our market is typically driven by their circumstances, the market is relatively fluid over time, with c.1 to 2 million consumers moving in and out of the market each year, as their personal or household circumstances change.

The three main categories of products in our market are revolving credit accounts including credit cards; secured loans, where an asset is used as security for the loan; and unsecured loans of various forms including home collected credit and online lending.

We have market-leading positions in revolving credit, unsecured loans and secured loans, with product and service propositions that are tailored for our customers' differing borrowing needs and varied risk profiles. We continue to explore options to evolve our product offerings to meet the needs of more consumers in the market and existing customers of the Group.

In 2020, Vanquis will develop and expand its unsecured personal loan offering to the open market (from existing customers only at present). We will also look to pilot a Satsuma unsecured personal loan offering, leveraging the capability we have developed in online short-term loans.

Our market is highly regulated, primarily by the FCA, PRA and CBI (in the Republic of Ireland), with regulation subject to ongoing evolution and change. As a customer-centric and specialist lender operating across the broadest range of product categories in our market, we feel that we are well placed to respond to the ongoing regulatory challenge inherent in operating in our market.

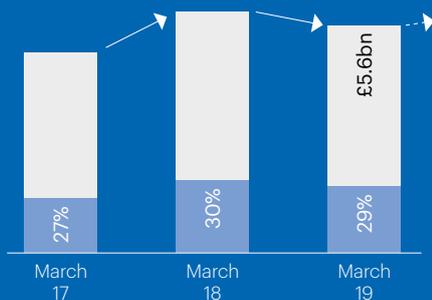




A leading specialist player in a large, established cards market

Non-standard credit card market (stock)

Debt outstanding up 22% year on year Debt outstanding down 6% year on year



● Vanquis Bank share

- Debt outstanding in the credit card market grew at a compound annual growth rate of 7% in the two years to March 2019, driven by new account openings.
- Vanquis Bank has around a third of the non-standard credit card sector.

Credit card

Vanquis Bank has been active in the credit card market in the UK since 2003 and has grown to become the largest part of the Group and the largest player in the credit card market for consumers not well served by mainstream lenders. Vanquis Bank offers a range of card products at differing price points to reflect consumers' varied risk profiles.

Market attraction



- Credit cards have high cultural adoption and acceptance in the UK, meaning a large domestic market.



- Credit cards have everyday utility as a means of transacting, providing an ongoing customer relationship.



- The importance of credit cards as a means of transacting is growing given the continuing and rapid move in consumer preferences to digital.

Market features



Market

- The credit card market is large and stable.
- Competition in the market is also relatively stable. Key competitors include Capital One, NewDay own brand cards and the Barclaycard Foundation card.
- Vanquis is the only specialist, covering the broadest range of risk categories in the market.



Model

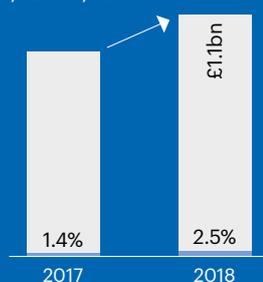
- Credit card providers typically offer low initial limits and responsibly grow these through credit line increases.
- Consumers are increasingly acquired online. Account management has also moved online due to changing consumer preferences, typically through mobile apps.



Only available to existing customers, with open market launch in H2 2020

Non-standard personal loan market (flow)

Credit issued up 14% year on year



● Vanquis Bank share

- Credit issued rose 14% year on year in 2018, driven by a 20% increase in account openings.
- Average credit issued per new loan fell slightly from £3,300 in 2017 to £3,100 in 2018.

Personal loan

Vanquis Bank began piloting unsecured personal loans in late 2016 for existing credit card customers. In H2 2020 we will begin to offer loans to consumers in the open market.

Market attraction



- The non-standard personal loans market is substantial in size and growing at a strong pace.



- High cultural adoption and acceptance in the UK.



- Offering personal loans provides the opportunity to leverage core skills in loans and allows Vanquis Bank to meet more of its existing customer needs with a large opportunity in the open market.

Market features



Market

- The market is of a substantial size (>£1bn) and growing.
- Providers operate at a range of price points (c.15-100% APR).
- There have been a number of new near prime entrants (e.g. Monzo, Starling and Chetwood Financial).



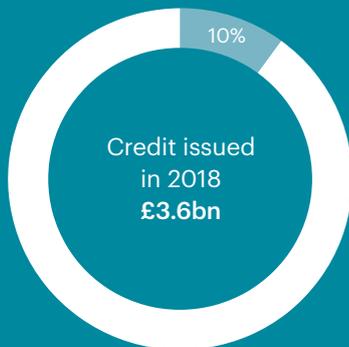
Model

- One to five-year loans at a range of APRs.
- Personal loans are typically taken to meet a specific one-off need, with some potential top-ups.
- Customers are acquired increasingly through internet affiliates, with customers then typically managing their account through a mobile app.



A leading player in secure vehicle finance

Non-standard motor finance market (flow)



● Moneybarn share

- The car finance market for customers underserved by mainstream lenders is large, with opportunity for Moneybarn to continue to grow.
- Moneybarn has a 10% market share in the non-standard motor finance market, an increase from the prior year (9%).



Motor finance

Moneybarn was acquired by the Group in 2014 enabling us to broaden our offering into secured motor finance. Moneybarn has since grown at a compound annual growth rate of 27% to become a leading player in the market.

Market attraction



- Motor finance is a secured product.



- Secured finance is a well-established and culturally accepted way to purchase big ticket items, such as a car, with opportunity for further growth in used car acquisition.



- Customers have an incentive to maintain their repayments due to the utility of the vehicle (e.g. a car is needed to get to work).

Market features



Market

- The non-standard motor finance market is large and growing.
- There are numerous providers that span over a range of risk appetites (e.g. Advantage, MoneyWay and Close Brothers).
- Moneybarn has the broadest coverage of APRs in the non-prime and near-prime market.



Model

- Motor finance is typically on three to five-year secured hire purchase.
- Consumers in this market are not accessing finance with the manufacturer or with their bank and are typically acquired through intermediaries.
- There are typically small levels of repeat loans with the same lender.
- The technology in this market is evolving from a manual process to increased digitisation and smoother customer onboarding (e.g. auto-affordability and ID verification).

Provident



The no. 1 player in the home credit market

Home credit market (flow)

Credit issued down
17% year on year



● Provident share

- Despite operational disruption in the UK, Provident still issued 42% of the credit in the market in 2018; this proportion remained stable through Q1 2019.
- The rest of the market was stable in 2017 and 2018.



Home credit

Provident home credit remains the market leader and is the only home credit provider with a truly national footprint, operating throughout the UK and also the Republic of Ireland. The home credit market remains an important source of financial inclusion and has stabilised following the disruption caused by Provident's move to a new fully employed operating model in the UK in 2017.

Market attraction



- Some customers prefer to manage their day-to-day finances in cash, so a cash-based loan suits them.



- Online/purely remote lending is not appropriate for everyone. Some customers need the face-to-face service, structure and product flexibility provided by home credit to serve their needs responsibly.



- We are well placed to modernise the proposition to keep pace with changing consumer preferences.

Market features



Market

- The market has stabilised following the disruption caused by the change in the Provident operating model in the UK.
- There are few key competitors nationally (e.g. Morses and Loans at Home), a number of regional providers and a large number of small local providers.



Model

- 13–104-week cash loans are typically delivered and collected in the home by employed Customer Experience Managers or self-employed agents (depending on the lender's operating model).
- Technology has improved operating efficiency and compliance with the regulator (e.g. lending apps).
- Lenders are modernising their propositions to provide customers with more choice (e.g. remote repayment options and online portals).

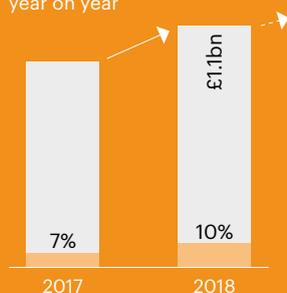
satsuma.



A leading player in the digital loans sector

High-cost short-term credit market (flow)

Credit issued up 18% year on year



● Satsuma share

- Large, growing market driven by volume.
- New accounts grew 10% in 2017 and 2018.
- Market size and growth illustrate strong consumer demand for digital loans.
- Satsuma's market share rose further to 15% in Q1 2019.

Digital loans

Satsuma was launched in 2013 in response to consumers' growing appetite to transact their financial business online. Satsuma has since grown to secure a top 3 position in the high-cost short-term credit market. The market has experienced a significant amount of disruption due to the evolution of the regulatory environment.

Market attraction



- There is strong and growing consumer demand for short-term digital loans.



- In general, consumer preferences are moving towards managing their finances online, particularly for younger generations.



- Significantly increased regulation is impacting operating models and reducing competition.

Market features



Market

- Relatively large market with high levels of consumer demand.
- Supply in the market has been impacted by the exit of a number of former payday lenders, a number of which have gone into administration due to historical lending practices (e.g. Wonga and Quick Quid).



Model

- 1-12-month fixed repayment loans managed and repaid digitally.
- Technological advancements have been focused around customer experience enhancements (e.g. the increasing availability of mobile apps and eligibility tools such as soft search).



Neil Chandler
Vanquis Bank Managing Director

1,587

Colleagues

1.7m

Customers

£173.5m

Adjusted profit before tax

£1,461.5m

Year-end receivables



Certain alternative performance measures (APMs) have been used in this report. See page 237 for an explanation of relevance as well as their definition.

Vanquis Bank is a leading specialist in the large and established credit card market. It has a strong capital base and has access to liquid funds through the resilient retail deposits markets.

Executive summary

Who we are

- A well-capitalised, liquid bank with further capital and funding opportunities
- A leading specialist player in a large, established and growing card market

Current position

- We are better at understanding our customers and what they need
- Well progressed through the recalibration of the model:
 - Persistent debt
 - ROP income attrition
 - Customer and culture

Growth ambitions

- Delivering profitable growth while recalibrating our model:
 - Strong new customer origination engine
 - Credit line increase (CLI) balance growth on strong upward recovery track
 - Credit card innovation (white label partnerships/ self-employed card)
 - Digital programme
 - Cost programme
 - Unsecured personal loans opportunity
 - Leveraging core capabilities in credit risk and data and analytics

Financial targets

- Targeting c.£2bn receivables and c.20%-25% ROE in the medium term

“

The continuing development of digital capability is an essential driver in delivering good customer outcomes and maintaining the returns of Vanquis Bank in the context of a moderating revenue yield.

Neil Chandler

1.1m

active users and 87% of new customers register on the Vanquis Bank app



Vanquis Bank – financial performance

Vanquis Bank is a leading specialist in the large and established credit card market. It has a strong capital base and has access to liquid funds through the resilient retail deposit markets. During 2019, Vanquis Bank has continued to make good progress in adapting and changing its business model to changes in regulation and a better understanding of customer needs. As a result, the shape of the income statement is changing, with lower revenue yields being mitigated by lower impairment, increased cost efficiency and managing the balance sheet more effectively to reduce interest costs. Management is making good progress in developing and executing plans to return the business to profitable growth in the medium term with a number of strategic initiatives underway.

	Year ended 31 December		
	2019	2018 (restated) ¹	Change
	£m	£m	%
Customer numbers ('000)	1,720	1,773	(3.0)
Year-end receivables	1,461.5	1,495.1	(2.2)
Average receivables ²	1,459.9	1,507.4	(3.2)
Revenue	580.9	644.9	(9.9)
Impairment	(198.9)	(241.6)	17.7
Revenue less impairment	382.0	403.3	(5.3)
Revenue yield ³	39.8%	42.8%	
Impairment rate ⁴	13.6%	16.0%	
Risk-adjusted margin ⁵	26.2%	26.8%	
Costs	(177.1)	(176.4)	(0.4)
Interest	(31.4)	(36.0)	12.8
Adjusted profit before tax	173.5	190.9	(9.1)
Exceptional items ⁶	12.4	—	n/a
Statutory profit before tax	185.9	190.9	(2.6)
Cost income ratio ⁷	30.5%	27.4%	
Return on assets ⁸	10.4%	11.1%	
Return on equity ⁹	32.4%	44.0%	

1 2018 comparatives have been restated for the change in treatment of directly attributable acquisition costs following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profit before tax compared with previous plans.

2 Average of month-end receivables for the 12 months ended 31 December.

3 Revenue as a percentage of average receivables for the 12 months ended 31 December.

4 Impairment as a percentage of average receivables for the 12 months ended 31 December.

5 Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.

6 Represents a net exceptional credit of £12.4m (2018: £nil) comprising: (i) an exceptional credit of £14.2m (2018: £nil) in respect of the release of provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally; and (ii) exceptional restructuring costs of £1.8m (2018: £nil).

7 Costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.

8 Profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.

9 Adjusted profit after tax as a percentage of average equity for the 12 months ended 31 December. 2018 average equity has been restated as though the £50m of rights issue proceeds injected into Vanquis Bank in April 2018 had occurred on 1 January 2018.

Vanquis Bank – financial performance continued

Vanquis Bank's adjusted profit before tax reduced by 9.1% to £173.5m in 2019 (2018 (restated): £190.9m). The reduction in adjusted profits mainly reflects the continued moderation in ROP income of approximately £20m and 2018 benefiting from the release of £10m of remuneration-related accruals as a result of the business performing below expectations throughout 2017 and 2018. These adverse variances were partly offset by an improved impairment rate, tight control of costs and a reduction in interest costs. Vanquis Bank's statutory profit before tax reduced by 2.6% to £185.9m (2018 (restated): £190.9m), a lower rate of reduction than adjusted profits. This reflects the benefit of an exceptional provision release of £14.2m (2018: £nil) in respect of the ROP refund programme partly offset by exceptional restructuring costs of £1.8m (2018: £nil).

Demand for Vanquis Bank's credit cards continues to be strong. Despite tighter underwriting standards, including the withdrawal of the 69.9% APR product, and the implementation of revised affordability processes which have reduced new booking volumes by approximately 25%, new customer bookings of 369,000 were 3,000 higher than last year and ahead of management's plans. This reflects the benefit from the implementation of the new underwriting engine towards the end of 2018 which has enabled Vanquis Bank to enhance the customer onboarding journey. This includes the full roll-out of soft search pre-application for all channels and the pre-approval and pre-population for all affiliate channels, both of which have resulted in an improvement in application completion rates.

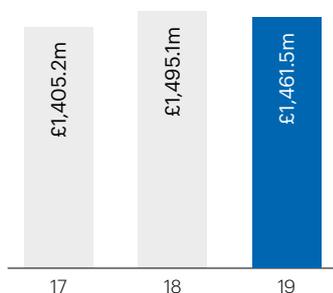
Despite strong booking volumes, customer numbers ended 2019 at 1,720,000, 3.0% lower than last year (2018: 1,773,000). The year-on-year reduction reflects the closure of approximately 65,000 inactive customer accounts in the fourth quarter in order to manage contingent risk if there is any deterioration in the economic environment and the sale of 56,000 customers on payment arrangements during the year.

Receivables ended 2019 at £1,461.5m, a 2.2% reduction on December 2018 (2018 (restated): £1,495.1m), and compares with management's internal plan of delivering broadly flat receivables in 2019. The reduction is consistent with recent Bank of England industry data showing that credit card customers repaid more than they borrowed in November and December 2019 and, in the case of Vanquis Bank, includes the greater than expected impact of changes in regulation in respect of persistent debt remedies and revised affordability processes.

In response to the FCA's definition of persistent debt within the Credit Card Market Study (CCMS), Vanquis Bank has introduced a number of measures including: (i) increasing minimum payments due in the last quarter of 2018 and communicating higher recommended payments in early 2019; (ii) placing restrictions on the credit line increase programme; and (iii) implementing a number of communication strategies during 2019. At September 2018, approximately 11% of active Vanquis Bank customers were up to date but met the definition of being in persistent debt (including customers in arrears and in payment arrangements this increases to 15% of active customers). The business has been actively working with these customers with a view to removing them from this position in advance of March 2020, which is the first 36-month checkpoint after which customers who still meet the definition of being in persistent debt will be offered a way to repay their balance in a reasonable period of no more than four years. Management anticipates that approximately 2% of the September 2018 cohort of customers will still meet the definition of persistent debt at March 2020. Vanquis Bank continues to proactively work with the remaining customers in advance of March 2020 as well as those customers who have met the definition of being in persistent debt after September 2018.

Year-end receivables

£1,461.5m



Vanquis Bank, consistent with the rest of the Group, implemented revised affordability processes in November 2018. Together with the impact of not extending credit to those customers meeting the definition of persistent debt, this has resulted in a reduction in the level of further credit extended to existing customers under the credit line increase programme. Credit line increases in 2019 were approximately 35% lower than in 2018.

Revenue has shown a 9.9% reduction to £580.9m in 2019 (2018 (restated): £644.9m) compared with the 3.2% reduction in average receivables. The revenue yield has moderated from 42.8% (restated) in 2018 to 39.8% in 2019 due to three factors. Firstly, there was a further decline in the penetration of ROP within the customer base following the voluntary suspension of sales from April 2016. This resulted in a year-on-year reduction in ROP income of approximately £20m. Secondly, there has been some further moderation in the interest yield from: (i) a modest increase in the mix of nearer-prime customers; (ii) downwards repricing of higher APR accounts where the customer has improved their credit standing; and (iii) balance reductions applied to accounts as part of the ROP refund programme were typically at higher APRs. Finally, there have been some changes to the basis for charging late and over-limit fees to customer accounts.

The ROP refund programme was completed during March 2019 and the FCA has confirmed that the programme is now closed. There has been no material change in the level of complaints arising in relation to ROP following the announcement of the settlement in February 2018. Accordingly, following completion of the refund programme and a re-evaluation of the forward flow of claims that may arise in respect of ROP more generally, £14.2m of the provision originally established in 2017 has been released as an exceptional credit in 2019. The remaining provision held in the balance sheet of £11.7m (2018: £45.7m) reflects management's revised expectation of future claims which may arise in respect of ROP more generally together with sundry costs of dealing with those claims.

Delinquency trends showed a favourable movement compared with last year due to a shift in mix towards better quality customers. In addition, the second half of 2018 was adversely impacted by the impact of enhanced forbearance and an increase in minimum payments due in response to persistent debt regulation which resulted in a step-up in payment arrangements which has not been repeated in 2019. Accordingly, the impairment rate in 2019 has reduced to 13.6% of average receivables compared with 16.0% in 2018. Underwriting standards have been progressively tightened over the last two years which, together with the historical resilience of the business model, means that Vanquis Bank is well positioned if there is any deterioration in the UK economic environment.

The risk-adjusted margin has moderated from 26.8% (restated) in 2018 to 26.2% in 2019, reflecting the reduction in the revenue yield substantially offset by the improvement in the impairment rate discussed above.

Costs have shown a modest 0.4% increase to £177.1m in 2019 (2018 (restated): £176.4m) with cost efficiency remaining a strong focus for Vanquis Bank. The stable cost base has been delivered despite 2018 benefiting from the release of approximately £10m in respect of share-based payment, incentive and bonus arrangements as a result of the business performing below expectations throughout 2017 and 2018.

Interest costs of £31.4m have reduced by 12.8% during 2019 (2018: £36.0m) due to the reduction in Vanquis Bank's blended funding rate, after taking account of the cost of holding a liquid assets buffer, from 3.5% in 2018 to 3.0% in 2019. This reflects the impact of Vanquis Bank repaying its intercompany loan from Provident Financial and becoming fully funded with retail deposits in November 2018. The intercompany loan represented a higher cost of funding for Vanquis Bank.

Vanquis Bank's return on assets has reduced to 10.4% in 2019 (2018 (restated): 11.1%) due to the moderation in the risk-adjusted margin partly offset by cost efficiency. Return on equity has reduced from 44.0% (restated) in 2018 to 32.4% in 2019. This primarily reflects the rebuilding of the equity base following the implementation of IFRS 9 on 1 January 2018 (which resulted in a £111.4m reduction in equity) and the ROP refund provision reflected at the end of 2017 (which resulted in a £178.0m reduction in equity). Vanquis Bank's return on equity is expected to moderate to the Group's target range of between 20% to 25% over the medium term reflecting: (i) the average equity base stabilising; and (ii) the risk-adjusted margin reducing to between 23% to 25% due to the ongoing reduction in ROP income and the impact of downwards repricing and fee changes implemented in 2019.

Vanquis Bank paid a dividend to Provident Financial of £80m in February 2020.

Vanquis Bank – growth initiatives

Vanquis Bank's medium-term target is to deliver £2bn receivables (currently £1.5bn) and an ROE of between 20% to 25%. In addition to growing and developing the core credit cards proposition, the business is pursuing a number of strategic initiatives to deliver these targets.

Loans

The focus of the Vanquis Bank loans proposition has so far remained on providing unsecured loans to existing credit card customers and the loans receivables book ended 2019 at £28.9m (2018: £26.0m). Volumes have been kept at modest levels during 2019 as Vanquis Bank has been preparing for a relaunch of the loans proposition, leveraging the capabilities of both Vanquis Bank and Satsuma, in order to provide a joined-up range of online unsecured lending products. The unsecured loans market remains attractive for Vanquis Bank to expand into with over £1bn of credit issued each year and approximately 12% of Vanquis Bank customers already having a loan from another provider. To capitalise on this opportunity, a new Director of Loans has been appointed and a new business and financial plan has been developed based on price points up to 59.9%. The medium-term aim is to grow to a receivables book of £150m, based on serving both Vanquis Bank customers and the open market.

White-label credit card partnerships

The way in which customers are researching and applying for credit cards is evolving mainly due to digitisation. Growth in traditional direct marketing channels has slowed as more customers are choosing to source credit cards through affiliates and aggregators. Vanquis Bank is very active in this area and has formed strategic distribution partnerships with key players, widening distribution reach and obtaining attractive acquisition

costs. There is the opportunity for Vanquis Bank to develop this further by establishing white-label credit card partnerships with affiliates, leveraging the affiliates brand and digital marketing specialism with Vanquis Bank's balance sheet, credit decisioning and customer servicing capabilities. Vanquis Bank is working toward launching a new white label partnership in the first half of 2020.

Self-employed ecosystem

Developing a tailored proposition for self-employed consumers also represents an attractive opportunity. There are approximately 5 million adults (and growing) in the UK who are self-employed and Vanquis Bank serves approximately 250,000 of those consumers. Providing the self-employed segment with a distinct card, with attractive and tailored features, represents a good fit with Vanquis Bank's core competencies. The business plans to undertake a test in 2020 and then, subject to satisfactory progress, build out the proposition through 2021 with product enhancements, including the potential to establish a broader, multi-product, self-employed ecosystem, leveraging wider group and third-party partners.

Digitisation

The continuing development of digital capability is an essential driver in delivering good customer outcomes and maintaining the returns of Vanquis Bank in the context of a moderating revenue yield. Vanquis Bank has continued to make good progress in its digitisation programme during 2019. There are now over 1.1 million active users and 85% of new customers register on the Vanquis Bank app. Customers are actively using the app to engage with the business with over 200,000 push notifications being sent out per month and almost £100m of payments being processed via the app. In addition, over 300,000 customers have taken up the option to receive statements via the app rather than receiving the traditional paper copy. Vanquis Bank also successfully introduced a chatbot in March 2019. Historically, one of the most effective channels to contact customers who may be about to miss, or have just missed, payments was via SMS. The chatbot provides a much more interactive way to automate these SMS conversations and now instigates approximately 70% of SMS conversations which has led to improved customer response rates. Both the app and the chatbot are examples of scalable, customer-led concepts that can be developed for wider application and deliver benefits for both the customer, through a better experience, and Vanquis Bank, through cost efficiency. Vanquis Bank's medium-term aim is to deliver operational leverage by maintaining a stable cost base whilst growing the business.

Vanquis Bank – management changes

Neil Chandler joined Vanquis Bank as Managing Director in April 2019 having previously been the Chief Executive Officer of Shop Direct Financial Services and prior to that the Chief Executive Officer of Sainsbury's Bank. The Vanquis Bank Executive Team has been significantly refreshed and strengthened under Neil's leadership with the appointments of a new Operations Director, Chief Risk Officer, Customer Director, Product Director and a Digital Transformation Director.

Robert East joined as Chairman of Vanquis Bank and a member of the group board in June 2019. Robert is also Chairman of Skipton Building Society.

Oliver White, Finance Director of Vanquis Bank, will be leaving the business to pursue other career opportunities. The Board would like to thank Oliver for his efforts over the last three years in helping reshape Vanquis Bank, commencing the cost efficiency programme and the completion of the ROP refund programme, and wish him all the best in his new role. A search for his successor is underway.



Shamus Hodgson
Moneybarn Managing Director

320

Colleagues

77k

Customers

£30.9m

 Adjusted profit before tax

£502.1m

Year-end receivables



Certain alternative performance measures (APMs) have been used in this report. See page 237 for an explanation of relevance as well as their definition.

In the five years since acquisition by PFG, Moneybarn has become one of the largest suppliers of vehicle finance to underserved customers in the UK.

Executive summary

Who we are

- A leading player in vehicle finance for those underserved by mainstream lenders

Current position

- Strong consistent growth and ROA record
- No impact from FCA review of motor finance market and no known regulatory headwinds on the horizon

Growth ambitions

- Positioned for strong growth over the medium term in current markets
- Longer term, well positioned for move into adjacent near prime, expanding our addressable market

Financial targets

- Resilient business model (only secured hire purchase) and customers
- Funding opportunities
- Targeting c.£750m receivables and c.10% ROA in the medium term

“

The business has a strong track record, delivering high levels of growth and strong returns, and is in an excellent position to continue to deliver profitable growth in the medium term from existing and adjacent markets.

Shamus Hodgson

Introduction and development of new asset classes that resonate with Moneybarn's target customer base



Moneybarn – financial performance

In the five years since acquisition by Provident Financial, Moneybarn has become one of the largest suppliers of vehicle finance to underserved customers in the UK. The business has a strong track record, delivering high levels of growth and strong returns, and is in an excellent position to continue to deliver profitable growth in the medium term from existing and adjacent markets.

	Year ended 31 December		
	2019 £m	2018 (restated) ¹ £m	Change %
Customer numbers ('000)	77	62	24.2
Year-end receivables	502.1	416.4	20.6
Average receivables ²	481.5	395.1	21.9
Revenue	122.0	104.3	17.0
Impairment	(41.8)	(34.4)	(21.5)
Revenue less impairment	80.2	69.9	14.7
Revenue yield ³	25.3%	26.4%	
Impairment rate ⁴	8.6%	8.7%	
Risk-adjusted margin ⁵	16.7%	17.7%	
Costs	(20.9)	(19.9)	(5.0)
Interest	(28.4)	(21.9)	(29.7)
Adjusted profit before tax	30.9	28.1	10.0
Exceptional items ⁶	2.6	—	n/a
Statutory profit before tax	33.5	28.1	19.2
Cost income ratio ⁷	17.1%	19.1%	
Return on assets ⁸	10.0%	10.3%	

- 2018 comparatives have been restated for the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs which have resulted in a reduction in revenue, impairment and costs but have had no impact on Moneybarn's profits.
- Average of month-end receivables for the 12 months ended 31 December.
- Revenue as a percentage of average receivables for the 12 months ended 31 December.
- Impairment as a percentage of average receivables for the 12 months ended 31 December.
- Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.
- Represents an exceptional credit of £2.6m (2018: £nil) in respect of the release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options at Moneybarn.
- Costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.
- Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.

Moneybarn – financial performance continued

Moneybarn’s adjusted profit before tax increased by 10.0% to £30.9m in 2019 (2018: £28.1m). The business has continued to deliver strong new business volumes and receivables growth although profits growth has been impacted by a modest reduction in margins and increased funding costs as Moneybarn has been allocated a more appropriate share of Group funding costs in 2019. Moneybarn’s statutory profit before tax increased by 19.2% to £33.5m (2018: £28.1m), a higher rate of increase than adjusted profits. This reflects the benefit of an exceptional provision release of £2.6m (2018: £nil) following finalisation of the FCA investigation into affordability, forbearance and termination options.

The non-standard vehicle finance market remains competitive. However, demand for used cars has remained robust and new business volumes have been very strong. Continued development of core broker-introduced distribution channels, including revising affordability processes and a number of other operational developments, has resulted in a better customer experience and reinforced Moneybarn’s position amongst its broker network. As a result, new business volumes in 2019 were 30% higher than last year. Due to the particularly strong growth in new business volumes in the first three quarters of the year and the emergence of a modest deterioration in impairment trends, underwriting was tightened early in the fourth quarter to remove the bottom tier of higher risk customers. Accordingly, fourth quarter volumes showed a lower year-on-year growth rate of 14%. Customer numbers ended the year at 77,000, up from 62,000 at the end of 2018 and showing growth of 24.2%.

Receivables showed strong growth of 20.6% to £502.1m (2018 (restated): £416.4m). This was a lower rate of growth than the 24.2% increase in customer numbers, reflecting the sale of delinquent debt with a modest carrying value in December. This was the first sale of delinquent debt since the commencement of the FCA investigation in 2017.

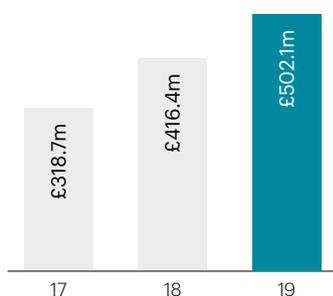
The redress required to resolve the issues arising in respect of the FCA investigation into affordability, forbearance and termination options was completed in the third quarter of 2019 and Moneybarn received the final notice from the FCA in February 2020. The total cost of the investigation is lower than the original £20m set aside at the end of 2017, and, accordingly, £2.6m of the provision has been released as an exceptional credit in 2019. The remaining provision held in the balance sheet of £2.8m (2018: £7.5m) reflects the cost of the fine based on the final FCA notice.

Revenue has increased by 17.0% to £122.0m (2018 (restated): £104.3m) compared with the growth in average receivables of 21.9%. The revenue yield has reduced from 26.4% (restated) in 2018 to 25.3% in 2019 reflecting the impact of the tightening of underwriting which has removed higher-yielding, lower-quality business and the cessation of charging default fees during 2018.

Default rates and arrears levels were stable in the first three quarters of 2019, continuing the trend experienced since the end of the first quarter of 2018. However, the final quarter of 2019 showed a modest

Year-end receivables

£502.1m



deterioration in impairment trends reflecting (i) the flow through of higher-risk customers prior to the tightening of underwriting early in the fourth quarter; and (ii) the impact of stronger than forecast growth in new business volumes earlier in the year as Moneybarn’s peak in defaults is approximately nine to 12 months following inception of a loan. Accordingly, Moneybarn’s impairment rate of 8.6% in 2019 was in line with last year (2018 (restated): 8.7%), having tracked at a lower rate of around 8.0% earlier in the year. The tighter underwriting standards being applied throughout the fourth quarter together with improvements in collections processes are expected to stabilise impairment trends in 2020.

The modest fall in the revenue yield and the stable impairment rate has resulted in Moneybarn’s risk-adjusted margin reducing from 17.7% (restated) in 2018 to 16.7% in 2019.

Cost growth of 5.0% in 2019 is stated after the benefit from an estimated VAT recovery of £2.0m. Excluding the VAT recovery, cost growth was 15.0%, lower than the growth in revenue of 17.0%, as the business has delivered some operational leverage.

Due to the strong growth in the business over recent years, Moneybarn has recently moved into new premises, very close to the existing site in Petersfield. The new office will accommodate up to 420 employees, compared with headcount of 320 currently, and will support growth well into the medium term.

Interest costs have shown growth of 29.7% in 2019, higher than the 21.9% growth in average receivables. This reflects an increase in Moneybarn's Group funding rate as the cost of funding the non-bank segment of the Group has increased following Vanquis Bank becoming fully funded through retail deposits during the second half of 2018. Moneybarn's funding rate in 2020 will benefit from the recently signed securitisation of its receivables book.

Moneybarn has delivered a return on assets of 10.0% in 2019, marginally lower than 10.3% (restated) in 2018, but in line with the Group's target of 10%.

Moneybarn – growth initiatives

Moneybarn's medium-term target is to deliver £750m receivables (currently £502m) whilst maintaining an ROA of approximately 10%. The business continues to expect continued growth in its core products as the use of car finance on used car purchases continues to rise from relatively modest penetration levels. In addition, the business is pursuing a number of strategic initiatives to support delivery of its targets. In particular, Moneybarn continues to explore opportunities to extend its product offering and distribution channels through:

- expansion of relationships with lead generators and quotation search partners such as ClearScore, Confused.com and Totally Money, leveraging Moneybarn's quotation search and digital onboarding capabilities;

- introduction of a re-solicitation programme to retain high-quality customers who currently settle early and move to other lenders;
- continuing to develop the B2C proposition, including using the Vanquis Bank app to offer bespoke Moneybarn products to Vanquis Bank customers which is now live; and
- introduction and development of new asset classes that resonate with Moneybarn's target customer base, such as light commercial vehicles, motorbikes and touring caravans as well as products tailored to the self-employed.

In addition, Moneybarn is developing plans to move further into the near prime segment, leveraging its scalable platform and the Group's funding base. This would significantly increase the size of Moneybarn's addressable customer base.

Moneybarn – management changes

After 12 years with the business, Shamus Hodgson, Managing Director of Moneybarn, will step down from his role at the end of March 2020 to pursue other career opportunities. Malcolm Le May, the Group's Chief Executive Officer, will become Managing Director of Moneybarn on an interim basis. The search for a successor has already commenced. The Board would like to thank Shamus for his leadership of Moneybarn since taking over as Managing Director three years ago and his role in establishing Moneybarn as the UK's leading provider of vehicle finance to the underserved.



Provident satsuma.



Chris Gillespie
CCD Managing Director

2,800

Colleagues

522k

Customers

£20.8m

Adjusted loss before tax

£249.0m

Year-end receivables



Certain alternative performance measures (APMs) have been used in this report. See page 237 for an explanation of relevance as well as their definition.

CCD is the market leader in the UK and Republic of Ireland home credit markets and is now also a leading player in digital loans within the high-cost, short-term credit market through Satsuma.

Executive summary

Who we are

- Market leader in UK and ROI home credit and now a leading player in digital loans (high-cost, short-term credit market)

Current position

- Re-engineered operating model developed and implemented following disruption in 2017:
 - FCA authorised and at the forefront of regulatory direction of travel (e.g. recording all issues of credit)
- Significant turnaround progress, especially on reducing a largely fixed cost base

Growth ambitions

- Growth opportunities through evolution of product proposition in both home credit and Satsuma and market consolidation

Financial targets

- Clear path to breakeven for 2020
- IT investment will deliver sustainable operational efficiency and improved capability
- Targeting c.£300m receivables and c.10% ROA in the medium term

“

CCD is now well placed to return the business to profitability and customer and receivables growth in the medium term.

Chris Gillespie

Satsuma lending volumes increased by approximately

10%



🔍 CCD – financial performance

CCD is the market leader in the UK and Republic of Ireland home credit markets and is now also a leading player in digital loans within the high-cost, short-term credit market through Satsuma. The ongoing turnaround of the home credit business has continued to progress well in 2019 and the business is now on a stable footing following the events of 2017. With an operating model which has fully embraced the direction of regulatory travel, the development of new product propositions and continuing market dislocation due to tougher regulation, CCD is now well-placed to return the business to profitability and customer and receivables growth in the medium term.

	Year ended 31 December		
	2019 £m	2018 £m	Change %
Customer numbers ('000)	522	560	(6.8)
Year-end receivables	249.0	292.5	(14.9)
🔍 Average receivables ¹	247.3	296.2	(16.5)
Revenue	295.4	342.2	(13.7)
Impairment	(96.2)	(120.8)	20.4
Revenue less impairment	199.2	221.4	(10.0)
Revenue yield ²	119.5%	115.5%	
Impairment rate ³	39.0%	40.8%	
Risk-adjusted margin ⁴	80.5%	74.7%	
Costs	(210.3)	(244.7)	14.1
Interest	(9.7)	(15.4)	37.0
🔍 Adjusted loss before tax	(20.8)	(38.7)	46.3
Exceptional items ⁵	(14.4)	(29.9)	51.8
Statutory loss before tax	(35.2)	(68.6)	48.7
🔍 Cost income ratio ⁶	71.2%	71.5%	
🔍 Return on assets ⁷	(3.6%)	(6.4%)	

- 1 Average of month end receivables for the 12 months ended 31 December.
- 2 Revenue as a percentage of average receivables for the 12 months ended 31 December.
- 3 Impairment as a percentage of average receivables for the 12 months ended 31 December.
- 4 Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.
- 5 Represents exceptional costs of £14.4m in relation to the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017 (2018: £29.9m).
- 6 Costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.
- 7 Adjusted loss before interest after tax as a percentage of average receivables for the 12 months ended 31 December.

CCD – financial performance continued

CCD has reported a 46.3% reduction in adjusted loss before tax to £20.8m in 2019 (2018: loss before tax of £38.7m), in line with management’s internal plan, as the business has continued to successfully adapt to the ongoing evolution in the regulatory environment. As a result of the actions taken by management, the business delivered a reduced adjusted loss of £5.7m (2018: £15.5m) in the second half of the year and the business is well-placed entering 2020. As previously communicated, the business is expecting to deliver a loss in the first half of 2020, consistent with the normal seasonality of the business, a profit in the second half of 2020 and a breakeven result for 2020 as a whole. CCD’s statutory loss before tax reduced by 48.7% to £35.2m (2018: loss before tax of £68.6m), with exceptional restructuring costs reducing from £29.9m in 2018 to £14.4m in 2019.

CCD customer numbers ended the year at 522,000, 6.8% lower than 560,000 last year, which represents a significantly reduced rate of decline compared with 28.2% in 2018. The focus for 2019 has been on: (i) stabilising the rate of decline in the home credit customer base against the backdrop of increased regulation, the ongoing enhancement of business processes and increased efficiency to reduce the cost base; and (ii) continuing to grow Satsuma customer numbers in a responsible and sustainable manner.

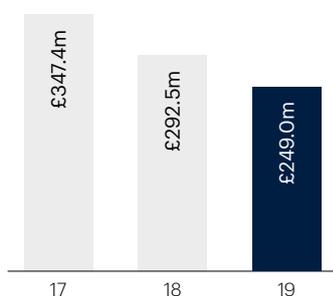
The improved momentum in new customer recruitment experienced in the fourth quarter of 2018 was maintained in home credit during 2019, despite the significant reduction in field resources. New and returning customer volumes were broadly in line with last year despite a 20% reduction in average CEM resources through the year. Home credit customer numbers ended the year at 386,000 (2018: 443,000), in line with the end of the third quarter. The customer base is now beginning to stabilise having previously shown reductions in the first three quarters of the year as the number of new customers recruited had not been at a level sufficient to stabilise the customer base. New and returning customers volumes were marginally ahead of plan in the fourth quarter and are expected to continue to improve during 2020, benefiting from the ongoing embedding of performance management and new ways of working in the UK, including the use of a balanced scorecard with an element of variable pay, and the roll-out of an enhancement to the home credit product, Provident Direct.

Satsuma continued to experience a good flow of lending volumes during 2019 and new business and further lending volumes increased by approximately 10% and customer numbers ended the year at 136,000, up 16.2% on last year (2018: 117,000). However, following a number of high-cost lenders exiting the market and discussions with the FCA, Satsuma took the decision to temporarily reduce lending volumes in early December. Accordingly, new business and further lending volumes in December and January were significantly lower than last year. Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020 and a lower proportion of Satsuma loan applications are processed wholly digitally. This reflects the decision to increase the level of interaction with customers during the application process, including, in some circumstances, the involvement of a field-based CEM. This puts CCD in a unique position to build a sustainable business based on a ‘hybrid’ operating model utilising the best of both digital and home credit capabilities.

Total CCD receivables were £249.0m at the end of 2019 (2018: £292.5m), 14.9% lower than the end of 2018, and comprised £205.8m in respect of the home credit business (2018: £253.0m) and £43.2m in respect of Satsuma (2018: £39.5m).

Year-end receivables

£249.0m



Home credit receivables have fallen by 18.7% in 2019 compared with the 12.9% reduction in customer numbers. This primarily reflects average issue values being approximately 9% lower in 2019 following the introduction of the new high-cost credit guidance issued by the FCA as part of its review of the high-cost credit sector which came into force between December 2018 and March 2019. The new guidance includes the requirement for CEMs to present customers with the cost of either taking out a concurrent loan or refinancing their existing loan when they require further credit. Experience to date shows that there has been a modest increase in the proportion of customers opting for concurrent loans, which are typically lower value and shorter in duration than refinanced loans.

Satsuma’s receivables have shown 9.4% growth in 2019 compared with the 16.2% increase in customer numbers due to the significant reduction in lending volumes in December.

Revenue in CCD has fallen by 13.7% in 2019, a modestly lower rate than the 16.5% reduction in average receivables. The revenue yield of 119.5% in 2019 has increased from 115.5% in 2018, reflecting a modest shift in mix to shorter-term, higher-yielding products.

Impairment in CCD has reduced by 20.4%, better than the rate of reduction in average receivables. This reflects the improvement in collections performance due to the benefit from the ongoing improvement in business processes and the introduction of the enhanced performance management framework. As a result, the impairment rate of 39.0% in 2019 has reduced from 40.8% in 2018. The business has recently completed the roll-out of electronic card readers for CEMs to allow customers to make their repayments with debit cards as well as cash. This has been well received by both field employees and customers and is expected to support further improvement in collections performance during 2020.

CCD’s target risk-adjusted margin is between 80% to 85%. The combined improvement in revenue yield and impairment rate during the year has resulted in the risk-adjusted margin increasing from 74.7% in 2018 to 80.5% in 2019, within the target range.

Costs have reduced by 14.1% to £210.3m in 2019 (2018: £244.7m). Despite cost headwinds from increased regulatory requirements, upgrading certain elements of the old IT infrastructure and higher complaints costs, CCD has continued to take the necessary actions to reduce headcount and tightly manage costs in response



to the reduction in customer numbers. As previously reported, in January 2019, CCD announced a voluntary redundancy programme in central support functions which reduced central headcount by approximately 200. There was also a further reduction of 50 head office roles during the year, mainly through non-replacement of leavers. In addition, approximately 600 CEMs and field managers left the business during 2019 either through natural attrition and non-replacement of roles or through redundancy. Overall, there has now been a reduction in roles within CCD of 1,500 since September 2017. Together with actions already taken and the ongoing tight control of costs, this has resulted in CCD's annual run rate cost base entering 2020 at around £200m as communicated at the CMD.

Despite some upgrades in the year, CCD's legacy IT systems are old, inflexible and expensive to maintain. Accordingly, the business is planning a programme of investment over the next two years to modernise and refresh the IT infrastructure and support both better customer service and the growth of the business going forward.

Interest costs in CCD have fallen by 37.0% to £9.7m in 2019 (2018: £15.4m). This is a larger reduction than the reduction in average receivables as CCD's funding rate has been reduced to reflect a more balanced allocation of funding costs between CCD and Moneybarn now that Vanquis Bank is fully funded with retail deposits.

CCD – growth initiatives

CCD's medium-term target is to grow the business to £300m receivables (currently £249m) whilst delivering an ROA of approximately 10%. CCD's focus is now on developing the customer proposition and growing the business. Accordingly, management has developed a number of strategic initiatives to support growth.

Provident Direct

Following discussions with the FCA in the second quarter of 2019, CCD commenced testing of Provident Direct in the Birmingham South area in the third quarter of the year. Provident Direct is relationship managed in the home by a CEM with payments collected remotely via CPA. The test has indicated that there is strong demand for the product from both customers and the field organisation and that collections performance is comparable to home collection. In addition, the test has allowed the business to refine the customer journey and supporting processes whilst

avoiding disrupting the field organisation during the seasonal peak in trading in the run up to Christmas. Following the successful test, Provident Direct is now being rolled out progressively, firstly in Wales/West (c.15% of the business) in the first quarter of 2020, with a view to having national coverage across the UK by the end of the year. The product retains the essence of home credit but should enable CCD to attract new and former customers of suitable credit quality who value the relationship-based home credit proposition but do not wish to have a weekly collections visit by a CEM or for whom the home visit is inconvenient, such as shift workers. The CEM will maintain regular contact with the customer and will make home visits if the customer's circumstances change or if they are experiencing payment difficulties. Longer term, the business envisages 30% or more of business being transacted through Provident Direct.

Enhanced performance management

The FCA confirmed in early March 2019 that the business could implement enhanced performance management of CEMs based on a balanced scorecard supported by an element of variable performance-related pay. The implementation of this full suite of performance measures is essential in continuing to improve the efficiency and effectiveness of the field organisation whilst delivering consistently good customer outcomes. The balanced scorecard was tested for impact on customer outcomes in the Warrington area during May and was expanded to the North West region in June, including testing an element of variable pay. Following successful testing, the business completed full roll-out of the framework in the UK during the third quarter of the year as well as implementing new ways of working for field management to support and oversee CEMs. These measures have contributed to the ongoing improvement in CCD's performance in 2019. Management will continue to calibrate the balanced scorecard and the variable pay element to both enhance customer outcomes and improve performance.

Satsuma personal loans

Satsuma forms an important part of future strategy, particularly as Satsuma and home credit are expected to work more closely together as Provident Direct is rolled out through 2020. Satsuma intends to test a product extension of a loan product priced between 79.9% and 99.9% APR under the Satsuma brand towards the end of 2020. This will further expand CCD's product range, addressable market and provide customers with a pathway to cheaper credit.

Annual report – risk management

The Group operates a prudent approach to risk given our customer profile. We achieve this through strong controls to support sustainable business growth while minimising losses and delivering fair customer outcomes.

Introduction and recent developments

During 2019, the Group has continued to strengthen its risk management capabilities through the appointment of a permanent Group CRO, the creation of a Group Executive Risk Committee (GERC) to provide greater focus on risk-related matters and the refresh of the Group's risk management framework (RMF) to ensure we continue to operate sound risk management practices and robust internal controls.

Group's approach to risk management

The Group operates a prudent approach to risk given our customer profile. We achieve this through strong controls to support sustainable business growth while minimising losses and delivering fair customer outcomes. Each of our divisions has its own risk management frameworks, with broad direction provided by the Group CRO to drive consistency, improved collaboration and effective aggregation of our risk reporting. As the Group continues to shape its longer-term business strategy and plans, we expect our separate risk management frameworks to evolve in parallel through greater integration, simplification and improved effectiveness.

Risk culture

Based on the Group's business model and guided by the Group Board, senior management articulates the core risk values through our Blueprint and risk appetite framework (RAF). We have a number of strategic risk drivers with the overall aim of delivering sustainable returns as a Group, while meeting the needs and requirements of all our key stakeholders including customers, regulators, investors, colleagues, communities and suppliers. Our culture is underpinned by an appropriate balance between risk and reward, with accountabilities reinforced through the Senior Manager and Certification Regime (SMCR) in the divisions.

Risk appetite

The Group defines its risk appetite as the amount and type of risk the organisation is prepared to seek, accept or tolerate at any point in time, and measured over a rolling 12-month period. Based on our prudent business model, our risk appetite is holistic and covers 16 key risk areas, 10 of which are considered as primary and shape our principal risks detailed later in this report. Our risk appetite statements form part of our wider control framework. The Board is responsible for approving the Group's risk appetite statements at least annually with the supporting Board-level metrics cascaded into more detailed business appetite metrics, limits and thresholds at a divisional level.

Recent developments

The Group has continued to make good progress on key initiatives started in 2018, strengthening its overall risk governance and further embedding risk management practices.

- A newly appointed permanent Group CRO has replaced the former interim CRO, emphasising the Group's commitment to further strengthening the Group's central risk management function, strategic approach to risk and oversight on behalf of the Group Board and the Chief Executive Officer.
- The Group CRO has continued to work closely with the divisional CROs (who maintain full responsibility for managing risks at a divisional level) to foster greater cross-divisional collaboration and consistency of risk reporting.
- The Group Board has approved a revised RAF, improving its ability to make risk-based decisions in line with the updated business plans.
- The Group Board has approved a revised Group Risk Measurement Methodology (RMM) providing a consistent approach to identifying and assessing key risks across the Group.
- The Group CRO has continued to develop the RMF, further embedding risk management and ensuring that appropriate governance arrangements and robust controls are in place.

- The GERC has been established allowing greater focus on risk matters.
- The Group's risk reporting capabilities have been significantly strengthened, particularly with regard to the reporting of strategic and emerging risks and regulatory interactions. These components are now featured as part of a newly developed Group CRO report which informs the Group ExCo, GERC, GRC and Group Board.
- A number of thematic assessments were conducted into the Group's approach to anti-bribery and corruption and complaints and its interaction with the FOS. This is driving more coordinated actions to manage and address past, current and potential future risks.
- The Group Board approved a revised version of the Group's Wind-Down Plan (WDP) ensuring an adequate plan and appropriate processes are in place should this in an unlikely scenario need to be invoked.

For 2019 we have refreshed our principal risks and strategic and emerging risks which reflect the updated risk appetite and significant uncertainty in our external environment. The changes since our last Annual Report are summarised below with the full list of risks on [page 45](#).

- Given the rapidly changing environment in our technology infrastructure covering digital (acquisition, payments and servicing) and GDPR, we believe that information and data security should be classified as a separate principal risk in its own right. This is reinforced by a number of high-profile security breaches in other firms which reinforce the significant challenges in managing this risk effectively. This has therefore been added as a strategic and emerging risk.
- In an increasingly digital and 'self-service' world, maintaining business resilience through robust operational processes and systems is critical. The PRA and FCA see this as a priority and are currently consulting on a number of specific areas requiring firms to identify services that could cause harm to customers, and how they set impact tolerances and monitor their processes to operate within these tolerances. Business resilience has therefore been recognised as a new principal risk.

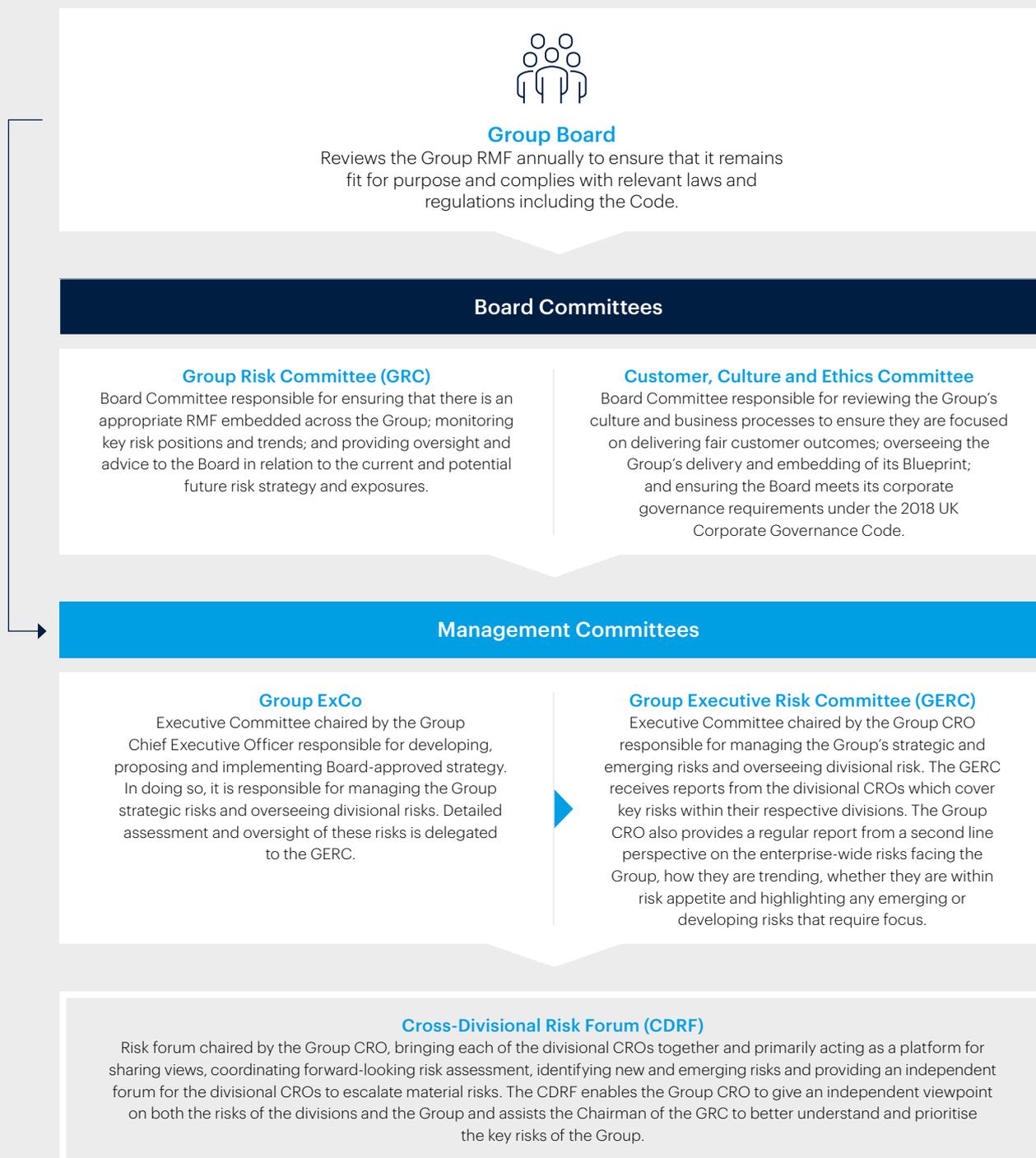


Our culture is underpinned by an appropriate balance between risk and reward, with accountabilities reinforced through the Senior Manager and Certification Regime (SMCR) in the divisions.

- Models and their operation are now critical for managing key aspects of our business including customer acquisition, credit underwriting, provisioning and capital. We have therefore added this as a standalone principal risk.
- Under strategic and emerging risks we have now consolidated product liability and claims management companies (CMCs) as a single risk under responsible lending. This reflects the commonality of the actions we are taking to manage this.
- Under strategic and emerging risks we have added a new risk called 'persistent debt'. This reflects major changes within Vanquis Bank in how we manage customers who have paid more interest and fees than principal in the previous three-year period. The mitigation strategies, if not implemented effectively, have the potential for significant impact on financial performance and customer outcomes.
- Under strategic and emerging risks we have removed Brexit as we believe the impact of 'no trade deal' on the Group would not be material. We have, however, highlighted the broader potential risks to our sector of the uncertain macroeconomic environment more generally including regulatory change.

Risk governance structure

The Group’s risk governance structure is outlined below. In combination the various Board, executive and risk committees strengthen our ability to identify, assess, manage and, as appropriate, escalate risks, while also supporting the Group in managing the changes in the sector including the external regulatory environment.



Three lines of defence model (3LOD)

The Group operates a 3LOD model to articulate key accountabilities and responsibilities for managing risk and to support effective embedding of risk management across the organisation.

Line of defence	
1.	Line management Owns the risk and is responsible for identifying, assessing, monitoring and reporting risk within its respective areas whilst ensuring that appropriate internal controls, processes and systems are in place to deliver against business strategy and objectives.
2.	Group and divisional risk functions Set minimum policy and control standards, establishing effective risk management frameworks and providing independent challenge and oversight, including agreeing risk appetite and protecting the Group against non-compliance with laws or regulation.
3.	Group Internal Audit Provides independent and objective assurance on the design adequacy and operational effectiveness of internal controls; includes overall effectiveness of the Group's risk governance and risk management practices; and provides assurance on whether the first and second lines of defence fulfil their respective responsibilities.

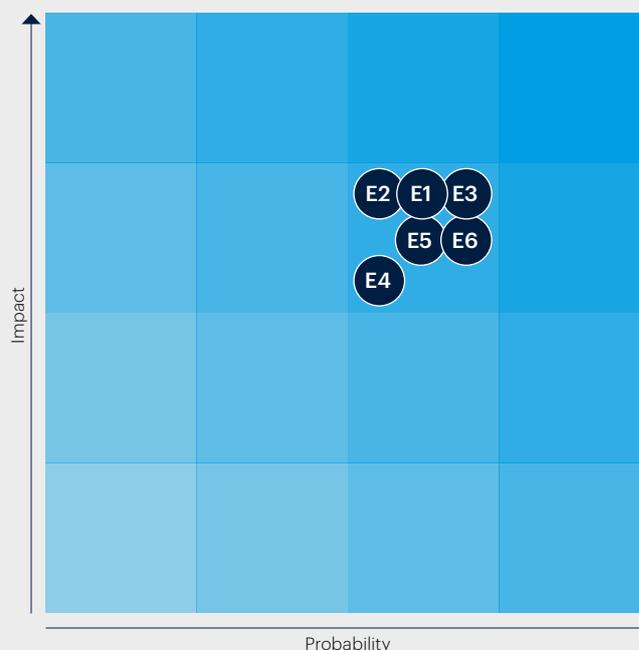
Principal risks and strategic and emerging risks

Principal risks



- | | |
|--|------------------------------|
| P1. Credit risk | P6. Regulatory risk |
| P2. Capital risk | P7. Conduct risk |
| P3. Liquidity and funding risk | P8. Business resilience risk |
| P4. Operational risk | P9. People risk |
| P5. Information and data security risk | P10. Model risk |

Strategic and emerging risks



- | | |
|--|---|
| E1. Threats to our sector and business plans | E4. Challenge to agent self-employed status |
| E2. Risk culture and governance | E5. Home credit recovery – financial performance UK |
| E3. Responsible lending and affordability | E6. Vanquis Bank – persistent debt |

Principal risks

Principal risks are risks which are inherent to the Group's strategy and business model and have formally been articulated as part of the Group's RAF. Principal risk categories and associated risk appetite statements are reviewed and approved by the Board on an annual basis, effectively defining the Group's overall risk appetite.

P1. Credit risk

Trend: 

Description

The risk of unexpected credit losses arising through either adverse macroeconomic factors or parties with whom the Group has contracted fail to meet their financial obligations.

Mitigating activities

- Credit risk appetite established in all divisions, with metrics included in the Group risk appetite to ensure focus.
- The Group operates credit scoring methodologies led by credit specialists in all of its businesses and these are well maintained and monitored on a regular basis.
- The credit scoring methodologies are supported by clearly defined credit policies to restrict certain types of lending, credit scoring methodologies and also manual underwriting support processes in many parts of the business, particularly home credit.
- The Group operates in the non-standard lending sector and as such credit default levels are higher, but all indicators confirm the risk profile is within expected ranges.
- Each division has reviewed its respective credit profiles and has undertaken selective tightening to ensure any higher than desired risk segments have been addressed.
- Macroeconomic downturn risks are assessed through stress testing as part of the ICAAP processes and these confirm the Group can comfortably withstand the impact of a material stress, as defined by the PRA.
- The Group is reliant upon third-party data from credit bureaus and, as such, is dependent upon the accuracy of this data.

P2. Capital risk

Trend: 

Description

The risk that the Group has insufficient capital to either meet regulatory requirements or to sustain the long-term viability of the business.

Mitigating activities

- Capital risk appetite established at Group and Vanquis Bank level, with thresholds reported to and monitored by Group and Vanquis Bank boards.
- The ICAAP process has confirmed that the Group is projected to have sufficient capital resources even under a severe stress environment.
- Vanquis Bank has undertaken its own ICAAP process with this ring-fenced from the Group.
- The resolution of the FCA investigation into ROP at Vanquis Bank has now been completed.
- The FCA investigation into forbearance and termination options at Moneybarn has now been finalised. The specific customer remediation activities have been completed and were within existing provisions.

Trend: Increased risk Stable Improving

P3. Liquidity and funding risk

Trend:

Description

The risk that the Group has insufficient liquidity to meet its obligations as they fall due, or is unable to maintain sufficient funding for its future needs.

Mitigating activities

- Liquidity and funding risk appetite established at Group and Vanquis Bank level, with thresholds reported to and monitored by Group and Vanquis Bank boards.
- The Group seeks to maintain a secure funding structure by:
 - maintaining borrowing facilities to fund growth and contractual maturities outside of Vanquis Bank over the next 12 months; and
 - maintaining diversified funding sources.
- During the year, the Group refinanced the revolving credit facility.
- Good progress has been made to establish alternative funding sources, including the signing of the bilateral facility with NatWest Markets to securitise Moneybarn receivables.
- In addition, Vanquis Bank accepts retail deposits and, in line with its regulatory requirements, maintains liquid resources to meet certain stress events as stipulated within its Internal Liquidity Adequacy Assessment Process (ILAAP). The Group and Vanquis Bank also monitor and report their liquidity coverage ratios (LCR) on a consolidated and individual basis to the PRA.

P4. Operational risk

Trend:

Description

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk more broadly covers a wide range of different categories including specific event risk, fraud, IT/systems risk, business continuity, AML, etc.

Mitigating activities

- Each division has its own operational risk frameworks in place which include risk identification, assessment and control remediation.
- Risk registers are in place across the Group with primary focus on future embedding of control self-assessment across the divisions which are at various levels of maturity.
- The 3LOD model throughout the Group ensures there are clear lines of accountability between management who own the risks, oversight by the risk function and independent assurance provided by Internal Audit.
- The CCD recovery plan has been delivered with focus now on continued embedding of the new control framework.
- Given the importance of the outsource arrangements, the supplier management framework is being further developed to drive greater consistency and improved oversight in how we manage our suppliers.

Principal risks continued

Trend:  Increased risk  Stable  Improving

P5. Information and data security risk

Trend: 

Description

Sensitive data faces the threat of misappropriation or misuse. Failure to identify or prevent a major security-related threat or attack, or react immediately and effectively, could adversely affect the trust of our current or future customers in the services we provide, our reputation and our operational or financial performance.

Mitigating activities

- Established a Group data privacy governance framework at Group and divisional level, with regular metrics to ensure ongoing focus on personal data privacy risks.
- Appointed a Group Data Protection Officer to ensure alignment of data management policies (including compliance with article 38 of GDPR and mandatory requirements of article 39).
- Embedded key processes and procedures to manage privacy by design tools, data breach management and correct consent capture where required.
- Agreed standard Group-wide Data Retention Policy.

P6. Regulatory risk

Trend: 

Description

The risk that the Group is exposed to financial loss, fines, censure or enforcement action due to failing to comply with regulations (including handbooks, codes of conduct, financial crime, etc.).

Mitigating activities

- The Group operates in a highly regulated environment and in an industry sector where customers are potentially more vulnerable and need careful management.
- We remain mindful that the regulatory landscape is continually evolving and regularly assess our risks through horizon scanning and regulatory impact assessment across the Group.
- At all levels, the Group has worked hard to build and maintain positive relationships with our key regulators including the PRA, FCA, CBI and FOS. Any regulatory actions are managed and monitored closely to ensure these are delivered fully and within the spirit of any feedback received.
- All regulatory interactions are recorded and tracked, with regular reporting through our executive and Board Committees to ensure consistency and read across through a Group lens.
- The Group engages with regulatory authorities and industry bodies on forthcoming regulatory changes, market reviews and investigations, ensuring programmes are established to deliver new regulation and legislation.
- Financial crime improvement programme has been initiated in Vanquis Bank to further enhance onboarding and transaction monitoring controls through new systems and upgraded operating model.

P7. Conduct risk

Trend:

Description

The risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could lead to unfair customer outcomes or regulatory censure.

Mitigating activities

- Conduct risk appetite established at Group and divisional level, with metrics included in the Group risk appetite to ensure ongoing focus.
- Conduct policies and procedures in place at a divisional level to ensure appropriate controls and processes that deliver fair customer outcomes.
- Cultural transformation initiated through launch of the Group Blueprint centred around our customer purpose and colleague behaviours.
- Newly formed Customer, Culture and Ethics Committee to provide specific oversight on embedding of Group Blueprint and how we deliver the Group's customer-focused purpose.
- Review of responsible lending processes and outcomes across all our divisions to provide assurance to the Board on our past and current affordability processes and outcomes.
- Enhanced complaints management through effectively responding to, and learning from, root causes of complaint volumes and FOS change rates.
- Monitoring and testing of customer outcomes to ensure the Group delivers fair outcomes for customers whilst making continuous improvements to products, services and processes.
- Ongoing review of product governance to ensure existing products or changes continue to meet the needs of our customers.

P8. Business resilience risk

Trend:

Description

The risk of unexpected outages around key critical business activities resulting in potential poor customer outcomes, regulatory sanction, reputational damage and financial loss.

Mitigating activities

- Business resilience risk appetite established at Group and divisional level, with metrics included in the Group risk appetite to ensure ongoing focus.
- Overall accountability for business continuity management, business resilience and crisis management now resides with the Group Chief Information Officer (CIO).
- Detailed assessments are being completed across the divisions on current business continuity and resilience capabilities, alongside robustness of IT legacy systems.
- Based on the above, detailed continuity plans, impact assessments and testing arrangements will be completed in 2020.

Principal risks continued

Trend:  Increased risk  Stable  Improving

P9. People risk

Trend: 

Description

The risk that the Group fails to provide an appropriate colleague and customer-centric culture, supported by robust reward and wellbeing policies and processes; effective leadership to manage colleague resources; effective talent and succession management; and robust controls to ensure all colleague-related requirements are met.

Mitigating activities

- A new Cultural Blueprint has been developed and is being embedded across the organisation.
- A Group Head of Human Resources has recently been recruited to lead our people strategy across our combined businesses.
- Priority focus is around development of leadership strength, alongside future succession planning, diversity performance, retention and engagement.
- Balanced scorecards are being rolled out for all leadership roles which provide appropriate incentives between financial and non-financial objectives.

P10. Model risk

Trend: 

Description

The risk of financial losses where models fail to perform as expected due to poor governance (including design and operation).

(Within the context of PFG this includes credit acquisition, underwriting, financial and regulatory reporting and capital management.)

Mitigating activities

- Model risk appetite established at Group and divisional level, with metrics included in the Group risk appetite to ensure ongoing focus.
- New Model Risk Policy developed within the bank, which is currently being amended for roll-out Group wide.
- Model inventories are being developed at Group and divisional level to enable prioritised focus on independent validation of these models which could have critical impact on business activities.

Strategic and emerging risks

Strategic and emerging risks are risks which are largely unknown; however, over a longer period of time they could affect the Group's overall strategy and cause the same impact as principal risks. Strategic and emerging risks are reviewed and monitored on a regular basis at the GERC and GRC.

E1. Threats to our sector and business plans

Trend:

Description

There is a risk that the non-standard credit sector in which we operate will continue to face considerable macroeconomic, regulatory and political challenges resulting in a material effect on the Group's costs of compliance (investment and run rate) and its future revenue streams (e.g. through reduced credit interest, increase in impairments, operating restrictions and price capping).

Mitigating activities

- The Group continues to lobby its regulators (the FCA, PRA, CBI and FOS) and other key stakeholders so that it is taking an active and positive role in influencing future changes aligned to our Group Blueprint.
- The Group is working closely with its main shareholders to improve their understanding of the changing regulatory environment and its impact on future revenue streams and profitability.
- The Group is driving a number of changes to pricing models, product strategies and processes as a pre-emptive move to likely changes in the regulatory environment, e.g. the Gambling Commission credit card payments and Satsuma manual affordability checks.
- Through our improved horizon scanning we continue to monitor forthcoming regulatory changes so that these are planned for accordingly.
- We have evaluated the potential impacts of Brexit and believe this to be small across each of our divisions.

E2. Risk governance and culture

Trend:

Description

There is a risk that the Group's culture and supporting risk governance arrangements inhibit effective enterprise risk oversight, potentially resulting in poor risk management practices and control failures.

Mitigating activities

- The Consumer Credit Division has made extensive progress in addressing control issues underpinned by process risk and control self-assessment.
- Vanquis Bank has conducted an enterprise-wide review of all operational areas to determine any specific vulnerabilities and has already commenced a programme of control enhancement.
- A new GERC has been established which provides more focused discussions on the major risks we face as an organisation including the effectiveness of any remedial action plans.
- Led by the Group CRO, the Group has started working on greater risk harmonisation initially to move to a single risk appetite framework, risk measurement and reporting at Group level.
- Work has commenced on further simplification of our risk management framework (RMF) and risk operating model.

Strategic and emerging risks continued

Trend:  Increased risk  Stable  Improving

E3. Responsible lending and affordability

Trend: 

Description

There is a risk that the FCA will identify PFG or its divisions as non-compliant with responsible lending rules, or the FOS may identify 'precedent cases' that could lead to widespread remedial activities as well as a significant increase in the level of complaints related to irresponsible lending by CMCs.

Mitigating activities

- The Group affordability programme has been completed and outcomes shared with the FCA.
- Closer engagement with the FOS related to its interpretation of regulatory rules around responsible lending. Meetings with the FOS were held to better understand its assessment of sustainable borrowing with a view to building that into our complaints processes.
- We are continuing to review the root cause analysis of complaints to enable us to implement enhanced customer facing processes, thus avoiding unnecessary FOS referrals.
- We are continually reviewing our affordability assessments to ensure these remain aligned with our customers' circumstances and any ongoing changes prescribed by the FCA.
- In this respect, we have recently updated our customer journeys and affordability checks in Satsuma. This is in response to recently issued guidance across the high-cost short-term credit sector from the FCA on the use of automated bureau checks (TAC codes) for corroborating customer income.
- A contingent liability is included in the financial statements which states that if the Group was to be unsuccessful in defending certain irresponsible lending complaints, it may lead to a material increase in the cost of settling such complaints.

E4. Challenge to agent self-employed status

Trend: 

Description

The Group has been, and may continue to be, subject to claims brought against it by either former agents or tax authorities challenging the historic employment status of the Group's home credit agents in the UK and the employment status of agents in the Republic of Ireland (ROI), particularly given recent employment status cases reported in the media.

Were the Group to be unsuccessful in defending such claims, it may be required to make payments to former agents as well as being liable to pay additional taxes, in particular employer's national insurance contributions to the relevant authorities.

Mitigating activities

- In July 2017, the Group changed the operating model of its home credit business in the UK from a self-employed agent model to an employed workforce so as to take direct control of all aspects of the customer relationship. In the ROI the Group continues to operate a self-employed agent operating model.
- Policies and procedures were in place in the UK up to the transition to the new operating model in 2017 and continue to be in place in the ROI which seek to ensure that the relationship between the business and the agents it engages is such that self-employed status is maintained. Compliance with policies has been routinely evidenced and tested.
- To date the Group has successfully defended historical employment status claims brought against it by former agents in the UK and employment status claims brought by agents in the ROI. The Group has also previously agreed the self-employed status of agents with the tax authorities in the UK and the ROI.
- It is understood from discussions with HMRC that it has started undertaking an industry-wide review of the self-employed status of agents in the UK.
- The Group's discussions with HMRC, which are focusing on the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014 to the change of operating model in July 2017, remain in the initial fact finding stages. The Group is working positively and collaboratively with HMRC and HMRC expects that the review could continue for another year.

E5. Home credit recovery – financial performance UK

Trend:

Description

There is a risk that the UK business may fail to grow in line with expectations (both home credit and Satsuma) and the cost base may become misaligned to the level of business, resulting in sub-optimal performance.

Mitigating activities

- The plan to breakeven has been developed and has been broken down into a number of workstreams which include cost optimisation, customer growth and effective collections.
- Programme plans presented to the Group Board with governance plans in place to monitor progress with regular review points.
- Balanced scorecard and incentives introduced in field to optimise CEM collection performance and agreed with the FCA.
- Provident Direct being trialled in the field to automate collections alongside enhancements through continuous payment authorities (CPA) and card payments.

E6. Vanquis Bank – persistent debt

Trend:

Description

There is a risk that low levels of customer engagement with Vanquis Bank's Persistent Debt (PD) strategy could lead to adverse customer and commercial outcomes.

Mitigating activities

- An increase to the monthly minimum payment due (MPD) as a percentage of principal balance.
- The introduction of a recommended payment amount to encourage customers to pay an amount higher than the MPD.
- Ongoing monthly communications (in addition to the mandatory communications that are sent at months 18 and 27 of the customer's PD journey) outlining what the customer needs to do to exit and remain out of PD.
- To mitigate the risk of customers not engaging with Vanquis Bank following the PD intervention point (from March 2020), management is implementing a communication strategy to continue to encourage the customers potentially affected to engage and enter a pay-down plan.
- While aiming to avoid a 'blanket suspension of cards', our strategy is to prevent further spend where our risk factors clearly indicate that this is the best outcome for our customers who are in PD.

As a regulated Group, building and maintaining strong and proactive relationships with our regulators is extremely important. It influences our strategic thinking as well as enabling us to plan for regulatory change with greater certainty and confidence.

Relations with regulators

As a Group, building and maintaining strong and proactive relationships with our regulators is extremely important. It influences our strategic thinking as well as enabling us to plan for regulatory change with greater certainty and confidence. Over the last 12 months, we have made substantive progress in closing down the majority of our agreed regulatory actions, while further strengthening our regulatory operational processes including horizon scanning, change management and reporting.

As Provident Financial plc is a holding company, there are no approved persons or senior managers at the Group Board level. However, in seeking to improve the connection between the divisions and the Group Board, and to provide more effective oversight by the Group, the Group executive directors and some Group non-executive directors undertake roles on the Boards of divisional subsidiaries; as such, they carry regulatory approvals specific to that regulated entity.

During the last financial year, the Group has focused on a number of key initiatives which are summarised below.

Enhanced supervision by the FCA

As a consequence of: (i) the disruption to the home credit business following the migration to the employed operating model in July 2017 and the subsequent implementation of the recovery plan in response to the disruption; (ii) the FCA's investigation into Vanquis Bank's ROP product; and (iii) the FCA's investigation into Moneybarn, the Group continues to be subject to enhanced supervision as notified by the FCA in its Watchlist Letter. Firms placed under enhanced supervision may be required to provide formal commitments, where appropriate, to tackle the underlying concerns raised by the FCA and the FCA may also exercise other wide-ranging powers. The Group has a detailed plan of activities agreed with the FCA with plans to formally attest that it has addressed the outstanding regulatory concerns by the end of 2020.

FCA review of high-cost credit

On 18 December 2018, the FCA published CP18/43 in respect of its review of high-cost credit, including final rules and guidance in respect of home-collected credit. The rules introduced a package of reforms to raise standards in disclosure and sales practices to prevent home credit firms from offering new loans or refinancing existing loans during home collection visits without the customer specifically requesting it. CCD made the necessary changes to its processes to ensure compliance with the new rules in advance of them coming into force on 19 March 2019. This included the requirement for CEMs to explain all available options to a customer who wishes to borrow, including refinancing their existing loan or taking out a concurrent loan. The changes made to the home credit operating model over the last two years, including the voice recording of all sales interactions with customers, mean that the business can effectively evidence compliance with the revised requirements.

FCA Credit Card Market Study (CCMS)

In February 2018, the FCA published PS18/4 setting out its final policy rules in respect of persistent debt and earlier intervention remedies from the CCMS. The overall objective of the package of remedies is to reduce the number of customers in problem credit card debt and put borrowers in greater control of their borrowing. In particular, the rules require credit card firms to undertake specific measures in respect of customers defined as being in persistent debt. The FCA defines persistent debt as a customer who pays more in interest, fees and charges than principal over an 18 month period. Under this definition, where customers are in persistent debt, firms need to undertake the following actions:

- at 18 months, prompt customers in persistent debt to change their repayment behaviour if they can afford to;
- at 27 months, send another reminder if payments indicate a customer is still likely to be in persistent debt at the 36-month point. Customers need to be made aware that, if they do not change their repayment behaviour, their card may be suspended, which may be reported to credit reference agencies. The customer should also receive contact details for debt advice services; and
- at 36 months, intervene again if a customer remains in persistent debt with strategies to help the customer repay their outstanding debt more quickly over a reasonable period, usually between three and four years.

The proposals in PS18/4 came into force on 1 March 2018 and firms had six months to be fully compliant. Approximately, 11% of Vanquis Bank's active customers met the FCA's definition of persistent debt at September 2018 and the first 36-month checkpoint for persistent debt customers is in March 2020. Vanquis Bank increased its minimum payment rates in the second half of 2018 and has introduced a number of proactive measures in 2019, including recommended payments and the testing of a number of communication strategies, to encourage increased monthly repayments and reduce the number of customers meeting the FCA's definition of being in persistent debt.

FCA review of the motor finance market

In the FCA's Business Plan for 2017/18 the FCA stated that it was looking at the motor finance market to ensure that it works well and to assess whether consumers are at risk of harm. The FCA published an update on this work on 15 March 2018 with its final findings issued on 4 March 2019. The FCA's final findings indicated that they have concerns regarding four areas of the motor finance market: (i) commission arrangements, in particular non-flat rate structures; (ii) sufficient, timely and transparent information, mainly in respect of broker practice and information about difference in commission (DIC) type commission arrangements; (iii) lender controls in respect of the oversight of dealers and brokers; and (iv) affordability assessments, whereby the FCA references the additional clarity given in PS18/19 last year around affordability checks, and the expectation that all lenders have implemented the appropriate additional practices.

Moneybarn has flat fee commission structures and has never given discretion to brokers in setting the interest or commission levels. Customers are made aware of the existence of a payment of commission in Moneybarn's pre-contractual paperwork that all brokers must provide to the customer and evidence that the customer has received it. Moneybarn has an active physical audit programme for all of its brokers and was the first vehicle finance lender in the market to have such an audit process in place. Like all of the Group's other businesses, Moneybarn made all necessary changes to its processes required by PS18/19 in advance of the 1 November 2018 deadline and there have been no further updates since then from the FCA.

Irresponsible lending complaints and the Financial Ombudsman Service (FOS)

There continues to be heightened claims management company activity around non-standard lending sectors, particularly in respect of irresponsible lending in high-cost credit and more recently in home credit. As a result, CCD has seen an increase in the number of such complaints and referrals to the FOS, particularly in the first half of 2019, although complaint levels have now stabilised. CCD continues to robustly defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard. See [note 13](#) to the financial information.

Senior Manager and Certification Regime (SMCR)

Following implementation of SMCR within the banking sector, the regime has been extended to all solo regulated firms. In the context of PFG, this means that from 9 December 2019, all three regulated entities (Vanquis Bank, CCD and Moneybarn) are now captured under SMCR. The programme of work completed in 2019 has ensured that the individual accountabilities of Senior Manager Functions (SMFs) have been considered in the context of the Group's wider governance arrangements.

Gambling Commission ban on credit cards for gambling

On 14 January 2020, the Gambling Commission announced that with effect from 14 April 2020, gambling through credit cards will be banned. The ban follows a detailed review by the Commission and the Government. While it is incumbent on merchants to enforce the ban, it is estimated that this will have a modest impact on Vanquis Bank earnings.



Over the last 12 months, we have made substantive progress in closing down the majority of our agreed regulatory actions, while further strengthening our regulatory operational processes including horizon scanning, change management and reporting.

A resilient financial performance



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I am pleased to present the Financial Review after being the Group Chief Finance Officer for 2019. The Group has continued its turnaround and, with a robust balance sheet and funding position, we are well positioned continue to deliver on our targets in the medium term.

Simon Thomas
Chief Finance Officer

Financial model

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

The Group’s medium-term targets, as communicated at the Capital Markets Day in November, are to deliver:

- receivables growth of between 5 and 10% per annum over the next 5 years (2019: £2.2bn);
- an ROE of between 20 and 25%, with an expectation of reaching the lower end of this range by 2021 (2019: 18%); and
- a cost income ratio of 38% by 2022 (2019: 43%).

This is considered to be a sustainable level of return for the Group, balancing the estimated impact of known regulatory changes whilst delivering good customer outcomes.

The Group has a Total Capital Requirement (TCR) of 25.5%. This represents the Group’s minimum regulatory capital requirement set by the PRA together with the capital conservation buffer (2.5%) and current counter-cyclical buffer (1.0%). The Board currently aims to maintain a headroom in excess of £50m above the TCR. This is considered to be an appropriate level of headroom based on the ongoing recovery of the Group, the economic and regulatory backdrop and maintaining an appropriate level of capital to support the ongoing access to funding from the bank and debt capital markets.

The Board’s dividend policy is to maintain a dividend cover of at least 1.4 times as the home credit business recovers and moves into profitability. The dividend policy reflects the Group’s current risk appetite of maintaining a regulatory capital headroom in excess of £50m and progressively absorbing the remaining transitional impact of IFRS 9 on regulatory capital by 1 January 2023.

The progress of our KPIs against our medium-term targets will be set out throughout this report.

 Certain alternative performance measures (APMs) have been used in this report. See [page 237](#) for an explanation of relevance as well as their definition.

2019 Group performance

Group performance

The Group's 2019 results can be summarised as follows:

	Year ended 31 December		
	2019 £m	2018 (restated) ¹ £m	Change %
Adjusted profit/(loss) before tax:			
– Vanquis Bank	173.5	190.9	(9.1)
– Moneybarn	30.9	28.1	10.0
– CCD	(20.8)	(38.7)	46.3
– Central costs	(21.0)	(20.2)	(4.0)
Adjusted profit before tax	162.6	160.1	1.6
Amortisation of acquisition intangibles	(7.5)	(7.5)	–
Exceptional items	(26.3)	(55.3)	52.4
Statutory profit before tax	128.8	97.3	32.4
Receivables	2,212.6	2,204.0	
Cost income ratio²	42.8%	42.3%	
Return on assets³	7.9%	7.7%	
Return on equity⁴	18.2%	19.1%	
Adjusted basic EPS	47.3p	48.7p	(2.9)
Basic EPS	33.3p	27.3p	22.0
DPS	25.0p	10.0p	150.0

- 2018 comparatives have been restated for: (i) the change in treatment of directly attributable acquisition costs in Vanquis Bank following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profits compared with previous plans; and (ii) the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn which have resulted in a reduction in revenue, impairment and administration and operating costs but have had no impact on Moneybarn's profits.
- Administrative costs and operating costs, before exceptional items as a percentage of revenue for the 12 months ended 31 December.
- Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.
- Adjusted profit after tax as a percentage of average equity (average equity is stated after deducting the pension asset, net of deferred tax) for the 12 months ended 31 December. 2018 average equity has been restated as though the £300m rights issue in April 2018 had occurred on 1 January 2018.

Group adjusted profit before tax of £162.6m was 1.6% higher than 2018 (2018 (restated): £160.1m). Statutory profit before tax increased by 32.4% to £128.8m (2018 (restated): £97.3m) mainly due to a reduction in exceptional items.

Group receivables grew by 0.4% in 2019 (2018 (restated): 4.9%). This was, as expected, a lower level than the medium-term guidance of growth of between 5% and 10% per annum. Vanquis Bank receivables reduced by 2.2% to £1,461.5m (2018 (restated): £1,495.1m) which is consistent with wider industry trends and the impact of persistent debt regulation. Moneybarn receivables continued to show strong growth and were up 20.6% to £502.1m (2018 (restated): £416.4m) whilst CCD receivables are now beginning to stabilise reflecting the ongoing recovery of the home credit business, ending the year down by 14.9% to £249.0m (2018 (restated): £292.5m). The Group's target is to deliver receivables growth within a range of between 5% and 10% per annum over the next five years with growth more weighted towards years three, four and five as growth initiatives gain traction.

Adjusted basic earnings per share of 47.3p (2018 (restated): 48.7p) reduced by 2.9%, reflecting the impact of the rights issue shares issued in April 2018. Basic earnings per share increased by 22.0% to 33.3p (2018 (restated): 27.3p), despite the impact of the rights issue shares issued in April 2018, reflecting the reduction in exceptional items in the year.

Restatement of prior year results

Change in treatment of directly attributable acquisition costs in Vanquis Bank

As part of a refresh of contractual terms with affiliates in 2019, and to align with market practice, directly attributable acquisition costs within Vanquis Bank are now capitalised as part of credit card receivables and amortised over the expected life of customer accounts rather than being charged to the income statement as incurred. Directly attributable acquisition costs represented approximately 70% of total acquisition costs in 2019 compared with approximately 30% in 2017. This reflects the progressive shift in mix of new customer booking volumes towards internet affiliates as opposed to other channels such as direct marketing or direct mail where costs are not directly attributable to individual customer bookings. The new treatment results in a reduction in the interest income recognised on credit card receivables and a reduction in administrative and operating costs. Prior year comparatives have been restated resulting in an increase in receivables of £21.3m at 31 December 2018 and an increase in profit before tax in 2018 of £6.6m, comprising a reduction in costs of £12.0m and a reduction in revenue of £5.4m. The change in treatment benefited 2019 profit before tax by £10.5m and is expected to result in a reduction in 2020 profit before tax of approximately £6m compared with previous plans.

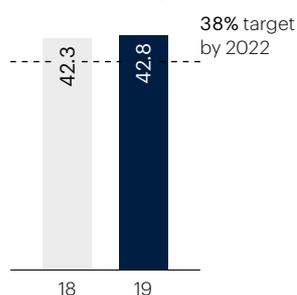
Regulatory capital headroom (£m)

£117m



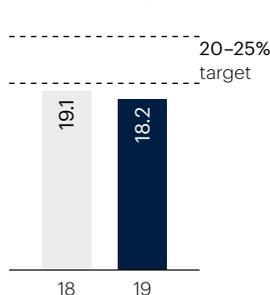
Cost:income ratio (%)

42.8%



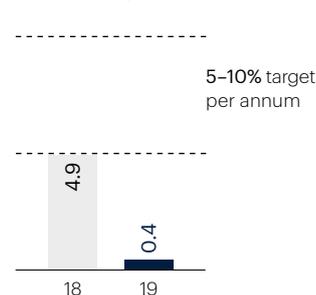
Group ROE (%)

18.2%



Group receivables growth (%)

0.4%



Restatement of prior year results continued

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

Moneybarn has made two changes in accounting treatment in 2019:

(i) Recognition of revenue on credit impaired receivables

Historically, Moneybarn has recognised revenue on credit impaired receivables 'gross' of the impairment provision and subsequently impaired this additional revenue through the impairment charge resulting in a gross-up in the income statement. In 2019, the Group has determined that revenue on Moneybarn's credit impaired receivables should be recognised 'net' of the impairment provision to align the previous accounting treatment under IFRS 16 with the requirements of IFRS 9 and also with the treatment adopted for similar assets in both Vanquis Bank and CCD.

(ii) Treatment of directly attributable acquisition costs

Treatment of directly attributable acquisition costs – Historically, directly attributable deferred acquisition costs in respect of broker commissions were deferred within trade and other receivables and amortised through administrative and operating costs over the expected life of the associated customer contract. Following the change in treatment of directly attributable acquisition costs in Vanquis Bank, and to align the treatment across the Group, the Group has concluded that directly attributable acquisition costs in Moneybarn should be deferred as part of amounts receivable from customers with amortisation therefore being treated as a deduction from revenue.

Prior year comparatives have been restated in respect of the two restatements described above. The restatements result in a reduction in Moneybarn's 2018 revenue of £27.6m, a reduction in impairment of £13.6m and a reduction in administrative and operating costs of £14.0m. There has been no impact on earnings. The carrying value of receivables at 31 December 2018 has increased by £19.8m with a corresponding reduction in trade and other receivables.

Trading performance

The performance of the three operating divisions can be found on [page 30](#) for Vanquis Bank, [34](#) for Moneybarn and [38](#) for CCD.

Central costs

Central costs in 2019 were £21.0m, up from £20.2m in 2018. The increase primarily reflects unallocated interest costs of £2.5m (2018: credit of £0.1m) taken centrally, primarily in respect of the cost of maintaining a high level of headroom on the revolving credit facility in the first half of the year and the costs of defending the unsolicited NSF offer.

Exceptional items

Net exceptional costs, which are considered material and one-off in nature, of £26.3m in 2019 (2018: £55.3m) comprise:

Charge/(credit)	2019 £m	2018 £m
Bid defence costs associated with NSF's unsolicited offer for the Group	23.8	—
Restructuring costs, primarily in respect of the ongoing turnaround of CCD	19.3	29.9
Release of provisions in respect of ROP refund programme	(14.2)	—
Release of provisions in respect of Moneybarn FCA investigation	(2.6)	—
Premium and fees paid on the redemption of senior bonds	—	18.5
Pension charges in respect of the equalisation of Guaranteed Minimum Pensions	—	6.9
Exceptional items	26.3	55.3

Exceptional items amounted to a net charge of £26.3m in 2019, 52.4% lower than the charge of £55.3m in 2018. The net exceptional charge in 2019 comprised bid defence costs of £23.8m in respect of the NSF unsolicited offer and £19.3m in respect of Group restructuring costs, mainly in respect of the ongoing turnaround of the home credit business. These exceptional costs were partly offset by credits totalling £16.8m as a result of the release of provisions established in 2017 following completion of the ROP refund programme at Vanquis Bank (£14.2m) and the FCA investigation at Moneybarn (£2.6m).

Further detail is provided in [note 2](#) of the financial statements.

Tax

The tax charge for 2019 represents an effective tax rate of 26.3% (2018 (restated): 27.2%) on profit before tax, amortisation of acquisition intangibles and exceptional items which reflects: (i) the mainstream corporation tax rate of 19.0% on Group profits (2018: 19.0%); and (ii) the 8.0% (2018: 8.0%) bank corporation tax surcharge on Vanquis Bank's profits in excess of £25m. The Group is expected to benefit in future years from the further reduction in the mainstream corporate tax rate to 17% on 1 April 2020 announced by the government and enacted in 2016.

The tax charge (2018: tax credit) in respect of net exceptional charges in 2019 (2018: exceptional charges) amounts to £2.9m (2018: £10.2m).

Despite changing the operating model of the UK home credit business from a self-employed agent model to an employed workforce in July 2017, the Group continues to be subject to status claims brought against it by either former agents in the UK or agents in the Republic of Ireland, or tax authorities challenging the historic employment status of the Group's agents. It is understood from discussions with HMRC that they have commenced an industry-wide review of the self-employed status of agents. To date the Group has successfully defended these claims and challenges although there can be no guarantee that future claims or challenges will be successfully defended. See [note 30](#) to the financial statements.

Cost income ratio

Capital, funding and cost efficiency will play a part in delivering better customer propositions and sustainable returns for shareholders. The composition of the Group's returns is changing due to lower revenue yields across the sector. The Group's response has been to tighten underwriting to improve impairment as well as taking action to reduce the cost base.

As communicated as part of the Vision for the Future, and reiterated at the Capital Markets Day, the Group is targeting a reduction in the cost income ratio to 38% by 2022. The cost income ratio is calculated as administrative and operating costs, prior to the amortisation of acquisition intangibles and exceptional items, divided by revenue.

As expected, the Group's cost income ratio has shown a modest increase from 42.3% (restated) in 2018 to 42.8% in 2019, notwithstanding the 7.5% reduction in the Group's cost base from tight cost control. The increase in the cost income ratio mainly reflects the reduction in revenue at Vanquis Bank from reduced ROP income and the continued increase in the mix of nearer-prime customers. The Group is targeting a reduction in the cost income ratio through delivery of a number of growth initiatives across the Group together with continued cost efficiency.

Returns

Investing in capital generative businesses remains central to the Group's financial model.

ROE is the main returns measure used in the banking sector and Vanquis Bank is now by far the biggest contributor to Group profits. Accordingly, for both the Group as a whole and Vanquis Bank, ROE will be the main measure of returns performance. The Group's target is to deliver an ROE of between 20% and 25% by 2021. CCD and Moneybarn, which are undercapitalised, as surplus capital for these businesses is held in the parent, Provident Financial plc, will continue to report return on assets (ROA).

Moneybarn and CCD delivering a target ROA of 10% is consistent with the Group's ROE targets.

Return on equity (ROE)

Table 1: Calculation of ROE

£m	2019	2018 (restated) ²
Adjusted profit before tax ¹	162.6	160.1
Tax	(42.8)	(43.7)
Adjusted profit after tax¹	119.8	116.4
Shareholders' equity	740.5	707.0
Pension asset	(78.0)	(83.9)
Deferred tax on pension asset	13.3	14.3
Adjusted equity	675.8	642.5
Average adjusted equity	659.2	609.9
ROE¹	18.2%	19.1%

1 Prior to the amortisation of acquisition intangibles of £7.5m (2018: £7.5m) and exceptional items of £26.3m (2018: £55.3m).

2 2018 comparatives have been restated for: (i) the change in treatment of directly attributable acquisition costs in Vanquis Bank following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profit before tax compared with previous plans; and (ii) the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn which have resulted in a reduction in revenue, impairment and administrative and operating costs but have had no impact on Moneybarn's profits.

The Group calculates ROE as profit after tax, prior to the amortisation of acquisition intangibles and exceptional items, divided by average equity. Average equity is stated after deducting the Group's pension asset net of deferred tax. Table 1 sets out the calculation of ROE in 2019 and 2018 on this basis.

The Group's ROE has moderated from 19.1% (restated) in 2018 to 18.2% in 2019, reflecting the planned retention of equity in line with Group's dividend policy – the 2018 final dividend paid in June 2019 was restricted to a nominal dividend as communicated at the time of the rights issue. More normalised dividends were resumed with the 2019 interim dividend which was paid in September 2019. The Group's medium-term target is to deliver an ROE in the target range of between 20% and 25% by 2021.

Table 2: Calculation of ROA

£m	2019				2018 (restated) ³			
	Vanquis Bank	CCD	Moneybarn	Group	Vanquis Bank	CCD	Moneybarn	Group
Adjusted profit before tax ¹	173.5	(20.8)	30.9	162.6	190.9	(38.7)	28.1	160.1
Interest	31.4	9.7	28.4	72.0	36.0	15.4	21.9	73.2
Adjusted PBIT ¹	204.9	(11.1)	59.3	234.6	226.9	(23.3)	50.0	233.3
Corporation/banking tax	(52.9)	2.1	(11.3)	(61.8)	(59.1)	4.4	(9.5)	(63.4)
Adjusted PBIAT¹	152.0	(9.0)	48.0	172.8	167.8	(18.9)	40.5	169.9
Average receivables ²	1,459.9	247.3	481.5	2,188.7	1,507.4	296.2	395.1	2,198.7
ROA¹	10.4%	(3.6%)	10.0%	7.9%	11.1%	(6.4%)	10.3%	7.7%

1 Prior to the amortisation of acquisition intangibles of £7.5m (2018: £7.5m) and exceptional items of £26.3m (2018: £55.3m).

2 Average of month-end receivables for the 12 months ended 31 December.

3 2018 comparatives have been restated for: (i) the change in treatment of directly attributable acquisition costs in Vanquis Bank following a refresh of contractual terms with affiliates in 2019 – this has resulted in a £6.6m increase in 2018 profit before tax, a benefit of £10.5m to 2019 profit before tax and is expected to result in a reduction of approximately £6m in 2020 profit before tax compared with previous plans; and (ii) the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs in Moneybarn which have resulted in a reduction in revenue, impairment and administrative and operating costs but have had no impact on Moneybarn's profits.

Returns continued

Return on equity (ROE) continued

Vanquis Bank's return on equity has reduced from 44.0% in 2018 to 32.4% in 2019. This primarily reflects the rebuilding of the equity base following the implementation of IFRS 9 on 1 January 2018 (which resulted in a £111.4m reduction in equity) and the ROP refund provision reflected at the end of 2017 (which resulted in a £178.0m reduction in equity). Vanquis Bank's return on equity is expected to moderate to the Group's target range of between 20% to 25% over the medium term reflecting (i) the average equity base stabilising; and (ii) the risk-adjusted margin reducing to between 23% to 25% due to the ongoing reduction in ROP income and the impact of downwards repricing and fee changes implemented in 2019.

Return on assets (ROA)

The Group calculates ROA as profit before interest, amortisation of acquired intangibles and exceptional items, after tax (PBIAT) divided by the average receivables during the period.

Table 2 on page 59 sets out the calculation of ROA in 2019 and 2018.

The Group's ROA has shown a marginal improvement to 7.9%, up from 7.7% (restated) in 2018, mainly due to the reduction in losses in CCD.

CCD delivered a negative ROA of 3.6% in the year, a reduction from the negative 6.4% in 2018, reflecting the reduction in losses as the business continues in its turnaround, targeting breakeven in 2020.

Moneybarn has delivered an ROA of 10.0% in 2019, marginally lower than 10.3% in 2018, but remaining in line with the Group's target of 10%.

Dividends per share

The Group's dividend policy is to maintain a dividend cover ratio of at least 1.4 times as the home credit business recovers and moves into profitability. This will reflect the Group's current risk appetite of maintaining regulatory capital headroom in excess of £50m and progressively absorbing the remaining transitional impact of IFRS 9 on regulatory capital by 1 January 2023.

The Board is recommending an increase in final dividend of 60% to 16p per share (2018: 10p) which, together with the 9p interim dividend (2018: £nil), represents a 150% increase in the total dividend per share to 25p (2018: 10p). Dividend cover for 2019, prior to the amortisation of acquisition intangibles and exceptional items, is 1.9 times (2018 (restated): 4.9 times).

As communicated in March 2019, as well as bringing forward the payment of interim dividends from late November to late September, the Board has brought forward the payment of final dividends from late June to late May. The 2019 final dividend will therefore be paid on 22 May 2020.

Prudential regulation

Vanquis Bank is regulated by the PRA which sets requirements for Vanquis Bank as an individual entity relating to capital adequacy, liquidity and large exposures. Vanquis Bank is also regulated by the FCA for conduct purposes. In addition, the Group, incorporating Vanquis Bank, CCD and Moneybarn, is the subject of consolidated supervision by the PRA by virtue of Provident Financial plc being the parent company of Vanquis Bank. The PRA sets requirements for the consolidated Group in respect of capital adequacy, liquidity and large exposures.

The minimum amount of regulatory capital held by the Group and Vanquis Bank represents the higher of the PRA imposed requirement, being their respective TCR requirements together with the CRD IV stipulated buffers, and their respective internal assessments of minimum capital requirements based upon an

assessment of risks facing the Group. The ICAAP considers all risks facing the business, including credit, operational, counterparty, conduct, pension and market risks, and assesses the capital requirement for such risks, including in the event of downside stresses.

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

Table 3 shows the reconciliation of regulatory capital headroom through 2019.

Table 3: Regulatory capital headroom

£m	2019
Regulatory capital headroom at 31 December 2018	96
Year 2 IFRS 9 transitional impact	(18)
Regulatory capital headroom at 1 January 2019	78
IFRS 16 adoption	(26)
Prior year adjustment in respect of DAC	15
Adjusted profit before tax	163
Tax	(43)
Exceptional costs, net of tax	(29)
Share-based payments	2
Pension contributions	(3)
Capital released against receivables movement	8
Other (movements in deferred tax, intangible assets and leases)	15
Regulatory capital headroom prior to dividends	180
Dividends	(63)
Regulatory capital headroom at 31 December 2019	117
Year 3 IFRS 9 transitional impact	(28)
Regulatory capital headroom at 1 January 2020	89

The Group's CET1 ratio on an accrued profits basis at 31 December 2019 was 30.7% compared with the Group's TCR of 25.5%. On this basis, the regulatory capital headroom was 5.2%, equivalent to approximately £117m based on the Group's risk weighted assets of £2.2bn. The increase in headroom from £96m at 31 December 2018 reflects (i) retained profits less accrued dividends; (ii) an increase in regulatory capital of approximately £15m from the prior year restatement arising as a result of the change in treatment of directly attributable acquisition costs in Vanquis Bank; and (iii) the release of the FCA provisions in respect of ROP and Moneybarn which, after tax, benefited regulatory capital by approximately £10m. These favourable impacts were offset by the anticipated second year transitional impact of IFRS 9 of £18m and the impact of the implementation of IFRS 16 'Leases' from 1 January 2019 of £26m.

The Group's regulatory capital headroom reduced to approximately £90m on 1 January 2020, when the third-year transitional impact of IFRS 9 of £28m came into effect, meaning

that the Group has absorbed 30% of the IFRS 9 impact at this date. This level of headroom is consistent with the Board's current risk appetite of maintaining regulatory capital headroom in excess of £50m whilst progressing towards the Group's dividend cover target of at least 1.4 times in the medium term and absorbing the remaining 70% transitional impact of IFRS 9. For illustrative purposes, after adjusting for the impact on risk weighted assets, the CET1 ratio at 31 December 2019 would reduce from 30.7% to 24.1% if the IFRS 9 transitional arrangements did not apply.

The Group's internal plans and medium-term guidance, including receivables growth expectations and dividend guidance, are consistent with maintaining regulatory capital headroom of at least £50m above the current TCR of 25.5%. However, the Group continues to actively explore a number of options to improve capital efficiency and management has identified a number of areas which may result in potential future reductions in the TCR, including, but not limited to, potential reductions in capital requirements for Pillar 2a and pensions add-on. The Group's next capital review (C-SREP) with the PRA is confirmed for March 2020, with the result expected in the second quarter.

The Board also continues to monitor its risk appetite in respect of the appropriate level of regulatory capital headroom in light of the Group's ongoing recovery.

The reconciliation of the Group's net assets to regulatory capital held can be found in the Capital Risk Management section on [page 187](#).

Pillar 3 disclosures

As part of the regulatory supervision by the PRA, the Group, consistent with other regulated financial institutions, is required to make annual Pillar 3 disclosures which set out information on the Group's regulatory capital, risk exposures and risk management processes. A considerable amount of the information required by the Pillar 3 disclosures is included within the 2019 Annual Report and Financial Statements. The Group's full Pillar 3 disclosures can be found on the Group's website, www.providentfinancial.com.

Funding and liquidity

The Group borrows to provide loans to customers. The Group is less exposed than mainstream lenders to liquidity risk as loans to customers are of a short-term duration whilst the Group's borrowing facilities extend over a number of years. The profile of borrowing longer term and lending shorter term creates a positive maturity mismatch.

Bank funding, bonds and loans are used to fund CCD, Moneybarn and central operations (the non-bank Group) whilst retail deposits are used to fund Vanquis Bank. The Group's current funding policy is to maintain committed facilities to meet contractual maturities and fund growth for at least the following 12 months.

The Group had total committed borrowing facilities, including retail deposits, of £2,019.0m (2018: £2,363.0m) at the end of 2019. These facilities have a weighted average period to maturity of 2.2 years (2018: 2.3 years). This has reduced in the year as a result of the reduction in the period to maturity of the retail deposits and the M&G loan, offset by the extended period to maturity of the syndicated bank facility which was extended by two years to July 2022.

Group borrowings at the end of 2019 were £1,949.9m (2018: £2,035.6m), including £16.3m (2018: £17.1m) of interest accrued on borrowings. The reduction in borrowings in 2019 reflects cash generated from operations, offset by growth in receivables, the cash required to complete the ROP refund programme and the decrease in liquid resources at Vanquis Bank.

The Group's funding rate during 2019 was 4.3%, a modest reduction from 4.4% in 2018 as Vanquis Bank is now fully funded with retail deposits. This was partly offset by the impact of the significant amount of headroom of over £300m being carried on the Group's revolving credit facility during the first half of the year.

The funding structure of the Group's facilities at 31 December 2019 is shown in Table 4 below.

Table 4: Group borrowing facilities

	At 31 Dec 2019 actual £m	Proforma post- securitisation £m
Vanquis Bank		
Retail deposits	1,345	1,345
Non-bank Group		
Bank facility	235	211
Bonds and other borrowings:		
– Senior 7.0% public bond maturing in 2023	250	250
– M&G term loan	50	–
– Retail bonds	150	150
Moneybarn securitisation ¹	–	275
Total facilities available to the non-bank Group	685	886
Non-bank Group borrowings under facilities	616	616
Headroom on borrowing facilities of the non-bank Group	69	270

¹ Current committed facility is £100m progressively increasing to £275m over the next 18 months.

Non-bank Group funding

The following transactions impacted the Group's non-bank funding during 2019:

- The Group repaid the fourth instalment of £15m on the M&G term loan in January 2019, in line with its contractual maturity. The Group refinanced its revolving syndicated bank facility on 24 July 2019. The facility reduced from £450m to £235m, reflecting a reduction in the requirement of the Group for a revolving facility as Vanquis Bank is now fully funded with retail deposits and the home credit business is significantly smaller than when the previous facility was established. The new facility has a maturity of July 2022 and an interest rate of 300 bps plus LIBOR, increased from 225 bps plus LIBOR in the previous facility. The covenant package and limits remained unchanged but will be assessed under IFRS 9 rather than under IAS 39 in the previous facility.
- On 31 July 2019, Fitch Ratings reaffirmed the Group's credit rating at BBB- with a negative outlook.
- In line with the contractual maturity, the Group repaid senior bonds of £27.5m in October 2019.

Headroom on the Group's committed debt facilities was £69.1m (2018: £327.4m) at 31 December 2019.

Funding and liquidity continued

Table 5: Performance against covenants assessed under IFRS 9 (2018: IAS 39)

Covenant	Limits	2019 (IFRS 9)	2018 (IAS 39)
Gearing ¹	<5.0 times	2.4	2.0
Net worth – Group ²	>£400m	675.8	804.3
– Excluding Vanquis Bank	>£155m	284.7	313.3
Interest cover ³	>2.0 times	3.4	3.2
Cash cover ⁴	>1.1 times	1.19	1.20

- 1 Borrowings less the liquid assets buffer and other liquid resources held in satisfaction of the PRA liquidity requirements divided by equity (excluding the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments).
- 2 Equity less the Group's pension asset and fair value of derivative financial instruments, both net of deferred tax.
- 3 Profit before interest, amortisation, the movement in the fair value of derivative financial instruments, exceptional items and tax divided by the interest charge prior to the movement in the fair value of derivative financial instruments.
- 4 Cash collected divided by credit issued. This covenant is 1.1 times under the M&G facility and 1.0 times under the syndicated bank facility.

Covenants were reported under IAS 39 until July 2019 when the revolving syndicated bank facility was refinanced. The covenant requirements were then restated onto IFRS 9 but the limits remained unchanged.

The Group has comfortably complied with all covenant requirements throughout the year.

Retail deposits

The flow of retail deposits within Vanquis Bank has continued in line with its internal funding plan and, at 31 December 2019, Vanquis Bank had retail deposit funding of £1,345.2m, down from £1,431.7m at 31 December 2018. This reflects the modest reduction in Vanquis Bank receivables during the year and a reduction in the liquid assets buffer due to reduced internal liquidity requirements.

A reconciliation of the movement in retail deposits during 2019 and 2018 is as follows:

Table 6: Reconciliation of retail deposits

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

Rates of between 1.40% and 2.20% have been paid on retail deposits during 2019 (2018: 1.40% and 2.20%) and the blended interest rate on the deposit portfolio in 2019 was 2.31% (2018: 2.17%), reflecting the low interest rate environment currently being experienced. Including the cost of holding a liquid asset buffer on the overall blended interest rate on retail deposits in 2019 was 3.3%, consistent with 2018.

The average period to maturity of retail deposits at 31 December 2019 was 1.9 years (2018: 2.2 years).

Funding opportunities

The Group's historical funding structure has served the Group very well. However, as part of the focus on cost efficiency, the Group has undertaken a full review of funding and outlined at the CMD a number of opportunities are being considered to further diversify the Group's sources of funding, reduce the funding cost and improve the long-term stability of the Group.

The first opportunity was in respect of a securitisation of the Moneybarn receivables book. The Group successfully signed a bilateral securitisation facility with NatWest Markets to fund Moneybarn business flows on 14 January 2020. The new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months. The facility provides a comparable funding rate to the revolving credit facility which reduced from £450m to £235m as indicated above. The successful completion of this facility builds the Group's capability in securitisation creating the option to issue publicly, allowing similar funding to be deployed elsewhere in the Group. Vanquis Bank would be the business with the greatest potential for further securitisation. As a part of obtaining consent for the securitisation from the Group's existing lenders, the Group's revolving syndicated credit facility has reduced from £235m to £211m and the Group has repaid in full the M&G loan facility of £50m, which was repayable in two equal instalments of £25m in January 2020 and 2021. After taking account of the securitisation of Moneybarn's receivables and the ongoing retail deposits programme in Vanquis Bank, the Group has sufficient facilities to fund contractual debt maturities and projected growth in the Group until mid-2022.

The second identified opportunity is in respect of retail deposits funding some element of Moneybarn. The Group is currently exploring a number of potential structures to enable Moneybarn to access Vanquis Bank's retail deposits capability and the Group is aiming to provide a formal proposal to the PRA in the first half of 2020. As demonstrated by Vanquis Bank, there is a deep and liquid market of deposits available to support growth as and when it happens. This would increase funding efficiency and flexibility compared with the existing non-bank Group funding sources which typically have to be sourced in large tranches upfront. Vanquis Bank's blended interest rate is approximately 3.0%. This compares with a funding cost for the non-bank Group of approximately 6.0% to 6.5%, which means the ability to fund part of Moneybarn through deposits would significantly reduce Moneybarn's overall cost of funding.

The Group also continues to actively consider issuing further senior bonds, private placements and potentially a Tier 2 instrument. In addition, the Group is also assessing ways in which to manage the Vanquis Bank balance sheet more efficiently. In respect of funding, the funding mix could be diversified into instant access deposits or into wholesale markets through further securitisation. In respect of liquidity, the mix of the assets held in the liquid assets buffer could be revisited rather than solely relying on the Bank of England Reserve Account. The Group aims to make further progress on these areas through 2020.

Liquidity requirements

To ensure that sufficient liquid resources are available to fulfil operational plans and meet financial obligations as they fall due in a stress event, the PRA requires that all regulated entities maintain a liquid assets buffer held in the form of high-quality, unencumbered assets.

The total liquid resources required to be held is calculated in line with the Overall Liquidity Adequacy Rule (OLAR) and is set out in the Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken by Vanquis Bank. Liquid resources must be maintained based upon daily stress tests.

As at 31 December 2019, the liquid assets buffer, including additional liquid resources to meet the OLAR and an operational buffer, amounted to £321.9m (2018: £420.6m). The decrease during the year primarily reflects a change in risk appetite by the Vanquis Bank board resulting in an decreased severity of the stresses set out in the 2018 ILAAP. Vanquis Bank currently holds its liquid assets buffer, including other liquid resources, solely in a Bank of England Reserve Account.

CRD IV introduced further liquidity measures applicable to the Group: the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). As at 31 December 2019, the Group, on a consolidated basis, and Vanquis Bank, on an individual basis, had an LCR of 224% (2018: 688%) and 485% (2018: 646%) respectively.

Accounting policies

The Group's financial statements have been prepared in accordance with IFRS as adopted by the European Union. The Group's financial model is underpinned by the application of prudent, appropriate accounting policies chosen by the directors to ensure that the financial statements present a true and fair view of the business. All of the Group's accounting policies are compliant with the requirements of IFRS, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and UK company law. The continued appropriateness of the accounting policies, and the methods of applying those policies in practice, is reviewed at least annually.

The principal accounting policies, which are consistent with the prior year with the exception of the adoption of IFRS 16 'Leases' and IFRIC 23 'Uncertainty over Income Tax Treatments', as set out on [pages 175 to 182](#).

IFRS 16 replaced IAS 17 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors.

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

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated amortisation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of future minimum lease payments. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The classification of cash flows will also be affected as, under IAS 17, operating lease payments are presented as operating cash flows, whereas under IFRS 16, the lease payments are split into a principal and interest portion which will be presented as operating and financing cash flows respectively.

Adoption of IFRS 16 increased assets by £81.9m and liabilities by £89.0m which, net of deferred tax of £1.5m, resulted in a reduction in net assets of £5.6m.

In order to assist stakeholders using the Group's financial statements, supplementary commentary has been provided within the Group's financial statements in highlighted boxes. The additional commentary addresses questions regularly asked by investors, analysts and other stakeholders, as well as providing further information on the Group's key accounting policies, financial model and important movements in income statement and balance sheet items during the year.

Going concern

The 2019 financial statements have been prepared on a going concern basis under the historical cost convention, unless otherwise stated.

In adopting the going concern assumption in preparing the financial statements, the directors have considered the activities of its principal subsidiaries, as set out in the Strategic Report, as well as the principal risks and mitigating activities as set out in the risk report. The Board has also considered the Group's budget projections, as approved in January 2020, including:

- regulatory capital projections against the PRA's regulatory capital requirements;
- funding levels and headroom against committed borrowing facilities;
- cash flow and liquidity requirements; and
- compliance against covenant requirements.

Based on these forecasts and projections, the Board is satisfied that the Group has adequate resources to continue to operate for the foreseeable future. For this reason the Group and Company continues to assess the going concern basis in preparing the financial statements.

Simon Thomas
Chief Finance Officer
27 February 2020

Viability statement

In accordance with the 2018 FRC Corporate Governance Code, the directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years.

The directors' assessment has been made with reference to the Group's current position and prospects outlined within the Strategic Report and the Group's ongoing strategy. The Board continues to believe in the strong market position of the Group's attractive businesses, its conservative funding and capital structure and its strategy to build sustainable businesses for the long-term strength of the Group. The Board remains confident of the Group's underlying prospects and value, together contributing to attractive future shareholder returns. The three-year plan is built on a divisional basis using a bottom-up model, as part of a five-year budget. The first three years of the budget plan receive the greatest focus, with the later years produced robustly, but at a higher level. The Group focuses on relatively short-term lending to consumers and operates a conservative and well-tested 'low and grow' business model that has previously proven resilient to economic and business cycles. The longest contractual loan term available in CCD is around two years, Moneybarn typically issues four-year loans, while the average time a Vanquis Bank credit card customer remains with the business is around five years. The first three years of the budget plan therefore forms the basis of this statement. The three-year plan makes certain assumptions about the regulatory environment, future economic conditions, new strategies, products, the acceptable performance of the Group's divisions, the ability to fund growth and the sustainability of the business models.

The plan is stress tested in a number of different robust downside scenarios as part of the Board's review of the Group's ICAAP. Stress testing covers significant financial, business, operational and regulatory downsides which are then aggregated into a combined severe downside scenario. The stress test scenarios are formulated using information and data from the 2008/09 financial crisis, the operational and regulatory events affecting the Group during 2017 and the scenarios published by the PRA as guidance to banks and building societies on stress tests. The scenarios therefore reflect the principal risks of the Group through reducing new funds raised, increasing impairment, operational impacts and regulatory changes.

As part of the ICAAP process, a reverse stress test exercise is also undertaken to identify the circumstances under which

the business model becomes unviable. The exercise indicates that Group viability only comes into question under unprecedented macroeconomic conditions or extreme regulatory intervention and constraints across the Group's three operating divisions.

As a PRA-regulated bank which is a subsidiary of Provident Financial plc, Vanquis Bank is required to produce a Recovery and Resolution Plan (RRP) covering the bank and the wider Group. The RRP outlines how Vanquis Bank and the Group would regain viability under severe financial pressure (recovery plan) and the steps the PRA could take to resolve the situation (resolution plan). The process of producing the RRP involves considering, assessing and documenting the options available to Vanquis Bank and the Group in a severe stress situation. This not only improves the understanding of the sources and impact of risks to viability, but it also enables the recovery options to be mobilised quickly and effectively, should they ever be required.

The RRP is an integral element of the overarching prudential risk management framework incorporating the ILAAP and ICAAP, and is produced at least annually. The ILAAP is designed to ensure the bank meets the overall liquidity adequacy rule and further requirements of CRD IV, whilst the ICAAP outlines the process to ensure that Vanquis Bank and the Group maintain adequate capital resources at all times. In the event that the Group suffers a severe stress, then the Group could be materially adversely affected, for example due to a breach of a financial covenant under its debt facilities or a breach of a regulatory requirement. In such a scenario, there is a risk that its creditors could initiate insolvency proceedings against the Group and/or the PRA and the FCA exercising their wide-ranging powers over the Group and/or Vanquis Bank.

As part of the exercise, it is assumed that the Group's non-bank divisions could be subjected to a controlled run-off with no, or limited, further lending, allowing the Group to meet contractual maturities as they fall due, in the absence of dividend payments.

The review of the three-year plan is underpinned by the regular Board briefings provided by the Divisional Managing Directors and the discussion of any new strategies undertaken by the Board in its normal course of business. These reviews consider both the market opportunity and the associated risks, principally conduct, operational and credit risks. These risks are considered within the Board's risk appetite framework.

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as set out on [page 144](#).

A better everyday life

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For the past 140 years we have been helping to put people on a path to a better everyday life by providing our customers with the tailored and affordable credit products that meet their particular needs. This enables them to do the things they want to do in their lives and also ensures that we deliver fair outcomes to them throughout their journey with us. This is our purpose.

But this purpose also reflects our wider role in society and ensures that operating responsibly and sustainably is at the core of our business. This means addressing the wider social, environmental and ethical impacts of our business. From climate change to equality, diversity and inclusion, and social mobility to mental health, I recognise that Provident Financial has an important role to play.

Malcolm Le May
Chief Executive Officer



Our corporate responsibility strategy

Provident Financial's Group-wide corporate responsibility (CR) strategy is intimately aligned with our purpose of **helping to put people on a path to a better everyday life**. First and foremost this purpose is about ensuring that we provide our customers with the credit products that meet their particular needs and deliver fair customer outcomes throughout their journey with us. This, along with our strategic drivers and behaviours (our Blueprint), is also about building sustainable relationships with all our stakeholders, whether they are customers, employees or suppliers. By balancing profit and purpose, we ensure that we generate a financial return while responding to the needs of our stakeholders, and operating our business in an efficient and effective manner.

Our CR strategy is to **operate our business of lending to our customers in a responsible manner, and act responsibly and sustainably in all our other stakeholder relationships**. This means that we have to support our customers with responsible lending, create an inclusive and engaging workplace, support our purpose through our Social Impact Programme, respond to climate change, and ensure that we treat our suppliers fairly, engage with the investment community on sustainability matters and remain a responsible taxpayer.

Through our purpose and CR strategy, we are able to focus our attention on the issues that our stakeholders deem to be most material to our business and which are set out in the materiality matrix which is set out on [page 15 of the Provident Financial 2019 CR report](#).

CR governance and management

Having effective governance and management structures in place enables us to deliver on both our purpose and CR strategy. Overall responsibility for the Group's CR programme continues to rest with the Provident Financial plc Board generally and Malcolm Le May, the Chief Executive Officer, specifically. The Group's Executive Committee, which is chaired by the Chief Executive Officer and includes the Group's Chief Finance Officer, General Counsel and Company Secretary, Chief Risk Officer, Chief Information Officer, Corporate Communications Director, HR Director and the Managing Directors of the operating companies, also plays an important role as it reviews and approves aspects of the responsible business programme and its budgets. This Committee is also tasked with overseeing the development, embedding and monitoring of the culture and ethics of the Group, and ensuring they are consistent with being a trusted, responsible and sustainable business.

The Customer, Culture and Ethics (CCE) Committee is a Board Committee which we established in 2019 and also plays a key role in providing oversight of matters that relate to the CR agenda. The Committee is chaired by Non-Executive Director Elizabeth Chambers and its members are Graham Lindsay (Non-Executive Director) and Robert East (Non-Executive Director). Malcolm Le May (Chief Executive Officer) also attends the CCE Committee as do Provident Financial's General Counsel and Company Secretary, Group Corporate Communications Director, HR Director and Head of Sustainability, and Vanquis Bank's Customer Director.

CR governance and management continued

During 2019, the CCE Committee's initial focus was to oversee the Group's compliance with the 2018 UK Corporate Governance Code and the accountabilities under section 172 of the Companies Act 2006. These call on the Board and its directors to balance and provide oversight of the Company's short and long-term decision making and outcomes with respect to a wide set of stakeholders, encompassing customers, employees, suppliers, and the community, as well as shareholders.

The Committee's other duties include:

- supporting the Board in overseeing policies, procedures, standards and progress against KPIs, to ensure that the Group conducts and develops business responsibly and consistently in accordance with the Company's customer objectives, purpose and corporate culture;
- assisting the work of the Board's Group Risk Committee in reviewing the design and performance of the Group's products and channels (particularly with respect to our aim of achieving greater customer centricity and fairer customer outcomes), and in assessing whether the Company's new culture and purpose is embedded across the employee population;
- contributing to the work of the Board's Remuneration Committee in factoring dimensions like customer centricity, environmental and community impact, and cultural and governance issues into the setting of performance conditions for annual bonus schemes and share incentive plans of executive directors and senior management teams; and
- reviewing and providing guidance for external communications and the Group's public posture on key reputational issues that the Group may encounter on the areas within its remit (e.g. with respect to customers, diversity and broader environment, social and governance (ESG) agenda).

In discharging its duties, the Committee adopts a KPI and evidence-based approach to its work. It has worked with management throughout 2019 to develop dashboards that will be used at each of the Committee's meetings to:

- gain an insight into customer outcomes that are being delivered at a Group-wide level to ensure that they are consistent with the Group's strategy and purpose;
- oversee the Group's embedding of its Blueprint, with a particular focus on determining whether the Group is delivering its business activities in accordance with its purpose and behaviours;
- review whether the Group's culture is evolving to meet the changing expectations of stakeholders and identify areas where more focus is required in the Board's decision making; and
- ensure that any material issues which relate to the culture and ethics of the Group are reported to other relevant Board Committees.

The Group's CR team is supported by colleagues from across the Consumer Credit Division, Moneybarn and Vanquis Bank. This includes the colleagues who sit on the Environmental Working Groups we have in place and oversee the operation of our environmental management system. It also includes the colleagues who sit on the Social Impact Programme Steering Group established in 2019. This Group-wide Steering Group will ensure a robust governance framework specifically for the Social Impact Programme and is able to engage with the right stakeholders on matters relevant to the effective running of the programme. It will also play a key role in identifying and promoting colleague volunteering opportunities.

Our commitment to the Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a global call to action to end poverty, protect the planet and ensure that all people can live in peace and prosperity. The 17 goals that make up the SDGs build on the Millennium Development Goals but integrate and address new areas such as peace and justice, innovation and climate change. To achieve the targets of the SDGs, working in partnership with others is crucial. Governments, businesses and communities around the world need to commit to making changes to improve life and ensure a sustainable future for generations to come, and this is why we have decided to play a part.

In 2019, we chose five of the SDGs to focus on, where we think we can have a genuine impact. These are: Goal 1 No Poverty, Goal 4 Quality Education, Goal 5 Gender Equality, Goal 8 Decent Work and Economic Growth and Goal 10 Reduced Inequalities. Now that we have prioritised which of the SDGs are the most material to our business activities, we will, in 2020, work to align our CR targets so that they deliver both the objectives of the individual goals and our Blueprint.



Blueprint update



In February 2019, we launched the Blueprint we developed in 2018, which comprises our purpose and strategic drivers. This is designed to help us balance delivering responsible and sustainable products, services and partnerships to our customers, maintaining high levels of regulatory compliance, and providing a stimulating and rewarding workplace for our colleagues, while generating appropriate, sustainable returns for our shareholders. This initially involved cascading the Blueprint at an event to approximately 150 leaders and influencers from across the Group. At this launch event, we shared a clear, inspiring and motivating shared sense of purpose for Provident Financial Group and sought to unify the whole organisation framed in the context of the role that our businesses play in customers' lives. Following on, Blueprint roll-out sessions were delivered to colleagues in Bradford, Chatham, London and Petersfield, and to Consumer Credit Division field office colleagues via divisional conferences. These sessions focused on galvanising and energising colleagues from across the Group around the Blueprint, and engaging them with the wider purpose behaviours and strategic drivers.

Feedback from Blueprint roll-out sessions:

- 99% of colleagues either agree or strongly agree that it is important for everyone to have a shared purpose across Provident;
- 88% of colleagues either agree or strongly agree that the work they do connects to the Blueprint;
- 75% of colleagues either agree or strongly agree that they are proud to work for Provident Financial; and
- 70% of colleagues either agree or strongly agree that they can clearly see links between divisional plans, priorities and the broader Provident Financial agenda.

Finally in 2019, we started delivering a programme of 'Big Blueprint Conversation' events, a regular series of Blueprint-inspired face-to-face sessions with colleagues across different parts of the Group. Through these sessions we aim to help colleagues make the connection between the Blueprint and the work they do, thereby continuing the process of creating a common language based around the Blueprint which will help colleagues to connect with the longer-term ambitions, priorities and strategy of the Group. In doing so, the events will contribute to creating a sense of togetherness and show colleagues that they are all part of something big.

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In 2019, we started delivering a programme of 'Big Blueprint Conversation' events, a regular series of Blueprint-inspired face-to-face sessions with colleagues across different parts of the Group.



Our stakeholders

A key aspect of our business strategy relates to acting responsibly and sustainably in all the relationships we have with our key stakeholders. To this end, we have identified the following stakeholders as being key to our business activities: customers, colleagues, communities, suppliers, investors (both debt and equity), regulators and government. The Group can also impact, or be impacted by, the environment.

Our key stakeholders have an important role to play in enabling us to operate our business in accordance with our purpose. Our aim in this regard is to deliver a balance between the needs of our customers, regulators, shareholders and colleagues in order to ensure that Provident Financial is a successful and sustainable business for all its stakeholders. It is therefore essential that we engage with our key stakeholders to ensure that their views and

concerns are factored into our decision-making processes. We do this by using a wide range of stakeholder engagement techniques, including surveys and focus groups, and by participating in consultation exercises.

This year, in order to comply with the requirements of section 172 of Companies Act 2006, we have produced a statement which explains how the Provident Financial plc Board of directors has taken wider stakeholders' needs into account while performing its duties throughout 2019. This statement sets out who our key stakeholders are and how we engaged with them during 2019. This statement is set out on [pages 83 to 87](#) of this report.

In addition, we seek the views of our stakeholders for a number of reasons. Examples of these are set out in the table below.

Stakeholder	Reason for engagement
<p>Our customers</p>	<p>In order to determine whether we are responsibly providing our customers with appropriate amounts of credit, maintaining close contact with them throughout their time with us, and supporting them sympathetically if they experience difficulties, we engage with customers on a range of issues. For example, we use a variety of mechanisms to measure customer engagement across the Group, including: customer satisfaction surveys, Net Promoter Score surveys and complaints monitoring through online forums, phone calls, face-to-face surveys and focus groups (for new products or changes to products and services). This data is reported to divisional executive management and boards as appropriate. Customer focus groups provide feedback on current and potential products. Our customer-facing colleagues engage with customers on a daily basis to responsibly lend and provide tailored products, assess customer vulnerability and address any complaints. We utilise technology in order to support the provision of customer service, such as voice recording and speech analytic tools.</p> 
<p>Our colleagues</p>	<p>It is essential that we consistently and effectively engage with our colleagues so that they understand the Group's purpose and how they can support its delivery, which we believe helps our customer base. Maintaining high levels of colleague engagement also plays an important role in enabling us to attract, retain and develop the talent we need to help us deliver our purpose, ensuring that we provide a stimulating and rewarding working environment, and supporting the development of a diverse, open and inclusive workplace culture where everyone is a valued member of the Group (see page 72). In 2019, we conducted our first colleague engagement survey (see page 73). We also ensure that they keep informed through huddles, regional team meetings in the field, colleague forums via the intranet, social media and colleague blogs. We launched our new Group recognition platform, 'Better Everyday', in 2019 which is designed to help us create a culture where we say 'thank you' or 'well done' to colleagues who are demonstrating our Blueprint behaviours.</p> 

Stakeholder	Reason for engagement	
<p>Our regulators and government</p>	<p>The nature of our customer base and the market in which we specialise makes the building and maintaining of open and trusting dialogue with policy makers and our regulators, the PRA, FCA and CBI, critical to a sustainable business model. We understand that building strong and enduring relationships with our regulators is extremely important. It influences our strategic thinking and enables us to plan for regulatory change with greater certainty and confidence. Alongside being transparent about the products, services and partnerships we deliver to our customers, we also strive to be open in all other areas of our business. This includes maintaining our commitment to being a fair and responsible taxpayer, operating in an open, honest and straightforward manner in all tax matters and being fair and reasonable in all our dealings with tax authorities. Paying tax is a key part of how our business contributes to society, meets our legal requirements, maintains our reputation for high standards of business conduct and protects shareholder value.</p>	
<p>Our investors</p>	<p>It is key that we meet with shareholders and engage with investors, the owners of the Group, to maintain their support and to keep them updated on the Group's progress in delivering its purpose, sustainable shareholder returns, strategy, governance and culture. Direct and regular engagement with shareholders ensures that the Board has a clear understanding of investor views. We also engage with the investment community on CR matters by responding to requests for information and through our inclusion in the Dow Jones Sustainability World Index, Dow Jones Sustainability Europe Index, and the FTSE4Good Index Series (see page 74).</p>	
<p>Our suppliers</p>	<p>Our suppliers play a vital role in our operations and so it is important that we develop strong relationships with them and only buy products and services from those who operate responsibly. Strong relationships with suppliers can also mitigate risk in our supply chain. We encourage best practice within our supply chain by ensuring we are compliant with legislation such as the Modern Slavery Act and we are a signatory to the Prompt Payment Code. Through our established due diligence processes to manage supply chain-based risks we engage with our suppliers on issues such as data protection, information security, business continuity, and facilitation of tax evasion. This process also covers a range of CR issues such as community investment, environment, diversity, modern slavery and human trafficking.</p>	

Our stakeholders continued

Stakeholder	Reason for engagement
<p>Our communities</p>	<p>Through our Social Impact Programme we invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, may reduce someone’s likelihood to be accepted for credit. As such, we engage with a range of community partners with whom we work to address factors, including lack of literacy or numeracy skills; disabilities and/or mental health issues; unemployment or under-employment; low levels of educational attainment; and low, uncertain or fluctuating incomes. This programme includes a work stream where we fund money and debt programmes as well as work with mental health charities to ensure that our customers, and the colleagues that support them, are supported if they feel vulnerable. We provide literacy and numeracy education to children and adults, and provide grants to grassroots organisations and charities through Community Foundations which support local people. We also encourage colleagues to support their own communities and causes by enabling them to access matched funding and contribute their time and skills to community activities by volunteering. In 2019, our Social Impact Programme invested £1.45m in these activities and initiatives.</p> 
<p>The environment</p>	<p>Like any other company, our business activities impact the environment, whether directly as a result of the energy that is used by our offices and by our people when they travel, or indirectly through the activities in our supply chains. We report on our environmental performance in our Annual Report and Financial Statements (you can read more on page 80) and also in our 2019 CR Report.</p> 

We also engage with our stakeholders to ensure that we manage and report on the CR issues that matter most to them and our business. We typically do this by undertaking materiality assessments at least every two years to identify and prioritise the CR issues that are material to the Group. This exercise helps to inform our purpose and CR strategy and ensures that our CR reports respond to the interests of our stakeholders and comply with the Global Reporting Initiative’s G4 reporting guidelines. Our most recent materiality assessment which we conducted in early 2019 was, as in previous years, facilitated by the independent sustainability management consultancy Corporate Citizenship. The issues that were identified as a result of the materiality assessment exercise have been plotted on the matrix that is included in our [2019 CR Report](#) (see [page 15 of the Provident Financial 2019 CR Report](#)).

+ For further details on stakeholder engagement see Section 172 on [pages 83 to 87](#)

Our corporate responsibility strategy



Our customers

+ Page 71



Our suppliers

+ Page 75



Our colleagues

+ Page 72



Our communities

+ Page 76



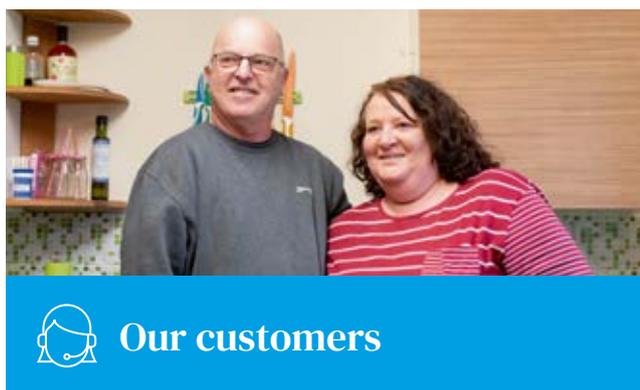
**Our investors
(equity and debt)**

+ Page 74



Our environment

+ Page 80



Supporting customers with responsible lending

To enable us to demonstrate that we are delivering our purpose of helping to put people on a path to a better everyday life and ensure that we are providing our 2.3 million customers with the credit products that meet their particular needs, it is essential that we are able to show that the culture of our business is centred on delivering fair outcomes for our customers at every stage of their journey with us.

Provident Financial is a specialist lender for the 1 in 5 UK adults who are not well served by the mainstream credit providers. Consumers may not be well served by mainstream lenders for a number of reasons. For example, they may be:

- experiencing a significant life event such as divorce or job loss;
- new to credit in the UK and therefore have little or no credit history;
- looking to build or rebuild their credit rating;
- managing everyday life on low, irregular or average incomes with no savings;
- have variable incomes as a result of being self-employed or having a number of part-time jobs; or
- looking for a product and service which is more tailored to their needs.

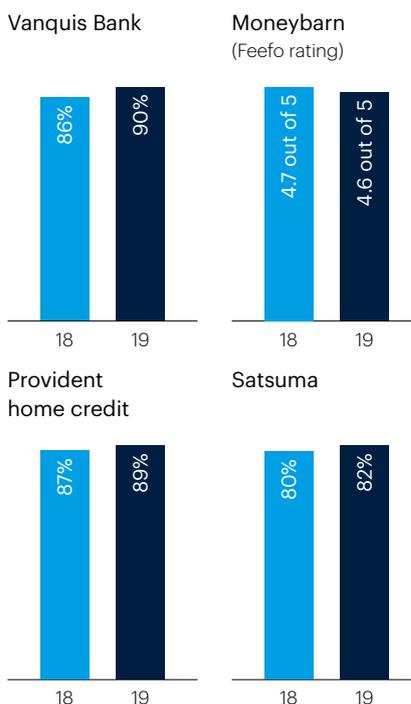
The products, services and partnerships that we offer through our three divisions are therefore tailor-made to meet the particular needs of our customers. In general, the approach we take to providing credit to our customers involves lending smaller amounts over shorter periods of time. Under this approach, new customers to Vanquis Bank, Satsuma and Provident home credit get lower credit limits, or smaller, shorter-term loans to begin with. This enables us to observe and understand the behaviour of our customers before we consider granting further lending and it also enables the customers to experience our products and see if they suit their needs. It also enables our customers to enter or re-enter the credit market, stay in control of their finances and build credit scores for greater future access and choice. In the case of Moneybarn, where a vehicle is held as security, we are able to lend more credit for longer periods.

The dashboard we developed in 2019 to help monitor the implementation of our Blueprint and thus determine whether the customer outcomes that are being delivered at a Group-wide level are consistent with the Group's strategy and purpose include a number of key performance indicators which are aimed at tracking rates of customer satisfaction and customer complaints across our four main customer-facing brands.

Monitoring customer satisfaction

To determine whether our customers are satisfied with the products and services we provide them with, we use a range of approaches. This includes carrying out our own surveys so that we can calculate the percentage of customers who are satisfied with the products we offer, as well as management tools such as Net Promoter Score, which measures the willingness of customers to recommend our businesses to others. We also review systems such as Feefo which gather and analyse feedback, suggestions and observations from customers.

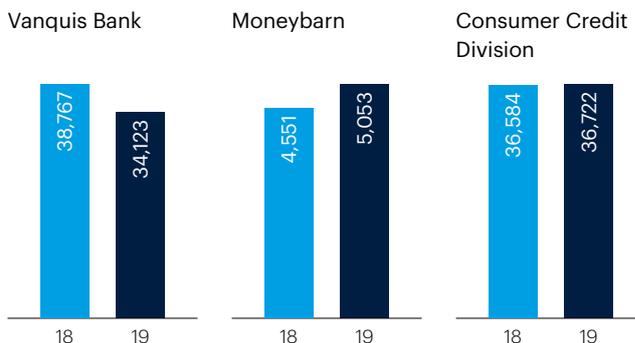
Details on our 2019 customer satisfaction performance is set out below:



Enabling customers to raise issues

Ensuring that we are able to respond to customers' issues is also a good indicator that we are treating them fairly and that our products, services and partnerships meet their specific needs. This includes when customers have complaints. Should a complaint arise, our focus is to get it resolved in a timely manner and understand the reasons behind the complaint so that we can, if necessary, change our processes. We have well-established complaint-handling processes, procedures and timescales to guide the customer relations teams in each of our businesses in resolving issues in a professional and timely way. Colleagues also are trained well enough to deliver excellent customer service whether face to face, on the telephone or via email.

Information on the customer complaints received in 2019 is set out below:



We provide the contact details of the Financial Ombudsman Services (FOS) to all our customers, so they have another option if they feel we have been unable to resolve their complaint to their satisfaction. During 2019, the total number of complaints referred to the FOS was 4,253 (2018: 4,302). Of these, 1,481 or 35% (2018: 30%) were upheld in favour of the customer. There continues to be heightened Claims Management Company activity around the lending practices of our sector. As a result, the Consumer Credit Division has seen a modest increase in the number of complaints and referrals to the FOS. The division continues to defend inappropriate or unsubstantiated claims and is working closely with the FOS in this regard.



Our colleagues

Creating an inclusive and engaging workplace

To truly put the customer on the team and deliver on our purpose of helping to put people on a path to a better everyday life we need to build and sustain a diverse workforce that is reflective of the diversity of the customer base that we serve. We also know that creating an inclusive and diverse workplace culture supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and will ultimately contribute to the success of the Group.

Our initial focus in terms of championing equality, diversity and inclusion (EDI) at Provident Financial has been on achieving a better gender balance in our senior leadership population. In support of this, we signed up to the Woman in Finance Charter in March 2019 and set a target to have at least 33% female representation in the Group's senior leadership population by December 2020 and 40% female representation by December 2024.

Our gender diversity performance as it relates to our Women in Finance Charter targets and in terms of the colleague grades within our businesses is set out below.

To ensure that we do more to create a talent pipeline of future women leaders within our business we have also undertaken a range of activities throughout 2019. This has seen us deliver a Next Generation Women's Leadership Programme to the first cohort of female colleagues at the middle/senior management level (a second cohort is currently on the programme for 2020). We have also appointed EDI Business Ambassadors to help improve visibility of leadership on EDI from the top and drive progress in each division and delivered 'speaker series' sessions at our Bradford, Chatham, London and Petersfield offices to encourage colleagues to think about how we can better nurture and celebrate a culture of EDI across all our businesses.

Finally, we have developed a new balanced performance scorecard and remuneration policy to ensure the pay of the senior executive team is linked to delivery against these internal targets on gender diversity.

To support the wider EDI agenda we have published a new corporate EDI Policy and rolled out a mandatory e-learning module on EDI to all colleagues. We also used the Colleague Engagement Survey we carried out in October and November 2019 to ask colleagues to volunteer information on a wider range of aspects of the EDI agenda. This included sexual orientation; ethnicity; impairment, health condition or learning difference; and caring responsibilities. This information is set out below.

EDI data as at 31 December 2019¹

	2019
Ethnic background	
Percentage of colleagues from a BAME background	12%
Disability	
Percentage of colleagues who disclose they have an impairment, health condition or learning difference	5%
Sexual orientation	
Percentage of colleagues who disclose they are lesbian, gay, bisexual or transgender	8%
Caring responsibilities	
Percentage of colleagues who disclose they have caring responsibilities	43%

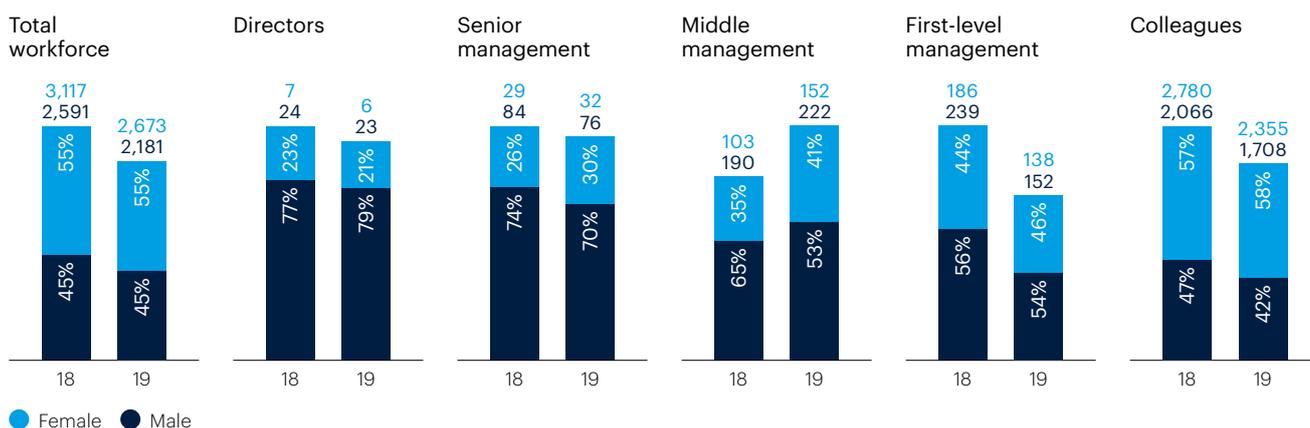
¹ This EDI data is based on colleagues' voluntary self-declaration via our 2019 engagement survey. It accounts for 68% of the Provident Financial Group workforce.

'Better Everyday' recognition scheme

During the year, we launched the 'Better Everyday' recognition scheme with the dual purpose of encouraging colleagues to consider the Blueprint behaviours in all they do and giving them the means to recognise others when they see the behaviours in action.

'Better Everyday' (also known simply as BE) is a Group-wide colleague recognition scheme which will help us to create a culture where we all say 'thank you', 'well done' and 'good job' to colleagues who are showing the Blueprint spirit by living our Group behaviours by 'putting the customer on the team', 'acting like it's yours' or 'being hungry for better'. Through the scheme, anyone can send a colleague an eCard to say thank you, well done and top job and/or nominate them for an award. Everyone has the power to say thank you, and senior leaders can award colleagues vouchers.

Gender diversity data as at 31 December 2019

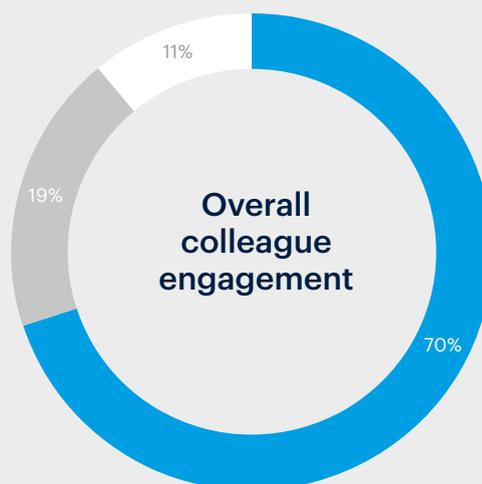


Colleague survey

In 2019, we carried out a Group-wide colleague survey because we recognised that listening to what our people have to say is a hugely important step towards us becoming better at what we do and truly living our purpose of helping to put people on a path to a better everyday life. This was the first time we have carried out a survey across every Provident Financial Group business.

Nearly 70% of colleagues from across the Group took the time to have their say and respond to the survey. The headline findings from the results are set out below.

Throughout 2020, the more detailed findings from this survey will be shared with our different divisions and individual teams. These show that there is a clear need to focus on several key areas across the Group. These include bringing our purpose and strategy to life; leadership in and across our businesses; people development and reward; and how we can better put customers on the team.



Colleague responses to key areas across the Group





Our investors (equity and debt)

Engaging the investment community in CR

We continue to share information on our sustainability performance, alongside our financial performance, with the investment community so investors, analysts and other key stakeholders can see how we have, in delivering our business activities, balanced profit and purpose. We do this by responding directly to requests for information from individual investors and analysts, and by maintaining a presence on specific investment indices and registers which focus on sustainability matters. This enables us to share with the investment community information on the progress we are making in terms of delivering our business strategy in accordance with our purpose, and as well as on material issues such as responsible lending, customer satisfaction and corporate governance, as well as on a broader spectrum of issues such as climate change, EDI and human rights.

In 2019, the Group engaged with:



We made our annual submission of climate change data to CDP in August 2019. CDP requests information on the risks and opportunities of climate change from the world's largest companies, on behalf of institutional investor signatories with a combined US\$96 trillion of assets under management. Through the CDP submission, we can inform investors of any material climate change-related risks and opportunities, and how we manage them. Our 2019 CDP submission was rated 'C Awareness', demonstrating that we have knowledge of our impacts on climate change and of climate change issues more broadly. Our CDP submissions are published at www.cdp.net.

MEMBER OF
Dow Jones
Sustainability Indices
 In Collaboration with RobecoSAM

In September 2019, we were notified of our inclusion in both the Dow Jones Sustainability World Index (DJSI World) and Dow Jones Sustainability Europe Index (DJSI Europe). The DJSI is a category of the S&P Dow Jones Indices, one of the world's leading index providers, and our submission was assessed by RobecoSAM, the investment specialist that focuses exclusively on sustainability investing. The DJSI World represents the top 10% of the largest 2,500 companies in the S&P Global BMI, and the DJSI Europe selects the top 20% of the largest 600 European companies in the S&P Global BMI based on long-term economic, environmental and social criteria.



FTSE4Good

Following the annual review undertaken by the FTSE4Good Advisory Committee, we were once again included in the FTSE4Good Index Series. Our overall score remained at 4.5 out of 5. The FTSE4Good is an extra-financial market index, which measures the performances of over 800 companies against a range of environmental, social and governance (ESG) criteria. To be included in the FTSE4Good Indexes companies must support human rights, have good relationships with the various stakeholders, be making progress to become environmentally sustainable, ensure good labour standards in their own company and in companies that supply them, and seek to address bribery and corruption.

Being a responsible taxpayer

We continue to be committed to being a fair and responsible taxpayer, operating in an open, honest and straightforward manner in all tax matters and being fair and reasonable in all our dealings with tax authorities. This is important not only because it is an essential component of good corporate governance, but because in being open with our stakeholders on issues that are important to them, we are able to build further trust. We seek to ensure that we comply with all tax rules and regulations in each territory in which we operate. While we safeguard our reputation as a responsible taxpayer, we recognise that we also have a responsibility to protect shareholder value by managing and controlling our tax liabilities.

In order to comply with the duty under paragraph 16(2), Schedule 19 of the Finance Act 2016, we are required to publish the Provident Financial plc Tax Strategy on our corporate website, updating the strategy as appropriate.

+ Our most recent Tax Strategy can be viewed on the Provident Financial Group website at providentfinancial.com

Further information on the Provident Financial plc Tax Strategy, including details on the total direct and indirect tax contributions we pay on an annual basis and our approach to managing tax risk, is set out in our [2019 CR Report](#).



The approach we take in being a fair and responsible taxpayer involves operating in an open, honest and straightforward manner in all tax matters.



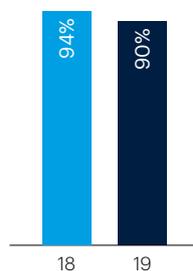
Treating our suppliers fairly

Compared to other businesses from other sectors or industries, we have a supply chain that is relatively straightforward. The vast majority of our tier one suppliers are based in the UK and Ireland. Despite this, we do need to ensure that we treat all our suppliers fairly, particularly when it comes to paying them promptly, and use our not insignificant purchasing power responsibly. In 2019, our spend on products and services was £237.6m. This level of expenditure means that we have the purchasing power to choose more sustainable products or services, or to set an expectation of our suppliers that motivates them to demonstrate and implement values that make them a more responsible business. The procurement teams in the Group's operating companies continue to factor CR considerations into the due diligence processes they use with prospective and existing suppliers. This enables the businesses to identify and manage potential supply chain risks, and engage with suppliers to ensure that they comply with our policy requirements and meet legislative requirements such as the Modern Slavery Act.

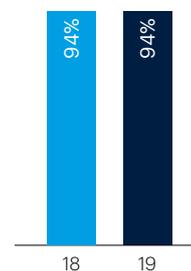
Approximately two-thirds of our procurement spend is on services such as mailing, marketing, security, debt recovery, credit scoring and professional services (e.g. legal and accountancy services). The second highest spend relates to our information technology infrastructure (i.e. hardware, software and support). We use a high number of suppliers, ranging from small to medium-sized enterprises (SMEs), to large multinational corporations. These organisations, which are based predominantly in the UK and Ireland, will, in turn, use their own suppliers too. When it comes to working with SME or start-up suppliers, we recognise that late payment of invoices can cause cash flow problems for them. As a Group, we are signatories of the Prompt Payment Code, which means we are committed to paying our suppliers promptly. Indeed, prompt payment of suppliers is a metric that is included in the Blueprint dashboard referenced previously. Being signatories to the Prompt Payment Code allows us to encourage best practice within our supply chains. In 2019, 96% of the Group's invoices were paid in line with the Prompt Payment Code terms, and we continue to strive to achieve 100%.

Percentage of companies paid in 60 days in 2019

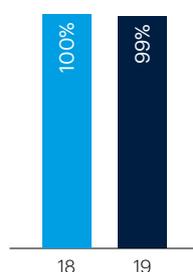
Group corporate office



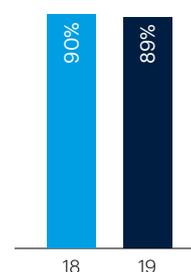
Consumer Credit Division



Moneybarn



Vanquis Bank



96%

of the Group's invoices were paid in line with the Prompt Payment Code terms in 2019



Supporting our purpose through our Social Impact Programme

The Provident Financial community investment strategy plays a key role in ensuring that we fulfil our purpose of helping to put people on a path to a better everyday life. It does this by investing in activities which seek to address key barriers to financial inclusion and helping people overcome them. Our community investment activities are delivered through our Group-wide Social Impact Programme, which invests in activities and initiatives which seek to address some of the key factors which, on their own or acting together, can reduce someone’s likelihood to be accepted for credit.

Our Social Impact Programme

The Provident Financial Social Impact Programme, which we launched in 2018, delivers community investment activities in three key areas:

- **Customer and colleague vulnerability** – supporting the vulnerable customer agenda by addressing issues such as money/debt advice, financial difficulties and mental health and wellbeing. This also involves looking after the mental health of colleagues from across the Group, particularly those who are working on the front line in customer-facing roles.
- **Education and skills** – supporting both children and adults on aspects of education, particularly those that relate to literacy and numeracy.
- **Community investment** – supporting Community Foundations to address the social inclusion issues that are relevant to our customers and the communities where we operate.

In 2019, we committed almost £1.45m to fund a range of activities through our Social Impact Programme.

Improving educational and skills attainment

We support both children and adults in their literacy and numeracy education because they are vital skills to securing a brighter financial future. Throughout 2019, we worked with the national charities National Numeracy and National Literacy Trust and a smaller organisation, Leading Children, to help raise numeracy and literacy levels. Through our education programme we also support both young people and adults from disadvantaged areas in their education to help raise their aspirations and have a better chance of a future that sees them included in society. We do this by delivering a holistic approach to education, which supports both literacy and numeracy, as well as provides insights into the world of work and essential life skills.

Maths mastery programme

In partnership with Bradford-based education consultancy service Leading Children, we have developed a bespoke numeracy programme based on some of the Singaporean maths for mastery concepts. Teachers from across the district have been trained in the programme. At an event which celebrated the first year of running the programme held on 4 July 2019, teachers from the six schools that took part all reported that they had seen great improvements in children being able to demonstrate their understanding of the concepts and a close in the gap between the slower and quicker graspers.

Through our partnership with Leading Children we also provided reciprocal reading training to 18 teachers from Holy Trinity Primary School in Birmingham. Reciprocal reading refers to an instructional activity in which students become the teacher in small group reading sessions. Teachers model then help students learn to guide group discussions using four strategies: summarising, question generating, clarifying and predicting. Once students have learned the strategies, they take turns assuming the role of teacher in leading a dialogue about what has been read. Following the training, the teachers implemented reciprocal reading into their curriculum.

2019 community investment figures explained



Examples of the work we have delivered throughout 2019 through the Provident Financial Social Impact Programme are set out below, with further information on our work included in our [2019 CR report](#).

“ Through our Social Impact Programme, we work with partners to improve literacy or numeracy skills, address disabilities and/or mental health issues, provide money/debt advice and encourage social inclusion/mobility.



Raising career aspirations

In 2019, more than 40 Vanquis Bank colleagues spent over 220 hours volunteering on activities through our education programme. This included helping as reading volunteers at Byron and Brompton Westbrook primary schools in Chatham and some of our partner schools in Bradford, and taking part in National Literacy Trust's Words for Work programme which gives young people from disadvantaged communities the skills they need to succeed in their education and encourage them to widen their aspirations. For example, in October 2019, a group of 25 students who were aged 16+ from Leyton College in London visited the Vanquis Bank offices in Fenchurch Street. A group of colleague volunteers shared their knowledge and experiences of 'real-life' work with these students and gave them the opportunity to ask questions about the skills they will need to enter the workplace and open their eyes to different career pathways. The students were also able to gain valuable tips on completing job applications and interview practice.

Supporting customer and colleague vulnerability

To truly put our customer on the team and deliver our purpose of helping to put people on a path to a better everyday life, it is essential that the culture of our business is centred on delivering fair outcomes for our customers at every stage of their journey with us. This includes ensuring the fair and consistent treatment of customers in vulnerable situations, as well as supporting colleagues across the Group, particularly those who are working on the frontline in customer-facing roles.

Good mental health is an integral part of how we live our lives, make decisions, perform in our jobs and interact with others. Money problems and mental health are linked. Mental health problems can make it harder for people to manage their finances and living in financial stress can harm one's mental health. As a specialist lender to the 1 in 5 UK adults who are not well served by the mainstream we are uniquely placed to have an insight into the financial inclusion barriers that our customers face due to their circumstances. This means we can play a role in supporting our customers and colleagues to help them deal with the mental health issues they are confronted with.

Customer vulnerability

Through this workstream, our focus is to ensure that the culture of our business is centred on delivering fair and positive outcomes for our customers at every stage, even when they experience financial difficulties.



We support both children and adults in their literacy and numeracy education because they are vital skills to securing a brighter financial future.

During 2019, we brought together colleagues who support the Group's most vulnerable customers to share best practice and case studies, to deliver consistent training, and to create a wellbeing support network.

We also work with a number of money advice providers who offer free support to consumers (some of whom may be our own customers) who may find themselves having difficulty in managing their debt repayments. These include the Money Advice Trust, Money Advice Scotland, The Money Charity, Advice UK, Christians Against Poverty, StepChange, IncomeMax, the Institute of Money Advisers, and the Money Advice Liaison Group.

IncomeMax – Vanquis Bank continues to work with IncomeMax, through an innovative partnership that began in 2015, to support customers of the bank that are experiencing financial difficulties. IncomeMax is a community interest company that helps people to maximise their household income by providing them with independent personal welfare advice that helps them take control of their finances. Since 2015, IncomeMax has identified £865,000 of additional income for Vanquis Bank customers experiencing financial hardship and struggling to make ends meet.

The Money Charity – We have a long-standing relationship with The Money Charity, through which we have traditionally supported the delivery of tailored financial education workshops to schools and colleges in many of the communities we serve. In 2019, we tasked The Money Charity to support adults in hard-to-reach groups through the delivery of financial capability workshops. By working with a number of third-sector organisations which support the homeless, ex-offenders and women experiencing domestic violence, The Money Charity delivered 78 workshops in 2019.



Improving educational and skills attainment continued Thriving at work

Throughout 2019, our Vanquis Bank business piloted the Thrive mental wellbeing app across its workforce. The app is an NHS-approved, evidence-based solution for the prevention, screening and self-management of depression and anxiety. The app also includes a coaching service where colleagues have the option to receive additional support where they can chat in the app to a qualified mental health professional at the touch of a button. Feedback from the bank’s colleagues indicates that the app has been well received. As such, throughout 2020, we will introduce the Thrive app to all Provident Financial colleagues as part our Mental Health and Wellbeing Strategy.

We also worked with the Bank Workers Charity during 2019 to deliver a programme of interactive sessions for people managers from across the Group to help them to understand the causes and impacts of stress, anxiety and depression. To date, people managers from across the Group have benefited from receiving the training.

Mental health awareness

Following on from Mental Health Awareness Week 2019 in May, we offered our Bradford-based head office colleagues the opportunity to apply to become a fully qualified mental health first aider. The training was delivered over two days in July 2019 and we now have a group of 22 colleagues that are qualified mental health first aiders based in Bradford. We also have field colleagues across the country that are currently undergoing mental health first aid training, so all areas of our business can access support. Once we have done this we will have a network of mental health first aiders across our business who will be a point of contact if colleagues, or someone they are concerned about, are experiencing a mental health issue or emotional distress. They are not therapists or psychiatrists but they can give colleagues some initial support and help them get more specialist advice if it is needed.

Investing in the communities we serve



For well over a century Provident Financial has been investing in the communities it operates in, reflecting the Company’s purpose of putting people on the path to a better everyday life. In this time, these communities have undergone significant socio-economic change. This changing landscape has informed our approach to community investment and how this is delivered through the Social Impact Programme we launched two years ago. The towns and cities where we engage in community investment activities often have a dynamic third sector, and we recognise the importance of investing in these organisations to maximise the impact and benefits that are delivered. We have found that Community Foundations provide us with a delivery model which provides a well-tested platform for community investment.

We currently have partnerships with:

- Leeds Community Foundation;
- London Community Foundation;
- Hampshire & Isle of Wight Community Foundation;
- Kent Community Foundation;
- Community Foundation in Wales;
- Foundation Scotland; and
- Essex Community Foundation.



The Manjit Wolstenholme Fund

Earlier this year, we launched a new fund with the Leeds Community Foundation in memory of our former Chair and Chief Executive Officer, the highly esteemed Manjit Wolstenholme, who sadly passed away suddenly in 2017. Manjit was born in India and went to school in Wolverhampton. Her life story was one of building the skills and perseverance to break down barriers to succeed in business. Manjit became the youngest woman to head an investment bank in London and went on to become the first woman from an ethnic minority background to chair a FTSE 100 company – Provident Financial. The Manjit Wolstenholme Fund will distribute grants of £5,000–£10,000 with the aim of supporting young people in Bradford to achieve their full potential through educational and aspirational opportunities, no matter what their background. Funding will be awarded to organisations which demonstrate how they will support young people to develop their confidence, build resilience and raise their aspirations when considering further education or gaining life skills to enter the world of work.



Manjit’s own experiences meant she believed passionately that no one should be denied the chance to achieve their true potential as a result of their background or where they live. We want to honour this passion.

Neil Wolstenholme
Manjit’s husband

The Tina Cantello Fund

We also worked in partnership with the Essex Community Foundation to establish a fund in the name of former colleague Tina Cantello. Tina was a much loved and well respected colleague who had been with the Company for over 25 years. The Tina Cantello Fund, which was launched in November 2019, will provide grants of up to £10,000 to community organisations and projects in and around Basildon, Essex, which work to tackle issues which impact social mobility and social inclusion in 2020. Funding will be given to organisations whose activities seek to improve people's personal finance capabilities (debt and financial advice/education), address physical and/or mental health wellbeing issues, provide support which enhances, creates and sustains positive family relationships, deal with issues of low educational attainment and improve learning outcomes or provide people with opportunities to reduce inequality, exclusion and disadvantage, including projects which increase access to employment.

Colleague volunteering

Through our community investment activities, we have offered volunteering opportunities and allowed colleagues time for volunteering for many years. It has, and continues to play, an important role in the delivery of the good work we get involved in the communities we serve. Colleague volunteering is also relevant to our workplace practices as it can help to enhance reward and recognition schemes, and facilitate the development of professional and transferable skills. As such, in order to promote and champion colleague volunteering across our business, our Executive Committee approved the launch of a new Group-wide Volunteering Policy which will contribute to supporting the employee brand objectives of our individual businesses, as well as enabling colleagues to understand the factors which can prevent customers from getting onto a path to a better everyday life and demonstrably live our three Blueprint behaviours.

This policy, which will be launched in early 2020, will:

- allow colleagues one day volunteering or eight hours of volunteering leave that can be taken flexibly, per annum, on initiatives of their choice; and
- encourage colleagues to take part in 'Company-led' volunteering, subject to the approval of their line manager. This is volunteering that is offered by Provident Financial and includes, but is not limited to, becoming a reading volunteer, being a panellist for community investment funding decisions, and supporting work experience and mentoring.



“

Our new Volunteering Policy is closely tied to the Blueprint as it allows colleagues who are hungry for better personal development opportunities that directly assist in putting people on a path to a better everyday life. It is also a hands-on, meaningful way of putting the customer on the team by increasing colleague understanding and empathy for our customers and their communities.

Sharon Orr
Social Impact Programme Manager
at Provident Financial

53

colleagues taking part in Community Foundation grant panels to decide how we distribute funding to 58 local community organisations

53

colleagues training to become mental health first aiders

>70

colleagues giving 472 hours of time to support children and young people through a number of education initiatives such as the National Literacy Trust's Words For Work and Outward Bound Trust programmes



Our environment

Responding to climate change

With protests taking to many streets of the world throughout 2019, and the effects of extreme weather events even more visible, it is clear climate change has moved to the centre of public debate and is an issue that businesses from all sectors will need to address by reducing their greenhouse gas emissions (GHG).

We are cognisant of the findings of the Intergovernmental Panel on Climate Change whose recent reports state that climate change is progressing faster than anticipated, and that if greenhouse gas emissions continue at the current rate, the atmosphere will warm up by as much as 1.5°C above pre-industrial levels by 2040, resulting in more environmentally and socio-economically damaging impacts. As such, we also acknowledge that in 2019, the UK Government passed laws which made the UK the first major economy to end its contribution to climate change by 2050. These established a legally binding target that will require the UK to bring all GHG emissions to net zero by 2050.

To help drive progress within the financial services sectors towards the UK's 2050 net zero target, the Green Finance Strategy was launched by the Government in 2019. The strategy makes clear that financial risks and opportunities from climate and environmental factors need to be at the heart of the strategies of financial services companies. The Government is therefore now expecting all listed companies and large asset owners to report in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) by 2022. Our investors and regulators are also interested in our contribution to climate change and are asking us to report in line with the TCFD.

The TCFD explained

The TCFD is an industry-led initiative, created to develop a set of recommendations for voluntary climate-related financial disclosures. The recommendations are split across four 'thematic areas' that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. In order for companies to assess and disclose the resilience of their strategies, TCFD recommends that an analysis is undertaken which take into consideration multiple climate scenarios.

In 2019, Vanquis Bank's regulator, the Prudential Regulation Authority, required the bank to allocate responsibility for identifying and managing financial risks from climate change to the relevant senior management function(s) (SMF(s)) most appropriate within its organisational structure and risk profile.

We did this, and the SMF for Vanquis Bank is its Finance Director. The bank also undertook an initial exercise to understand the short-term and long-term financial risks that climate change presents to its business models. In 2020, we will build on this and undertake a Group-wide scenario analysis as a first step in meeting the TCFD recommendations. For more information on this and how Provident Financial seeks to minimise the other environmental impacts, refer to our [2019 CR report](#).

Business travel GHG emissions (tonnes of CO₂e)

The business travel of our employees continues to make a significant contribution to Provident Financial Group's overall carbon footprint. During 2019, the business-related journeys made by employees in our home credit business accounted for 7,298 tonnes of CO₂e.

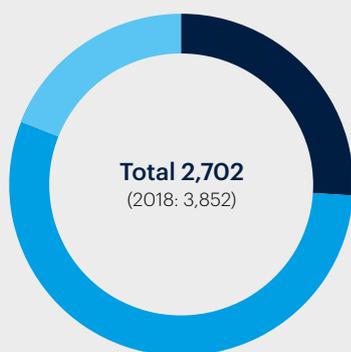
1	Air travel	91
2	Rail travel	77
3	Car travel – own vehicles ('grey fleet')	5,218
4	Company car fuel use	434
5	Extracting, refining and transportation of raw fuel associated with business travel	1,478
Total		7,298

We also monitor the GHG emissions associated with the waste that is generated by the Group's business activities. In 2019, these emissions amounted to 13 tonnes of CO₂e.

GHG emissions reporting

During 2019, our scope 1 and 2 emissions and associated scope 3 emissions accounted for 2,702 tonnes of CO₂e. We have also voluntarily reported some of our scope 3 emissions, in particular, indirect 'well-to-tank' emissions from the extraction, refining, distribution, storage, transport and retail of the fuel we use.

GHG emissions in 2019 (tonnes of CO₂e)^{1,2}



- Direct CO₂ (scope 1) CO₂e emissions
2019: 700
(2018: 1,803)
- Indirect CO₂ (scope 2) CO₂e emissions
2019: 1,502
(2018: 1,637)
- Associated indirect CO₂ (scope 3) CO₂e emissions
2019: 500
(2018: 412)

Scope 1 and 2 (and associated scope 3) emissions intensity ratio (kg of CO₂e/per customer) 1.18 (2018: 1.61)

- Our emissions are reported in accordance with the WRI/WBCSD Greenhouse Gas (GHG) Protocol. We use an operational control consolidation approach to account for our GHG emissions and use emission conversion factors from Defra/DECC's GHG Conversion Factors for Company Reporting 2013. Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use.
- These are the emissions Provident Financial Group is required to disclose in order to meet the requirements of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

2,702

(2018: 3,852)

Total scope 1 and 2 (and associated scope 3) emissions in tonnes of CO₂e

1.18

(2018: 1.61)

Scope 1 and 2 (and associated scope 3) emissions intensity ratio (kg of CO₂e/per customer)

9,468

overall operational carbon footprint
(tonnes of CO₂e)

Carbon offsetting

We continue to offset our direct operational carbon footprint. We do this by financing renewable energy projects around the world which help to mitigate the effects our operations have on climate change. During 2020, we offset 9,468 tonnes of CO₂e, which accounted for all of the Group's 2019 operational footprint. These emissions were offset through the purchase of Verified Carbon Standard-certified carbon credits in a wind power generation project which operates across various states in India which have traditionally been reliant on fossil fuel generated electricity.

The project is playing a vital role in India's shift towards a low carbon economy by generating electricity from a renewable resource and supplying it to the state grid. It also has a range of positive impacts and benefits by providing jobs in local communities across India, improving the livelihoods of families employed by the project and reducing India's reliance on energy generation from fossil fuels. Through the investment we make to this project, we are able to contribute to five of the SDGs which relate to affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, and climate action.



Find out more in our 2019 Corporate Responsibility Report

Our stand-alone 2019 CR Report sets out a balanced account of how Provident Financial's purpose and strategic drivers are aligned to the Group's responsible business strategy, as well as further details of the progress that has been made during 2019 in delivering against this strategy. It relates to the non-financial aspects of Provident Financial plc and its operating businesses in the UK and ROI, and our key stakeholders.



For further details on our corporate responsibility visit providentfinancial.com

Statement regarding section 172 of the Companies Act 2006

Our purpose, which is predicated on our customers, is underpinned by a number of strategic drivers and behaviours. These aim to deliver an appropriate balance between the needs of our customers, the regulator, equity and debt investors and our employees in order to ensure that our business is successful and sustainable for all of our stakeholders. We define our stakeholders as individuals or groups who have an interest in, or are affected by, the activities of our business; our key stakeholders are set out below, and you can read about why we engage with them in more detail on [pages 68 to 70](#). We seek to engage with them regularly to ensure that we are aware of their views and concerns with regard to a wide range of issues. We do this in a number of ways, as detailed on this, and the next, page. You can read how we generate and preserve value over the long term on [page 11](#) (reasons to invest); [page 12](#) (our Blueprint); [page 13](#) (our purpose and business model); [pages 14 to 21](#) (our strategic drivers); and on [pages 42 to 53](#) (risk management). By balancing the interests of our stakeholders, lending responsibly, contributing to wider society and ensuring the appropriate corporate governance arrangements are in place, we can maintain a reputation for high standards of business conduct. You can read our Corporate Governance Report from [page 88](#) and more about how we maintain a reputation for high standards of business conduct in the following sections and pages: from [page 65](#) (corporate responsibility); [page 72](#) (equal opportunities and diversity); [page 142](#) (health and safety); and [page 142](#) (anti-bribery and corruption).

Who does the Board deem to be the Group's key stakeholders?



Our customers

[+](#) See pages 14 to 20 for key KPIs

Why? To determine whether we are delivering our business activities in accordance with our purpose and ensure that we deliver good outcomes for them throughout their journey with us. See [page 68](#) for more detail.

How? (How management and/or directors engaged with and considered our stakeholders)

- Our customer-facing colleagues engage with customers on a daily basis and there are a wide variety of other mechanisms used for measuring customer engagement across the Group (see [page 68](#)). This data is reported to divisional executive management and boards as appropriate.
- Complaint volumes and root-cause analyses are discussed by the Group Executive Committee (GEC) regularly and have also been reported to, and discussed at, the Group Risk Committee (GRC) significantly during 2019. The Board undertook a complaints 'deep dive' during the year and discussed the causes of complaints and how to address these.
- The Group established a Customer, Culture and Ethics (CCE) Committee to review the Group's culture and business processes to ensure they are focused on delivering fair customer outcomes (see [page 106](#)).
- The GEC monitor performance in relation to the delivery of our customer commitments, and our customer-focused purpose, strategic drivers and behaviours.
- The GEC, CCE Committee and Board are also required to review new customer product or channel initiatives.
- The Board undertook customer call listening during its visit to the Bradford Office during the year and the CCE Committee commenced a rolling programme of customer call listening.

What? (What were the key topics of engagement and consideration?)

- Financial inclusion and financial wellbeing.
- Responsible lending.
- Our products, possible future products and digital.
- Customer satisfaction, care, service and complaints.
- Customer affordability and vulnerability.
- Persistent debt.
- ROP restitution.

Key outcomes and actions (What was the impact of the engagement and/or consideration?)

- Management and Board oversight of delivery of customer commitments, outcomes and complaints.
- Reviewed and approved the launch of Provident Direct to modernise the home credit proposition.
- Informed the Group's review of its strategy, product offering and customer proposition.
- Board enhanced its understanding of our customers through call listening, engagement and customer reporting.



Our colleagues

+ See page 73 for key KPIs

Why? To ensure that they understand the Group's purpose and how they can support its delivery, which we believe helps our customer base. To maintain high levels of colleague engagement in order to enable us to attract, retain and develop the talent we need. See [page 68](#) for more detail.

How?

- A Group-wide colleague survey was carried out during the year (see [page 73](#)).
- Designated Non-Executive Director who plays a lead role in Board engagement with employees and understanding employee interests (see [page 108](#)).
- Workforce panels within each division are established, which report up to Group Executive Committee and Board (see [page 108](#)).
- Regular communications with colleagues to keep them appropriately updated on the Defence and unsolicited offer.
- Colleagues are kept fully informed of the financial and operational performance of the Group and the divisions through a mixture of mechanisms (see [page 141](#)).
- Internal communication and employee engagement was also undertaken in relation to our Blueprint, including a launch event with 150 senior employees and dedicated roll-out programmes across the Group (see [page 67](#)).
- The CCE Committee monitors our progress in relation to our culture through oversight of a 'Blueprint dashboard' (see [page 106](#)).
- We have launched our new Group recognition platform, 'Better Everyday' (see [page 72](#)).
- The Board undertook direct engagement with colleagues, including during site visits.
- The Nomination Committee reviewed the Group's training and succession plans, including diversity statistics and initiatives.
- Independent whistleblowing line (see [page 143](#)).
- The Board reviewed proposed changes to its health and safety approach in CCD.
- Executive Director engagement with Pension Trustees regarding defined benefit pension scheme valuation.
- The Board was kept updated on the voluntary redundancy programme in CCD.

What?

- Culture, purpose and behaviours.
- Our customers.
- Financial and operational performance.
- The defence of NSF's unsolicited offer.
- Redundancies.
- Reward.
- Strategy.
- Employee engagement.
- Leadership.
- Development, training and career opportunities.
- Diversity.
- Environment and communities.
- Health and safety.

Key outcomes and actions

- Review of colleague survey results.
- Oversight of our health and safety approach, including the impact on colleagues.
- Review of the Group's gender pay gap.
- Review of the arrangements for employees to raise concerns.
- Review of funding and agreement of future contributions to the defined benefit scheme.
- Review and approval of the new and enhanced mechanisms for colleague engagement.
- Enhanced talent management and succession plans.
- Oversight of diversity data and progress of diversity initiatives and approval of Group and Board diversity policies.
- Membership of Women in Finance Charter.
- CCD's voluntary redundancy programme (see [page 41](#)).



Our regulators and government (and other bodies)

Why? To plan for regulatory change with greater certainty and confidence, to maintain our reputation as a responsible lender and to maintain our sustainable business model. See [page 69](#) for more detail.

How?

- Group Board members and executive management engage proactively with regulators via regular meetings and membership of trade associations.
- Regulatory risk reporting, including horizon scanning, is carried out and reported to the GRC and Board.
- Regulatory engagement and correspondence is reported to and discussed by the Board.
- Our governmental engagement is coordinated by our Group Communications function, with updates provided to the Board regularly.
- Engagement with the Takeover Panel was undertaken during the Defence.
- We continue to assist HMRC on its market-wide review of the self-employed status of agents. CCD's senior management engaged with the Financial Ombudsman Service regarding the complaints and the home credit operating model.
- The Board reviewed preparation for the Senior Managers and Certification Regime in Moneybarn and CCD.

What?

- Affordability.
- Persistent debt.
- Governance framework.
- Product offering, including Provident Direct and ROP.
- ICAAP.
- Group oversight.
- Customer proposition improvements.
- Complaints.

Key outcomes and actions

- The views of regulators and the regulatory environment informed the review of our strategy and product offering.
- Oversight and monitoring of regulatory matters, including approval of regulatory submissions.
- Compliance with the Takeover Code.
- Oversight of the Group's approach to engagement on the Group's role in society.
- Worked with trade bodies to develop an industry narrative and engagement plan in relation to the proposed credit card cost cap and to understand how to address poor claims management company behaviour.



Our investors (equity and debt)

[+](#) See [pages 1 and 57](#) for key KPIs

[+](#) See [page 140](#) for major interests in our shares

Why? To maintain their support and to keep them updated on the Group's progress in delivering its purpose and generating sustainable shareholder returns. See [page 69](#) for more detail.

How?

See [pages 110 to 113](#) for further details on how we engage our investors in our investor relations programme, such as the AGM, stock exchange announcements and the Annual Report. The Board receives an Investor Relations report at each Board meeting, which includes investor engagement and feedback. In addition to the above:

- The Board regularly reviewed, discussed and approved the Board's position in relation to the Defence.
- The Board reviewed and approved the Group's investor relations strategy.
- A Capital Markets Day (CMD) was held during the year. The Board reviewed and discussed the proposed CMD materials prior to the event. Further details are available on [page 111](#).
- The Chairman met major shareholders on a periodic basis, and engaged particularly during the Defence.
- The Chairman of the Remuneration Committee engaged with shareholders prior to the AGM during a consultation regarding our Directors' Remuneration Policy (DRP) and also engaged with investors regarding concerns raised in relation to the vote for the 2018 Directors' Remuneration Report. A shareholder and proxy advisory body consultation process was conducted and an updated statement published in November 2019.

What?

- Strategy and long-term value creation.
- Culture.
- Financial and operational performance.
- The Defence.
- Remuneration.
- Corporate governance.
- Corporate responsibility.

Key outcomes and actions

- The CMD was delivered to shareholders; see [page 111](#).
- Following regular consideration of the interests and views of shareholders as a whole, the Board determined not to support the unsolicited offer (see [page 87](#)).
- Shareholder views shared during the DRP consultation informed the Group's DRP.
- The interests of shareholders informed the Board's review of the Group's strategy.



Our investors (equity and debt) continued

How? continued

- The CCE Committee oversaw compliance with the 2018 UK Corporate Governance Code.
- We engaged the investment community, and our own investors, on corporate responsibility. See [page 74](#).
- The Board reviewed the Group's dividend policy. During the year, the Group Executive Committee and Board reviewed the Group's rolling credit facility (RCF) and the Group's funding arrangements with a view to diversifying access to funding, such as through securitisation (see [page 62](#)).

Key outcomes and actions continued

- The consultation with shareholders informed changes to executive remuneration.
- Approved the dividend policy and dividend payments.
- Approved the RCF and changes to funding approach to diversify access to funding.
- Continued inclusion in both the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index (see [page 74](#)).



Our suppliers

+ See [page 75](#) for key KPIs

Why? To treat our suppliers fairly and develop strong relationships with them which ensure that we only buy products and services from those who operate responsibly and mitigate risk in our supply chain. See [page 69](#) for more detail.

How?

- There is an established due diligence process to manage supply chain-based risks and comply with Group policy.
- During the year, management collaborated with suppliers to standardise the supplier onboarding process and to create a tool that enables buyers to see the results for common suppliers.
- The Group is a signatory to the Prompt Payment Code and we publish our Payment Practices Reporting at Companies House.
- The Board approved a Delegated Authorities Manual which specifies the level at which the Board is required to approve contracts with the third parties.
- The Board reviewed our Modern Slavery Act Statement.
- The Board and GRC reviewed effectiveness of anti-bribery and corruption processes and controls.

What?

- Prompt payment.
- Modern slavery.
- Data protection.
- Environment.
- Supplier on-boarding process.
- Supplier performance.
- Delegated authorities.
- Anti-bribery and corruption.

Key outcomes and actions

- Approved the Group Delegated Authority Manual giving clarity of authorities regarding contract approval.
- Board approval of Modern Slavery Act Statement.
- We remain signatories of the Prompt Payment Code (see [page 75](#)). In 2019, 96% of invoices were paid in line with the Prompt Payment Code terms.



Our communities

+ See [page 76](#) for key KPIs

Why? To invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, may reduce someone's likelihood to be accepted for credit. See [page 70](#) for more detail.

How?

- Our Board-approved Social Impact Programme delivers community investment in a number of areas (see [page 76](#)).
- The CCE Committee received an update on the Group's approach to volunteering and reviewed a new Group volunteering policy.
- The Board receives regular updates on community-related matters and activities.

What?

- Community contributions and charitable giving.
- Customer vulnerability.
- Volunteering.

Key outcomes and actions

- Established the Manjit Wolstenholme Fund (see [page 78](#)).
- Approval of Group volunteering policy (see [page 79](#)).
- Board oversight of community matters and the approach to external engagement regarding the Group's purpose and role in society.



Our environment

[+ See page 80 for key KPIs](#)

Why? To minimise our environmental impacts, in particular to reduce the greenhouse gas emissions associated with our business activities, thereby lessening our contribution to issues such as climate change. See [page 70](#) for more detail.

How?

- A key tool in helping us to manage our environmental impacts is our Environmental Management System (EMS). You can read about our greenhouse gas emissions, and our environmental impact and approach on [page 80](#).
- We report on our environmental performance in our Corporate Responsibility Report.
- The CCE Committee receives updates on environmental performance as part of its 'Blueprint' dashboard.

What?

- Climate change, and details of greenhouse gas emissions.

Key outcomes and actions

- Board-level oversight of the Group's environmental performance.
- We have reduced our scope 1 and 2 emissions to 2,702 tonnes of CO₂e and continued to offset the Group's operational carbon footprint (see [page 81](#)).
- Annual submission to the Carbon Disclosure Project.

In making the following principal decisions, the Board took into account its duties under s.172 of the Companies Act 2006, including the likely consequences in the long term and the impact on its employees:

Defence of the unsolicited offer by Non-Standard Finance plc (NSF)

On 22 February 2019, the Board received an unsolicited firm intention offer for Provident from NSF. The Board evaluated this unsolicited offer taking into account each of the factors set out in section 172 of the Companies Act 2006. In particular, the Board considered how NSF's proposals to dispose of Moneybarn and to dispose of or close Satsuma would impact the business going forward including in relation to its financing arrangements, pension covenant and future digital offering. The Board also considered the impact of the offer on its employees, believing it would have a significant impact.

The Board during this time regularly engaged with its key stakeholders including its employees via timely email updates. In addition, the Board regularly engaged with its shareholders on the development and terms of the unsolicited offer, the outcome of which was a number of shareholders coming out in support of the Board with public statements of support. The Board was also mindful of its obligations to its regulators and regularly interacted with them on the key terms of the unsolicited offer and potential impact on the business and its regulatory status.

In determining to reject the unsolicited offer, the Board also took into account the impact a potential takeover would have on its customers.

The outcome of the Board's decision and continuous engagement with its key stakeholders was the successful defeat of the unsolicited offer, which lapsed on 5 June 2019.

Our budget and profit plan

The Board approved the Group's budget and profit plan in October 2019, having considered the Group's agreed strategy to deliver its purpose of 'helping put people on the path to a better everyday life'. In determining to approve the budget and profit plan, the Board considered a broad number of matters, including:

- Risks (and risk appetite) and opportunities
- Financial:
 - shareholder and market expectations regarding Group performance;
 - financial performance, including revenue, profits and return on assets across the Group;
 - cost efficiency;
 - operational performance and growth initiatives;
 - our dividend policy, cover and payments;
 - investment requirements and plans;
 - our funding plan and policy and meeting our obligations to our lenders under our committed facilities and our banking covenants;
 - the Group's credit rating and impact on funding costs; and
 - funding the Group's pension scheme.
- Regulatory:
 - the Group's regulatory capital and meeting our total regulatory capital requirement; and
 - the regulatory environment and requirements.
- Customer:
 - our customer product proposition, such as personal loans, our product offering for self-employed customers, white label credit cards partnerships and Provident Direct;
 - pricing structure changes, such as fees and charges and progressive pricing;
 - persistent debt;
 - the impact of customer delinquency and impairment; and
 - customer complaints.

Following the Board's consideration of the proposed budget and profit plan, it was approved. Delivery of the budget and profit plan will be monitored throughout 2020.

Chairman's introduction

“

In 2019 we have successfully implemented the 2018 Corporate Governance Code and embedded our Blueprint culture programme throughout the Group. We understand that the governance landscape, especially within financial services, is continually evolving, and we have maintained our focus on the tools, processes and expertise required to maintain the highest standards of corporate governance.

Patrick Snowball
Chairman

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We are acutely aware of the broad impact that our business has upon our customers and the wider responsibilities this brings.

Patrick Snowball
Chairman

Dear shareholder

I am pleased to present the Corporate Governance Report for 2019, a year which has seen the Group navigate a variety of external challenges to successfully achieve its objectives.

As you will be aware, on 22 February 2019, the Board received an unsolicited takeover bid from Non-Standard Finance plc. Over the course of the next four months the Board focused its attention on defending this takeover bid, which it considered to not be in the best interests of you, the Group's shareholders, and other stakeholders. I wrote to you on 23 March 2019 outlining the reasons you should decline the bid and answered as many of your bid-related questions as possible at the AGM. With your support, the takeover bid was successfully defended and lapsed on 4 June 2019. Further information on the action taken by the Board in relation to the bid and how the Board has sought to promote your interests and has had regard to our stakeholders is contained in our section 172 statement on [pages 83 to 87](#).

Purpose and culture

Provident Financial is a financial services company which fulfils an essential role in providing services for customers who would otherwise have difficulty in accessing credit. We are therefore acutely aware of the broad impact that our business has upon our customers and the wider responsibilities this brings. Last year we reported the roll-out of our Blueprint culture programme. This has been embedded during 2019 via the use of management-led workshops and the development of a Blueprint key performance indicator (KPI) dashboard and a customer KPI dashboard, supporting the Board in monitoring culture and the delivery of customer outcomes through our Customer, Culture and Ethics Committee. Progress against the KPIs set by the Board is reported on [pages 14 to 20](#) and a report on the work of the Customer, Culture and Ethics Committee is available on [page 106](#).

The Board also recognises the need to balance our purpose of helping put customers on the path to a better everyday life and the values which underpin this with our strategy to produce sustainable financial growth for our shareholders. For further information on our Blueprint and how we ensure this and our purpose, values and strategy are aligned and embedded throughout the Group, see [pages 12 to 23](#) of our Strategic Report. As a listed company and a lender of money, we must respond to the increasing expectations of business' role in our society and we are a proud signatory to the FTSE4Good Index in recognition of our strong environmental, social and governance practices. Further information on our social responsibility programme is available on [page 76](#).

 Read more about our corporate responsibility strategy in our 2019 CR Report at providentfinancial.com

Chairman's introduction continued



Fighting fit

Our Board

Our Board is responsible to shareholders for the effective oversight of the Company and its businesses and determining the Company's strategic direction and objectives, its viability and governance structure. The Board remains committed to the highest standards of corporate governance when delivering in these areas and in delivering long-term, sustainable value to our stakeholders. For the year ended 31 December 2019, the Board considers that appropriate corporate governance standards were in place throughout the year. For the period under review, the Board believes we have applied the principles and complied in full with the provisions of the 2018 UK Corporate Governance Code (the 2018 Code) by the end of the year.

We have continued to strengthen our Board this year, with the appointment of Graham Lindsay as a Non-Executive Director on 1 April 2019 and Robert East as Chairman of Vanquis Bank and Non-Executive Director of the Group on 26 June 2019. Board member biographies are available on [pages 92 to 97](#). Robert's appointment will strengthen the alignment between the Group Board and that of its largest subsidiary. As was reported in our announcement on 29 July 2019, Simon Thomas, our CFO, has decided to step down at the end of March 2020 for personal health reasons. We will miss Simon, and I thank him for his contribution to the Board during his tenure. Our search for Simon's successor has concluded and Neeraj Kapur was appointed on 9 December 2019 and will join the Board on 1 April 2020. Neeraj joins the Board from Secure Trust Bank plc, a UK retail and SME bank, and has a strong retail banking background, including consumer finance and savings products expertise.

Following the refreshment of the Board in 2018 and 2019, post the new Non-Executive Directors' initial 12 months with the Group, I decided that Board Committee focus and efficiency would be enhanced by a refined membership of each Committee, ensuring the continued appropriate balance of skills and experience. Further details of Committee composition and their work throughout the year can be found on [page 118](#).

As a Board we evaluated our skills and experience this year and designed collective training programmes and enhanced our succession planning. Examples of the key skills of our Board members are set out on [page 96](#). We believe that diversity contributes towards a high-performing and effective Board and our succession plan and Board appointment process have been prepared in line with the Group's Diversity Policy as we aim to produce a diverse talent pipeline with which to secure the Group's future management capability. In support of these endeavours, I am pleased to report that in 2019 we appointed Charlotte Davies as our Group-wide Equality, Diversity and Inclusion Champion and signed up to the HM Treasury's Women in Finance Charter.



Act like it's yours

Risk and governance

The successful governance of a Group with subsidiary companies has always necessitated the clear division and effective delegation of responsibilities. This dynamic has required additional consideration post the implementation of the Senior Managers and Certification Regime (SMCR) within the Consumer Credit Division (CCD) and Moneybarn, and we have adapted by enhancing our Board Governance Manual and Group Delegated Authorities Manual. Together these provide a clear framework within which subsidiary directors can fulfil their SMF responsibilities whilst ensuring the Group Board retains decision making for appropriate matters.

The Board has continued to capitalise on synergies between our subsidiary companies and has fostered the sharing of knowledge and best practice via the merging of the Group and subsidiary Legal, Audit and IT functions. A good example of this enhanced and effective cooperation is the Group and Vanquis Bank Risk Committees working together via a series of successful joint meetings to oversee the design and approval of the Group ICAAP.

The Board has overseen further enhancement of the Group risk appetite framework, following its redesign in 2018, to align both the thresholds and reporting across our subsidiaries, thereby increasing the quality and consistency of the information we receive. Further information on the work of the Group Risk Committee is contained on [pages 135 to 137](#). To ensure that the Executive Committee has sufficient capacity to effectively execute the Group's strategy, an Executive Risk Committee has been established, to afford management additional time to consider and mitigate the Group's risks and to implement Group Risk Committee decisions.



Put the customer on the team

Stakeholders and section 172

The Board recognises the importance of our wider stakeholders and takes its responsibilities and duty to them under section 172 (s.172) of the Companies Act 2006 (the Companies Act) very seriously. Our s.172 statement on [pages 83 to 87](#) explains who our key stakeholders are, how we engage with them and how we have considered their interests in our decision making throughout the year.

As outlined in last year's report, as part of our compliance with Provision 5 of the 2018 Code we opted to constitute workforce panels by extending the work and responsibilities of existing divisional panels, and these will meet regularly to provide timely feedback from colleagues to our Group Executive Committee and Board. In addition to this Graham Lindsay has been appointed our designated Non-Executive Employee Champion, and will regularly visit our offices and field sites, spending time with our colleagues, and feeding back pertinent matters to the Board.

As Chairman, I have ensured Board member visibility and active engagement with our employees and customers, by rotating the venue of Board meetings across our offices and arranging time for directors to floor walk our frontline operations teams, organising customer call listening sessions and encouraging Board members to undertake additional engagement activity.

The Board undertook a detailed review of its interactions with its key stakeholder groups during 2019 and concluded that there were good levels of stakeholder engagement across the Group, and that with the addition of new colleague engagement mechanisms and reporting to the Customer, Culture and Ethics Committee, we directors received sufficient information to enable us to effectively undertake our s.172 duty.

I was pleased by the increased level of attendance and engagement at our 2019 Annual General Meeting (AGM). Following a significant vote against our Remuneration Report (which received 79.58% support) the Group has addressed shareholder concerns, details of which are set out on [page 146](#). Following comprehensive work by the Remuneration Committee, details of which are contained on [page 147](#) of our Directors' Remuneration Report (DRR), our Remuneration Policy implementation has been further refined in response to shareholder and expert feedback.

We held our Capital Markets Day (CMD) on 7 November 2019. Management outlined the Group's marketplace, strategy and customer base, and the operational and growth plans of our divisions, and provided an update on our funding and capital strategy. Live audio of the live-streamed event is available on the Investors section of our website.



Be hungry for better

Board effectiveness

As Chairman, I am responsible for leading the Board and ensuring the effective performance of all its responsibilities. Achieving the right Board composition is essential to its effectiveness and following enhancements to our Board composition in 2018 and 2019, this year the Board undertook an external evaluation facilitated by Lintstock. The outputs of this, in conjunction with the results of our Board Skills Matrix review, will serve as key components of our director development and succession plans, and we will track our progress against an agreed action plan throughout 2020. I am pleased with the outcome of the evaluation which highlighted the Board's strengths (such as our understanding of our regulators and investors) and action areas.

Last year we reported on a number of key areas of Board focus from our evaluation and I am pleased to report progress on these on [page 121](#).

Accurate, timely and clear information is central to effective decision making and as such the Group underwent a Board reporting review in 2019, aimed at enhancing the quality and robustness of our Board and Committee papers, including relevant detail on key stakeholders. Further detail of the process and outputs of this project is available on [page 114](#).

2018 UK Corporate Governance Code

This year we have structured the report to reflect the five sections of the 2018 Code to make the information more accessible: 1) Board leadership and Company purpose ([pages 89 to 106](#)); 2) Division of responsibilities ([pages 114 to 118](#)); 3) Composition, succession and evaluation ([pages 119 to 128](#)); 4) Audit, risk and internal control ([pages 129 to 137](#)); and 5) Remuneration ([pages 145 to 168](#)).

As I look to 2020 and beyond, I believe the Group has a strong governance foundation, rooted in best practice, upon which we can sustainably grow and produce attractive long-term returns for our shareholders.

Patrick Snowball Chairman

27 February 2020

Compliance with the UK Corporate Governance Code

For the year ended 31 December 2019, the Board considers that appropriate corporate governance standards were in place throughout 2019 and the Company complied in full with the provisions of the 2018 Code by the end of the year. You can read our UK Corporate Governance Code Compliance statement on [page 143](#).

This report explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles and complied with the provisions in the Code. The Corporate Governance Statement also explains compliance with the FCA's Disclosure Guidance and Transparency Sourcebook. The UK Corporate Governance Code is published by the Financial Reporting Council (FRC) and available on its website, www.frc.org.uk.

Our Board



Patrick Snowball (69)
Chairman

Appointed: 21 September 2018

Tenure: 1 year

Committees:

Nomination Committee (Chairman)

Examples of key skills:



Career and experience

Patrick started his career in the Army serving for almost 20 years and joined Ajax Insurance (which became part of the Aviva group) in 1988 progressing to hold executive director roles between 2001 and 2007, including UK Executive Chairman, where he played a key role in merging and consolidating a number of businesses into Aviva General Insurance. Patrick was CEO of Suncorp Group Limited, an ASX 20 Australian financial services group, between 2009 and 2015 where he successfully led the turnaround of the group following the global financial crisis. Before joining the Board, Patrick was Chairman of IntegraFin Holdings plc between 2017 and 2018 and has been Chairman of Sabre Insurance Group plc from 2017 onwards. Prior to this Patrick was a Non-Executive Director at Jardine Lloyd Thompson Group plc from 2008 to 2009, Deputy Chairman at Towergate Partnership between 2007 and 2009 and a member of the FSA Practitioner Panel from 2006 to 2008.

Contribution to the Board, key strengths and skills and reasons for re-election

Patrick's unique career and experiences bring a wealth of skills to the Board.

In particular, as Chairman, his previous leadership and demonstrable success in driving change, strengthening governance, creating strong and efficient boards, and instilling stability through a positive culture are key strengths he brings to the Board.

- Experienced Chairman, Non-Executive Director and Chief Executive Officer.
- Extensive experience of the financial services industry and the regulatory environment.
- Wealth of knowledge of the challenges faced by the financial services sector, acquired over a 30-year career.
- Long track record in leading companies to develop and deliver growth plans.
- Change project management, typically involving digital transformation and brand building.
- Building strong customer relationships and leveraging data and insights, as well as leading and developing the wider stakeholder engagement.

Current external appointments

- Chairman of Sabre Insurance Group plc.



Malcolm Le May (62)
Chief Executive Officer

Appointed as CEO: 1 February 2018

Joined the Board: 1 January 2014

Tenure: 6 years

Committees:

Disclosure Committee (Chairman)

Examples of key skills:



Career and experience

Malcolm joined the Group as an independent Non-Executive Director, becoming Interim Executive Chairman in November 2017. Malcolm provided effective leadership to the Board, working with it to redefine roles and responsibilities, and initiated a process to ensure the Board had the right mix of skills, experience and diversity. Prior to joining the Group, he held a number of senior positions within banking, including as Co-Head of Banking for Barclays in New York; Head of European Investment Banking at UBS; and Deputy CEO at Morley Fund Management (now Aviva Investors). Malcolm's previous experience in the boardroom includes being a Non-Executive Director of RSA plc and Hastings Group plc, Senior Independent Director of Pendragon plc, and a Senior Advisor to Ernst & Young and Heidrick & Struggles.

Contribution to the Board, key strengths and skills and reasons for re-election

Malcolm's extensive career, his deep knowledge of various businesses and sectors, his understanding of the regulatory environment and turnaround situations and his proven leadership skills are considered by the Board to be invaluable qualities that made him best placed to lead the business in the development of its purpose and delivery of its strategy, as well as effectively contributing to the Board.

A deep knowledge and experience of the financial services industry and regulatory environment.

- Driven change by redefining roles and responsibilities throughout the business.
- Built relationships with key stakeholders, such as investors and the Group's banks, including leading the rights issue process which has enabled the Group access to funding from bank and debt capital markets.
- Led the strengthening of the Group's governance framework and the realignment of the Group's culture more closely to the developing needs of the customer.
- Re-established and developed an ongoing and transparent relationship with the Group's regulators enabling the Group, inter alia, to achieve authorisation of its Consumer Credit Division, the resolution of the FCA's investigation into the Vanquis Bank's ROP product and the Moneybarn investigation.

Current external appointments

- Senior Independent Director of IG Group Holdings plc.
- Trustee of the Grange Festival.
- Partner at Opus Corporate Finance* and Juno Capital LLP.
- Trustee at Peace at the Crease.

* Non-equity.

Skills key

LCE Leadership: culture and ethics	NED Non-Executive Director	PD Product development	B Banking	IDI IT and digital initiatives	CMT Capital management and treasury
C Chairmanship	CUS Customers	CM Change management	SPL Sub to near-prime lending	ED Executive Director	PLC PLC
AFR Audit and financial reporting	S Strategy	SE Shareholder engagement	HR HR, talent and employee engagement		



Simon Thomas (56)
Chief Finance Officer

Appointed: 3 December 2018

Tenure: 1 year (as announced on 30 July 2019, Simon will step down from the Board on 31 March 2020)

Committees:

Disclosure Committee

Examples of key skills:



Career and experience

Prior to joining the Group, Simon was Group Chief Financial Officer of Just Group plc, a FTSE 250 financial services company. Simon began his career at the then Price Waterhouse in 1985, where he qualified as a Chartered Accountant. In 1990, Simon joined the Nationwide Building Society, becoming Group Financial Controller in 1995. Following his role at Nationwide, Simon was Head of Finance at the Equitable Life Assurance Society and HECM Ltd between 2000 and 2003. He was then approached by Canada Life UK and joined as Finance Director in 2003, becoming Finance & Customer Services Director from 2004 to 2006. In 2006 Simon joined Just Retirement Ltd as Group Chief Financial Officer, until its merger with Partnership Assurance Group plc in 2016, when it was rebranded to the Just Group.

Contribution to the Board, key strengths and skills

Simon's strong financial services background, including consumer, retail banking and insurance experience, is central to his role as Chief Finance Officer. He helped lead considerable growth and change at Just Retirement, and through his various roles he has delivered on both cost and culture initiatives. At Just Group he led the Group's

initial subordinated debt issuance, successfully raising £250m, and led the negotiations which resulted in the completion of a £200m revolving credit facility and the attainment of the first credit rating for the business, rated A+.

- Proven public company Chief Finance Officer.
- Experience in both growth and turnaround situations, contributing to successful strategic change, including in challenging environments.
- Deep understanding of the financial services industry and the challenges faced in a regulatory environment.
- Extensive experience leading financial and management reporting, investor relations, financial systems and reporting to the regulator.
- Built strong relationships with stakeholders, including investors, analysts and other banks.

Current external appointments

None.



Andrea Blance (55)
Senior Independent Director

Appointed: 1 March 2017

Tenure: 3 years

Committees:

Remuneration Committee (Chairman)

Audit Committee

Nomination Committee

Examples of key skills:



Career and experience

Andrea has extensive board and financial services experience. She spent her executive career at Legal & General Group plc, where she was a member of the group executive committee and held a range of senior leadership roles, including Divisional Chief Financial Officer, Group Financial Controller, Group Chief Risk Officer and Strategy & Marketing Director. During 2016 Andrea was a member of William & Glyn's pre-IPO board.

Contribution to the Board, key strengths and skills and reasons for re-election

Andrea brings a wealth of relevant experience, including her understanding of governance, the regulatory environment and conduct risk. She has extensive experience of strategy and customer marketing, complex change, finance and reporting, investor relations and stakeholder management.

- Experienced Senior Independent Director, Non-Executive Director, Board Committee Chairman and senior leader.
- Deep understanding of the financial services industry.
- Track record of working with businesses at different stages of development and supporting both growth and recovery strategies.

Current external appointments

- Senior Independent Director at ReAssure Group Plc.
- Non-Executive Director at Scottish Widows Group and Lloyds Banking Group's Insurance Division.
- Non-Executive Director at The Mentoring Foundation.

Our Board continued



Elizabeth Chambers (57)
Independent Non-Executive Director

Appointed: 31 July 2018

Tenure: 1 year

Committees:

Customer, Culture and Ethics Committee (Chairman)

Group Risk Committee

Nomination Committee

Examples of key skills:

LCE C NED CUS S PD CM
B SPL HR IDI ED PLC

Career and experience

Elizabeth is an experienced board director, senior financial services executive, strategist and marketing leader in the UK and globally. Her previous board experience includes being a Non-Executive Director at Dollar Financial Group, Hibu plc (formerly Yell Group) and The Home and Savings Bank, and an Executive Director of the Western Union International Bank. Prior to these roles, Elizabeth served on the boards relating to consumer finance joint ventures between Barclaycard and other brands, such as Littlewoods, Argos and Thomas Cook. She is currently a Non-Executive Director at Smith & Williamson, the wealth management and professional services firm, and Hastings Group Holdings plc, a major home and auto insurance provider to consumers and businesses in the UK. She has extensive executive experience through roles including Chief Marketing Officer at Barclays and Barclaycard; Chief Marketing and Business Development Officer at Freshfields Bruckhaus Deringer LLP; Partner at McKinsey & Company; and recently serving as Chief Strategy, Product and Marketing Officer at Western Union.

Contribution to the Board, key strengths and skills and reasons for re-election

Elizabeth brings 35 years of experience in strategy, marketing and product development across a range of financial services. As an executive, she has a long

track record of driving revenue growth and solving complex business challenges at major global financial institutions. In various roles she has led businesses through brand and reputation transformations, strengthened customer acquisition and engagement, built innovative digital businesses, and led business turnarounds.

- C-suite marketing executive, board director and strategist.
- Proven people leader.
- Extensive marketing and communications functional background.
- Broad and deep knowledge of financial services, including credit cards and payment products, a wide range of consumer loan segments and marketing in a regulated environment.
- Substantial turnaround expertise.
- Wide exposure to international operations and the unique challenges of leading them.

Current external appointments

- Non-Executive Director of Smith & Williamson Holdings and its subsidiaries.
- Non-Executive Director of Hastings Group Holdings plc.
- Non-Executive Director of the University of Colorado Health Authority.
- Chairman of Group Systems, Inc.



Paul Hewitt (63)
Independent Non-Executive Director

Appointed: 31 July 2018

Tenure: 1 year

Committees:

Audit Committee (Chairman)

Nomination Committee

Group Risk Committee

Examples of key skills:

C AFR NED S SE
B IDI ED CMT PLC

Career and experience

Paul is an experienced Chief Finance Officer, Chairman, Non-Executive Director and Audit Committee Chairman who operates in a number of different sectors. He is currently the Chairman of Kintell Limited. Paul's past non-executive director roles include chairing audit committees for Tokio Marine, Kiln, NEST Corporation, Tesco Bank, Collins Stewart Hawkpoint, Co-operative Banking Group, Charles Taylor Plc and GMT Global Aviation. He is also a past Non-Executive Director of Playtech plc and past Chairman of several private equity backed businesses. He began his executive career in finance working for over 20 years as a Finance Director of various companies, culminating in becoming Deputy Group Chief Executive and CFO of the Co-operative Group from 2003 to 2007.

Contribution to the Board, key strengths and skills and reasons for re-election

Paul's varied and wide-ranging career is built on a successful career in finance. He has a track record of creating and realising value for shareholders and has worked across a number of sectors including financial services, technology, healthcare, retail

and business services. Through his non-executive roles he has helped several management teams adapt their business models to respond to, and anticipate, changes in their competitive and regulatory environments. In both his executive and non-executive career he has had extensive experience of transactions and ensuring that businesses have an appropriate financial structure.

- Experienced Non-Executive Director, Chairman and Chief Finance Officer.
- Broad experience of the financial services industry and the regulatory environment.
- Strong track record in delivering good returns for shareholders.
- Extensive experience of transactions.
- Broad experience as both an executive and a non-executive of developing and challenging business strategies.
- Has helped several management teams adapt business models in anticipation of changes in their environments and markets.

Current external appointments

- Chairman of Kintell Limited.
- Non-Executive Director of Feebris Limited.



Angela Knight (69)

Independent Non-Executive Director

Appointed: 31 July 2018

Tenure: 1 year

Committees:

Group Risk Committee (Chairman)
 Audit Committee
 Nomination Committee
 Remuneration Committee

Examples of key skills:



Career and experience

Angela has extensive experience in both the public and private sectors. Prior to joining the Board, Angela was Senior Independent Director of Brewin Dolphin plc from 2008 to 2017 and has held a number of non-executive directorships at a variety of companies, including Lloyds TSB plc, South East Water and Scottish Widows. Her current roles include being a Non-Executive Director of Taylor Wimpey plc and Encore Capital Group, Inc., and Senior Independent Director at TP ICAP plc. Angela has had a broad range of executive roles, including a number as Chief Executive Officer (CEO). She was CEO at Energy UK, British Bankers Association (BBA, now UK Finance) and APCIMS (now Personal Investment Management and Financial Advice Association). Angela started her career training as an engineer with Air Products Limited and set up the specialist metal heat treatment company Cook & Knight (Metallurgical Processors) Ltd. She was previously a Member of Parliament and Treasury Minister between 1992 and 1997 and was the Chairman of the Office of Tax Simplification from December 2015 to March 2019.

Contribution to the Board, key strengths and skills and reasons for re-election

Angela's varied career brings a wealth of knowledge in both the private and public sectors as a result of over 20 years' experience in non-executive director and CEO roles.

Her experience in the public sector means she has a strong understanding of the expectations of regulators and other public stakeholders. This combination means she is a skilled director who knows how to manage organisations and how to challenge management to deliver. Angela's thought leadership, technical and policy skills, as well as a deep understanding of the financial sector, are demonstrated through her leadership of the repositioning of Energy UK in the energy sector and of the BBA through the banking crisis respectively.

- Experienced government minister, CEO, Chairman and Non-Executive Director.
- Wealth of knowledge of the financial services sector.
- Deep knowledge of regulated industries, the public sector and science and engineering.
- Adept at solving difficult problems with effective solutions.
- Built strong relationships with wider stakeholders in a variety of sectors.
- Understanding of public presentation, in particular as a proficient public speaker.

Current external appointments

- Senior Independent Director of TP ICAP plc.
- Non-Executive Director of Taylor Wimpey plc, Encore Capital Group, Inc. and Arbuthnot Latham & Co.



Graham Lindsay (61)

Independent Non-Executive Director

Appointed: 1 April 2019

Tenure: Less than 1 year

Committees:

Customer, Culture and Ethics Committee
 Remuneration Committee
 Nomination Committee

Examples of key skills:



Career and experience

Over a 40-year career with Lloyds Banking Group plc, Graham held a number of senior executive roles including responsibility for the Lloyds branch network and as Corporate Responsibility Director. He has also held board positions at the Institute of Financial Services and the Chartered Banker Professional Standards Board. Graham joined the Wonga UK board in 2016 as part of the new leadership team engaged to improve the business and deliver change. He joined the board of Vista Communications Ltd in 2015 and helped transform it to achieve a very successful sale. Graham sat on the board of the Institute of Banking & Financial Services and on the Professional Standards Board.

Contribution to the Board, key strengths and skills and reasons for election

Graham brings to the Board extensive experience in commercial and retail banking following a 40-year career at Lloyds Banking Group and a deep understanding across distribution channels. Graham's roles at Lloyds Banking Group and Wonga UK provide him with a strong customer focus, experience and understanding. Graham has had demonstrable success in focusing organisations on their customers, ensuring

they are at the heart of decision making and product design. Graham also has a strong appreciation of the Group's regulatory environment and a track record of engaging with various stakeholder groups.

- Experienced retail banking and financial services executive.
- Extensive customer knowledge, strong customer focus and a track record of enabling and overseeing businesses to ensure that they put the customer at the heart of what they do.
- Understanding of the Group's regulatory environment and expectations of its regulators.
- Significant stakeholder engagement experience.

Current external appointments

- Senior Independent Director of OneFamily, where he chairs the remuneration committee and the customer, member and product committees.
- Vice Chairman and Trustee of the Brain Tumour Charity.
- Consultant for Trustees Unlimited.

Our Board continued



Robert East (59)
Independent Non-Executive Director
and Chairman of Vanquis Bank Ltd

Appointed: 26 June 2019

Tenure: Less than 1 year

Committees:

Customer, Culture and Ethics Committee
Nomination Committee

Examples of key skills:



Career and experience

Robert worked for 32 years in various leadership roles with Barclays Bank latterly as Chief Risk Officer of Absa in South Africa. He joined Cattles Plc, a consumer finance group, in 2008 where he led its restructuring from 2009 and was its Chief Executive from 2010 until completion of the wind-down of the group in 2019. Having joined its board in 2011, Robert became Chairman of Skipton Building Society in 2017 where he is helping develop the Society's strategy, grow its membership and ensure it remains financially strong. He is an Associate of the Chartered Institute of Bankers.

Contribution to the Board, key strengths and skills and reasons for election

Robert brings experience in, and understanding of, retail and commercial banking in the UK and internationally acquired over a 40-year career. Robert is an experienced Chairman, Non-Executive Director and Chief Executive Officer, enabling him to support a culture of openness and debate on the Board and to challenge management to deliver for the Group's shareholders and other stakeholders.

- In-depth knowledge of financial services, consumer finance, risk management and leadership.
- Extensive knowledge of the Group's regulatory environment and expectations of the PRA and FCA.
- Track record of driving cultural change to ensure focus on customers, employees and value.

Current external appointments

- Chairman of Skipton Building Society.
- Non-Executive Director of Hampshire Trust Bank Plc.



Charlotte Davies
Group General Counsel
and Company Secretary

Appointed: 1 April 2019

Career and experience

Charlotte brings a wealth of experience in the financial services sector and is an experienced General Counsel and Company Secretary. Charlotte worked previously at Cabot Credit Management where she was General Counsel and Company Secretary and where she created a new governance framework and redesigned the regulatory structure in consultation with the FCA.

Prior to this role Charlotte was an Equity Partner at Reynolds Porter Chamberlain and General Counsel at Lockton International. She was Head of Affinity Legal and Head of Broker Legal for Royal and Sun Alliance Insurance from 2006 to 2008 and spent her early career at National Australia Bank from 2001 to 2006 as Principal Counsel, Wealth Management.

Contribution to the Board, key strengths and skills

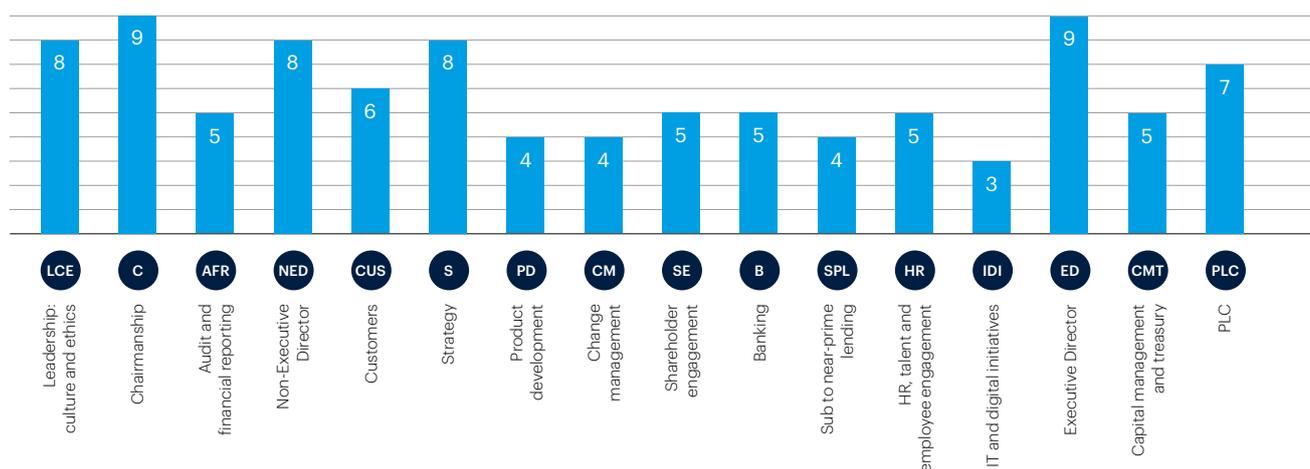
Charlotte's legal experience has been gained predominantly within insurance before moving into the debt purchasing space. Charlotte brings extensive experience in, and knowledge of, the financial services sector and also has legal experience in corporate, commercial, risk management, regulatory and governance advice.

Current external appointments

None.

This graph shows those Board members with strong or very strong skills or experience in some key skill areas. This graph, together with the biographies above, shows how our Board members contribute to the long-term success of the Company.

Skills and experience





Neeraj Kapur
Chief Finance Officer

To be appointed: 1 April 2020

Career and experience

Neeraj is Group Chief Financial Officer of Secure Trust Bank plc, a UK retail and SME bank, and will join the Board on 1 April 2020. He holds a degree in Aeronautical Engineering from Imperial College London, is a fellow of the Chartered Institute of Bankers in Scotland, a fellow of the Institute of Directors, a fellow and a former member of the Council of the Institute of Chartered Accountants in England & Wales (ICAEW), and former Chair of the ICAEW Financial Services Faculty. He has over 25 years' financial services experience spent in both the accounting and banking industries and began his accounting career at Arthur Anderson. In 1992 Neeraj took over the family accounting business, IMC Partners, which he ran for 10 years. Between 2001 and 2011 Neeraj held various roles in the Royal Bank of Scotland, in 2007 being promoted to Group CFO of Lombard and subsequently in 2010 as Managing Director Large Corporate Asset Finance. Neeraj joined Secure Trust Bank PLC in 2011 where he led its IPO process.

Contribution to the Board, key strengths and skills and reasons for election

As a qualified accountant, Neeraj is technically strong and has a diverse background that commenced as an RAF fighter pilot, and has included time as an entrepreneur running his own business and working in a large-scale regulated bank.

Neeraj has a strong retail banking background, including consumer finance and savings products expertise, and has experience in accounting, finance, professional services, governance, operations, marketing and risk. Neeraj is also experienced in building strong relationships with the key stakeholders, such as regulators and shareholders.

- Experienced chief financial officer.
- Significant experience in leading end-to-end finance functions, including for a bank and other corporates, as well as managing accounts for individuals and small business owners.
- Proven ability to build effective working relationships with key stakeholders, including regulators, investors and analysts.
- Deep understanding of, and strong experience in, the Group's sector.
- Brings versatility, intellectual agility and commerciality.

Expected external appointments following appointment date

- Trustee of Turn2Us, a poverty charity.
- Trustee of The Worshipful Company of Chartered Accountants.
- Trustee and Governor of Edgeborough preparatory school.



Board from left to right: Graham Lindsay, Angela Knight, Paul Hewitt, Malcolm Le May, Patrick Snowball, Andrea Blance, Robert East, Elizabeth Chambers, Simon Thomas.

How the Board has promoted long-term sustainable success: the Board sets the strategy

This section sets out how our Board sets our strategy. You can read more about our market, our business model and how we create value for our stakeholders on [pages 24 and 11 to 13](#) respectively. You can also read how we have performed against our strategy, including against our KPIs, on [pages 14 to 21](#).

Our Blueprint

Our new Blueprint provides increased focus on more sustainable business models and increased customer centricity and unifies colleagues.



Our Blueprint has been designed to provide sustainable long-term direction and customer centricity.



Purpose

We believe our long-term success is based on delivering our purpose. Our purpose is designed to unify us and as something everyone can get behind both practically and emotionally. It is our reason for being. Our purpose puts the customer at the heart of all we do; we believe putting them on the path to a better everyday life will build sustainable returns for shareholders.



Strategic drivers

Our purpose is built upon a number of strategic drivers, which are critical pillars of our strategy and under which sit practical priorities. They are designed to drive our competitive advantage and force choices, including regarding our strategy. You can read more about our strategic drivers as set out below.

Customer progression (see [page 14](#))

Human experiences (see [page 16](#))

Head AND heart decisions (see [page 18](#))

Fighting fit (see [page 20](#))

Strategic initiatives process:

1 Corporate Planning Conference (CPC)

In June, the Group held its annual CPC, with the whole Board, the Executive Committee and members of the senior management team attending. The purpose of this two-day offsite event was to create an understanding of the emerging and future challenges facing the Group and to consider and assess the opportunities for the Group's future success and to identify how we will deliver our 'Vision for the Future'.

Delegates engaged in a range of discussions and separate mixed team interactive working sessions were arranged, covering competition, markets, technology and regulation. The Board members played an active role in the sessions and provided clear input on the Group's future direction and key strategic decisions throughout the conference.

2 Identification

The CPC confirmed that the Board's vision is to be the best and most trusted provider of credit to the underserved, delivered across a broader range of products and distribution channels, in order to help our customers on the path to a better everyday life. At the CPC the Board identified a number of strategic initiatives to be delivered (our CPC Strategic Programme), which will enable us to continue to provide customers with credit products aligned with their needs, deliver good customer outcomes and, through this, generate sustainable shareholder returns. To do this we will:

- deliver a broader product range;
- enhance our distribution capabilities;
- establish a single view of our customers; and
- grow responsibly, delivering sustainable shareholder returns.

Vanquis Bank, which we will look to evolve to become a broader bank for the underserved, as the anchor to our strategy, also gives us the opportunity to explore funding efficiencies across the Group.

3 Planning

The strategic initiatives identified at the CPC are collated and refined into a CPC Strategic Programme action plan which is then overseen by the Board and embedded within our budgeting and financial planning process.

4 Monitoring

The Board receives regular updates on the prioritisation and the progress of the delivery of the CPC Strategic Programme action plan and any risks to delivery.

How our governance contributes to the delivery of our strategy

Governance is key to the Group achieving its purpose and the successful delivery of its strategy. Our governance arrangements, designed to support the delivery of our strategy and purpose, determine how the Group is directed and controlled and who has authority and accountability.

Our governance arrangements ensure that our Board determines our purpose, which enables it to set out the strategy and objectives for long-term success and value creation, whilst having regard to the Group's social, regulatory and market environment and stakeholder relationships. The Board monitors how the executive directors, supported by our Executive Committee and wider senior management teams, deliver against this strategy. Our Board sets out the responsibilities and authorities for the Group through the Board Governance Manual and Delegated Authorities Manual.

Another key role of the Board and of our governance framework in relation to the pursuit of our strategy is the oversight and management of risk and internal controls. The Board determines the nature and extent of the principal risks it is willing to take to achieve the strategy and is additionally responsible for assessing and monitoring the Group's risks, including emerging risks, against the agreed risk appetite to ensure the effective operation of the Company in achieving its objectives. Risk, our risk management framework and our internal control framework are overseen by the Group Risk Committee, the Audit Committee and the Board.

The Group Risk Committee assists the Board by taking an active role in defining risk appetite; considering the nature and extent of the risks facing the Group; and monitoring the risk management systems across the Group. There is focus on the risk culture within the organisation which is overseen by the Group Risk Committee on behalf of the Board. The Group Risk Committee is supported by the Group Chief Risk Officer and the Chief Risk Officers in each division.

The Audit Committee keeps under review the effectiveness of the Group's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control systems. The Audit Committee also assesses the viability of the Group and the basis for the going concern assumption. Further details of how the Group's processes and internal controls work are set out on [pages 131, 132 and 137](#).

Our governance arrangements ensure that our Board is responsible for setting the desired behaviours and monitoring the Group's culture, seeking to ensure alignment with our strategy. It is supported by our Customer, Culture and Ethics Committee in these activities, which you can read more about on [pages 103 and 106](#). We believe that employee behaviour and culture are key enablers in achieving our strategy and purpose.

The Remuneration Committee's role is to ensure that remuneration policies and practices are designed to support our strategy and promote long-term sustainable success, encouraging behaviours consistent with the Group's purpose, values, strategy and business model. Further details on remuneration and how the Remuneration Committee operates are set out on [pages 145 and 161](#).

For our governance arrangements to operate effectively and for the strategy to be delivered, it is also essential that our Board and senior management composition is appropriate. Our Nomination Committee's role is to ensure that the Board and its Committees have the right combination of diversity, skills, experience and knowledge; that appropriate succession planning is in place for the Board and senior management teams; and that appropriate arrangements are in place for the development of a diverse pipeline of succession to the Board and senior management roles. Further detail on the work of the Nomination Committee is set out on [pages 125 to 128](#).

As such, our governance provides the framework for the effective running of the Group, supporting appropriate decision making that balances the interests of our stakeholders. High-quality decision making is essential for the effective delivery of our strategy and, as such, long-term value and success.



How the Board has promoted long-term sustainable success: Board activities

The following pages provide examples of key Board activities during the year. Whilst the table is non-exhaustive, it provides an insight into the Board’s discussions and how the directors promote the success of the Company. You can read about how the Board sets the strategy on [page 98](#). One of the key Board priorities during the year was the defence against the unsolicited offer from Non-Standard Finance plc, and greater detail is set out on [page 87](#). You can also read about principal decisions made during the year in our s.172 statement on [page 87](#).

Link to strategic drivers:  Customer progression  Human experiences  Head AND heart decisions  Fighting fit

Operational and financial performance, funding and capital

- Reviewed operational and financial performance and progress against the budget at each meeting, with the Chief Executive Officer and Chief Finance Officer presenting their own reports.
- Reviewed and approved the annual budget.
- Reviewed our approach and progress in relation to cost management and our strategic cost efficiency programme.
- Reviewed and approved the dividend policy and the final and interim dividend payments.
- Reviewed and approved the full and half-year results statements and trading updates.
- Reviewed and approved the refinancing of the Group’s multi-currency revolving credit facility.
- Reviewed the Group’s financing strategy.

Key outcomes

- Oversight of business performance against targets, budget and the agreed strategy.
- Approved annual budget.
- Oversight of the delivery of the cost programme.
- Approved dividend policy and the final and interim dividends.
- Approved the refinancing of the Group’s revolving credit facility.
- Oversight of the Group’s financing strategy.

Key stakeholders

- Investors
- Customers
- Regulators
- Debt providers
- Employees

Link to strategic drivers



Governance, stakeholders and risk

- Reviewed the Group’s investor relations strategy and approved the approach to the Capital Markets Day.
- Received regular investor relations updates, including feedback from investors and wider updates on engagement activities.
- Reviewed the outcome of the Board and Committee effectiveness evaluation and monitored progress on actions identified.
- Considered the effectiveness of the directors and recommended them for election/re-election at the 2019 AGM.
- Considered feedback from investors and proxy advisors on the Group’s AGM resolutions.
- Received reports from the Chief Risk Officer on key risk matters.
- Reviewed and approved the Group’s risk appetite.
- Reviewed reports from the Group Communications Director regarding external communication, political and community matters.
- Reviewed and approved enhancements to the Group’s delegated authorities framework and Governance Manual.
- Reviewed and confirmed the effectiveness of the Group’s internal controls and risk management framework.
- Reviewed and approved a new approach to Board reporting.
- Reviewed the Group’s approach to engaging externally about the Group’s purpose and role in society.
- Reviewed the Group’s gifts and hospitality policy and communication approach.

Key outcomes

- Oversight of engagement with stakeholders, including regulators, investors and community.
- Confirmation of Board and director effectiveness and identification of actions to improve effectiveness.
- Oversight of risk and approved risk appetite.
- Approved enhancements in the Group’s delegated authorities framework and Governance Manual.
- Approved enhancements in Board and Committee reporting.
- Oversight of the Group’s anti-bribery and corruption controls.

Key stakeholders

- Investors
- Customers
- Regulators
- Employees
- Communities
- Government

Link to strategic drivers



People and culture

- Received updates regarding the roll-out and embedding of the Group's Blueprint.
- Reviewed and approved the Group's employee engagement approach.
- Reviewed the 2019 colleague survey results at its January 2020 meeting.
- Reviewed the Group's gender pay gap data and approved its gender pay gap report.
- Approved the establishment of the Group's Customer, Culture and Ethics Committee.
- Reviewed the Group's Whistleblowing Policy and procedure and whistleblowing activity.
- Received updates on key management changes in the Group.
- Reviewed the output of a Health and Safety Review during the year, including the impact on employees.

Key outcomes

- Monitored the embedding of the Group's cultural changes.
- Established a Board Committee with the role of reviewing the Group's culture and business processes to ensure that they are focused on delivering fair customer outcomes, providing oversight of management's delivery and embedding of the new Blueprint.
- Oversight of results from Group colleague survey and action plan.
- Group established new Whistleblowing Forum.
- Oversight of the Group's health and safety approach.

Key stakeholders

- Investors
- Customers
- Employees

[Link to strategic drivers](#)



IT, technology and change

- Reviewed reports from the Group Chief Information Officer, including reporting in relation to the Group's information technology and resiliency; information security; change programmes; regulatory compliance; IT supplier engagement; and data protection arrangements.
- Reviewed the establishment of a Group Technology and Change Oversight Committee.
- Reviewed and approved a new Group Data Protection Policy.

Key outcomes

- Oversight of the Group's information technology and change programme.
- Oversight of the Group's approach to data protection and approved Group Data Protection Policy.
- Establishment of a Group Technology and Change Oversight Committee to enhance the governance in this area.

Key stakeholders

- Suppliers
- Customers
- Employees

[Link to strategic drivers](#)



How the Board has promoted long-term sustainable success: Board activities continued

Link to strategic drivers:  Customer progression  Human experiences  Head AND heart decisions  Fighting fit

Regulatory

- Received reports from the Group Chief Risk Officer on regulatory matters, such as the Vanquis Bank ROP restitution programme, the evolving regulatory environment and regulatory engagement.
- Received a report from the Group Chief Risk Officer on the regulatory landscape and potential future changes.
- Received reports on the readiness for the Senior Managers and Certification Regime (SMCR) in Moneybarn and the Consumer Credit Division (CCD).
- Reviewed and approved the Regulatory Capital Pillar 3 Disclosures, Recovery Resolution Plan (RRP) and Internal Capital Adequacy Assessment Process (ICAAP).
- Reviewed the Group's approach to customer complaints.
- Reviewed the approach to persistent debt, including the delivery of good customer outcomes and impact on the Group.
- Annual review and approval of the Wind-Down Plan.

Key outcomes

- Oversight of regulatory engagement and the meeting of regulatory requirements, including SMCR.
- Approved Pillar 3 Disclosures, RRP and ICAAP.
- Oversight of the Group's approach to customer complaints, persistent debt, the completion of the ROP restitution programme and the Group's approach to affordability regulation.

Key stakeholders

- Regulators
- Customers
- Employees
- Investors

Link to strategic drivers



Strategy and products

- Reviewed and approved the Group's strategy at the Corporate Planning Conference.
- Monitored the progress of the delivery of the Group's strategy.
- Reviewed the Group's product offering, including the evolution of Vanquis Bank to become a broader bank for the underserved, how we help customers save, financial fitness and the Group's approach to loans.
- Considered the sale of a new ROP product, which remains under discussion with FCA.
- Discussed the Vanquis Bank pricing structure changes.
- Reviewed the approach to CCD breaking even in 2020.
- Reviewed and approved the launch of Provident Direct, modernising the home credit proposition.
- Reviewed the Group's approach to open banking and its data strategy, including the 'Provident Knowledge Universe'.

Key outcomes

- Approval of the Group's strategy to meet our purpose and oversight of its delivery.
- Oversight of the Group's product offering and customer proposition.
- Oversight of the Consumer Credit Division's path to breakeven and beyond.
- Oversight of the Group's data strategy.

Key stakeholders

- Investors
- Customers
- Regulators
- Employees
- Debt providers
- Communities
- Suppliers

Link to strategic drivers



Looking forward, the Board's focus for 2020 is expected to include:

- review and delivery of our strategy;
- oversight of business performance;
- oversight of the delivery of cost synergies and efficiencies;
- monitor the Group's culture and customer centricity;
- address all regulatory matters and the continued focus on the working relationship with our regulators;
- oversight of CCD's path to breakeven; and
- the Group's growth opportunities.

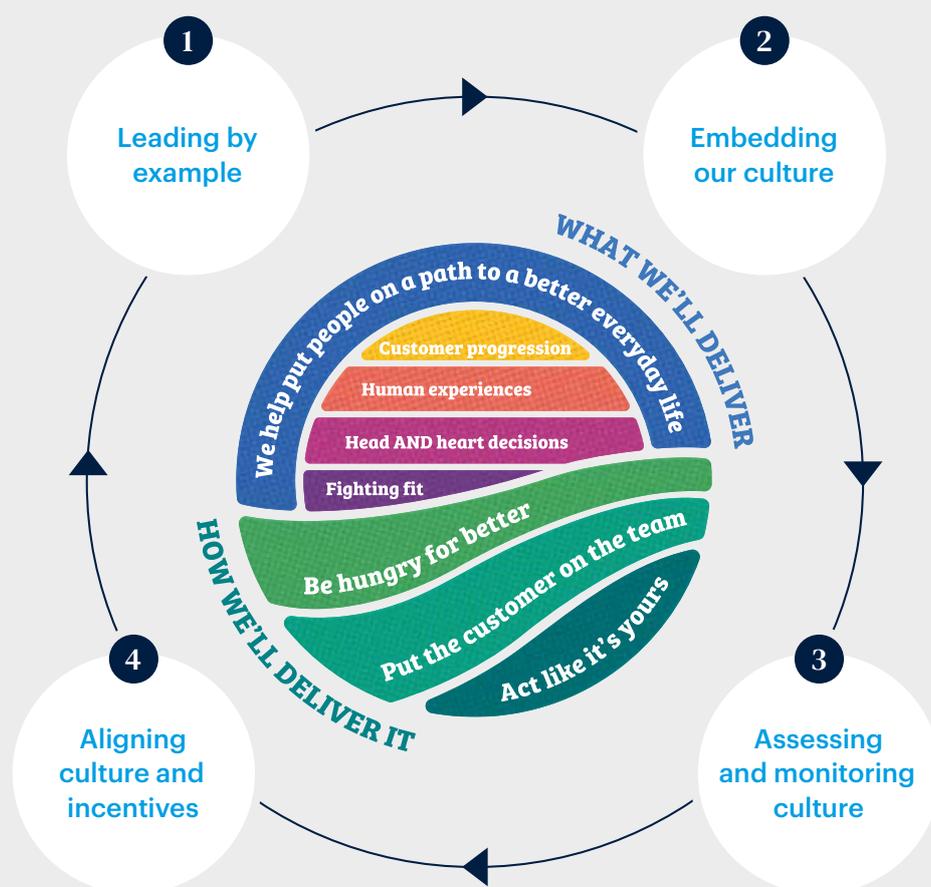
The Board: driving culture

Our Board plays an important leadership role in promoting the desired culture throughout the organisation and making sure that good governance, which underpins a healthy culture, is in place. The Board's role is to support executive management in establishing the framework within which the desired culture can grow: defining and communicating the Company's purpose and values; setting the tone from the top monitoring and assessing whether the desired culture is in place and holding management to account where it is not; and ensuring that the Group's incentives are aligned to and supportive of the desired behaviours and culture. Our Blueprint, developed in 2018 and 2019, established our purpose: why we exist as an organisation, framed in the context of the role we play in our customers' lives. The Blueprint sets out what we will deliver, and what behaviours we need to create the customer-focused, innovative and accountable culture we need to be successful.

We explain more below and on the next page about the Board's role and activities in relation to the Group's culture.

We believe that healthy corporate culture supports us in building the trust of our stakeholders, including our customers, regulators and employees. You can read about how the Board had regard to the matters in s.172 of the Companies Act 2006 in our s.172 statement on [pages 83 to 87](#). You can also see on [page 13](#) how our purpose, predicated on our customers and underpinned by our strategic drivers, drives our strategy and therefore the delivery of long-term sustainable value.

As reported last year, we have now established the Customer, Culture and Ethics Committee, a Board Committee charged with reviewing the Group's culture and business processes to ensure that they are focused on delivering fair customer outcomes; providing oversight of management's delivery and embedding of the 'Blueprint' (see the next page); and overseeing the implementation of changes required to align with our obligations under the 2018 Code.



The Board: driving culture continued

Our purpose

Our Board is responsible for establishing the Group's overall purpose, and the Group has undertaken significant activity over the last two years to align its culture more closely to the developing needs of the customer, which is articulated in our purpose: 'We help put people on the path to a better everyday life.' We believe that having a clear purpose creates a strong foundation for communicating with all stakeholders why we exist, and that by establishing a clear purpose the Board is better able to identify the strategy, values and behaviours that are required to deliver it, and to sustain the Group's role in wider society. Our Blueprint, which you can read more about on [page 12](#), is designed to foster a culture where we think 'customer' all the time; we constantly innovate and make things better for all our stakeholders; and we hold ourselves and each other personally accountable for success.

1 Leading by example

It is key that the tone on culture is set from the top and that our Board directors act with integrity and lead by example. The Board plays a key role in influencing culture, and can do so in a number of ways, for example, through its oversight and challenge of management and also through active engagement with customers and employees, displaying and reinforcing the expected behaviours.

During the year a number of our non-executive directors spent time visiting our locations, including our Moneybarn office and our Vanquis Bank operations centre, and also went on customer visits with Customer Experience Managers in CCD.

During October the Board undertook employee engagement activities in our Bradford office, spending time with colleagues in our Consumer Credit Division and Vanquis Bank contact centres and listening to customer calls in order to enhance their understanding of how we support with our customers throughout their relationship with us.

The Board members also attended various 'Big Blueprint Conversations' led by Group Executive Committee members, involving a wide range of colleagues in dialogue designed to deepen our collective understanding of our Blueprint and culture and to make it feel real and relevant to their specific roles. You can read more about this on [page 67](#).



2 Embedding our culture

Our Board is responsible for ensuring that management communicates, reinforces and measures its progress on embedding the desired culture. Our executive directors and their wider executive leadership team are playing a key role in this regard. They are supported in this by the Human Resources, Internal Communications, Internal Audit and Risk and Compliance teams.

Clear CEO and leadership communications: Our employees receive regular communications from the Chief Executive Officer (CEO) and their Divisional Managing Director regarding business performance and key staff and structural changes, through 'town halls', 'question and answer' sessions and email communications.

This year, our employees were also kept regularly updated on the defence of the unsolicited offer from Non-Standard Finance plc throughout the offer period.

Executive leadership and the Blueprint: Internal communications and employee engagement have helped support our Blueprint, including a launch event with 150 senior employees and dedicated roll-out programmes across the Group. Each of our divisions further cascaded our Blueprint with a large number of events. We created a 'Blueprint Zone' in order to support the delivery of the Blueprint roll-out and we also launched our 'Big Blueprint Conversations' programme.

We have launched our new Group recognition platform, 'Better Everyday', which is designed to help us create a culture where we say 'thank you' or 'well done' to colleagues who are demonstrating our Blueprint behaviours.

Workforce policies and practices: The Board is responsible for ensuring that workforce-related policies and practices are aligned to our Blueprint, which sets out our culture and how we achieve long-term success. You can read more on [page 109](#).

3 Assessing and monitoring culture

The Board's role is also to regularly assess whether the desired culture is operating across the Group and to challenge where they may find misalignment with values. The Board is able to monitor culture through its interaction with management and employees and in a number of ways, such as:

Blueprint key performance indicators: The Customer, Culture and Ethics Committee tracks the embedding of the desired culture through its regular review and discussion of the Blueprint 'dashboard' (a dashboard of key performance indicators has been developed by the Group Executive Committee, in conjunction with the Culture, Customer and Ethics Committee). Regular reviews of metrics and continuous dialogue with management and other stakeholders enable the Board to challenge where they may find misalignment of business practices or actions with our values. You can read more about this on [page 106](#).

Customer key performance indicators: The Customer, Culture and Ethics Committee has also overseen the development of a dashboard of key performance indicators measuring the continued delivery of our customer commitments, including measurement of customer service, customer access to products which perform as we have led them to expect and products which are designed to meet their needs. You can read more about our 'Customer' dashboard on [page 106](#). During the year, the Board also considered customer complaint performance, including a focused Board discussion on customer complaints at the July 2019 Board meeting.

Whistleblowing: The Board is responsible for ensuring that employees are able to raise concerns in confidence and, if desired, anonymously. During the year, the Board reviewed a report on whistleblowing activity.

Internal and external audit: The Audit Committee reviews the nature of findings and the steps taken in response to actions identified in both external and internal audits. The approach to the closure of such actions is an indicator of the right culture. The updates to the Audit Committee from the Group Head of Internal Audit also include an annual assessment on governance, risk management, internal control and risk culture.

Risk: The Group Risk Committee is responsible for oversight of risk culture. It receives a report from the Group Chief Risk Officer at each meeting, which during the year included status reports on risk culture and governance. You can read more about the activities of the Group Risk Committee from [page 135](#) and risk culture on [page 42](#).

Group colleague survey: The first Group-wide colleague survey was held in 2019 and reported on to the Board in January 2020. The survey sought to capture colleague views on the Group's purpose, behaviours, culture and leadership, and established a frame for prioritising actions and baseline for future measurement. You can read more about the colleague survey on [page 73](#).

Health and safety: The Board reviewed the output of a Health and Safety Review during the year, including the impact on employees.

4 Aligning culture and incentives

A key objective for our Remuneration Committee is to ensure that remuneration policy and practices are aligned to the culture of the Group and are consistent with the Group's purpose, values and strategy. To see how the Remuneration Committee ensures that executive director, and wider employee, remuneration is aligned with culture, please see our Directors' Remuneration Report on [pages 146 and 150 to 152](#).

The non-financial performance objectives of our executive directors are aligned to our Blueprint and the Remuneration Committee has discretion to override formulaic remuneration outcomes.

The Remuneration Committee reviewed workforce remuneration and related policies and the alignment of incentives and rewards with culture.

Governance

By ensuring the right governance framework is in place across the Group, the Board enables openness and accountability and exercises appropriate oversight. Good governance enables the Board to receive the right information and challenge management on performance, strategy and culture. As reported last year, the Group has invested substantial time in clarifying

roles and responsibilities, with further work undertaken this year to refine delegated authorities. Having such clarity, alongside strong governance, supports a healthy culture, accountability and compliance with the senior manager regulatory regime. You can read about our Customer, Culture and Ethics Committee's governance role in relation to culture and corporate governance on the next page.

Enhancing our culture and customer focus



Members

Elizabeth Chambers
(Chairman)

Robert East
Graham Lindsay

Allocation of time



● Customer	23%
● Culture	25%
● Corporate governance and stakeholder engagement	45%
● Alignment of executive director objectives and culture	7%

Key achievements for 2019

- Monitoring of culture and customer outcomes through 'Blueprint' and 'Customer' dashboards.
- Overseeing full compliance with the 2018 Code by the end of 2019.
- Review of stakeholder engagement and reporting to ensure information flows continue to enable directors to perform their duties effectively.

Priorities for 2020

- Continue to monitor and challenge the embedding of the Group's culture and delivery of positive customer outcomes.
- Review the Group's community investment priorities and initiatives to ensure impact and sustainability.
- Review new product and channel plans against our purpose and understand how their design and delivery will support this.
- Review the Board's engagement with employees to ensure it is frequent and that their inputs and ideas are considered in our deliberations.

“

I am pleased to present to you the inaugural report from the Customer, Culture and Ethics Committee, following the formal establishment of the Committee in April 2019.

Elizabeth Chambers

Customer, Culture and Ethics Committee Chairman

A key focus of the Committee this year has been to enhance the Board's oversight of our culture and our customer focus through the development of Group and division-specific dashboards relating to both our Blueprint and our customer outcomes. The Committee reviewed design proposals for the Blueprint and Customer dashboards and now uses these to monitor and challenge performance in each line of business and product area. In order to further understand our customers and how we engage with them, the Committee has initiated customer call listening at the start of meetings.

Through active participation in Committee meetings by key senior management members, such as the Chief Executive Officer, Group General Counsel and Company Secretary, Group Communications Director and Head of Sustainability, the Committee is able to effectively challenge and discuss the embedding of our culture and the delivery of fair customer outcomes.

The 2018 Code emphasises the importance of culture and stakeholder relationships, and overseeing activities to ensure compliance with the Code has been another key focus area. I am pleased that the Group was in compliance with all the provisions of the Code by the end of the year. You can read about our position with respect to the Code on [page 143](#).

In order to identify any enhancements that could be made to the information flows and engagement the directors may require in the execution of their statutory duties, the Committee considered and discussed the output of a review of stakeholder engagement and reporting across the Group. To support the Board in ensuring that workforce policies and practice are aligned to the Group's values and support its long-term success, the Committee received an update on the activities that provide assurance on this.

At our December meeting, to support the engagement with our communities, the Committee reviewed the Group's approach to volunteering, its Volunteering Policy and how colleagues are encouraged to volunteer.

We are pleased with our progress in developing the new Committee's charter and areas for focus, as well as a new set of dashboards and communication channels into the Board, and believe the Committee will provide an important lens and forum for supporting the delivery of the Group's purpose over time.

Elizabeth Chambers

Customer, Culture and Ethics Committee Chairman

27 February 2020

Effective engagement with stakeholders

The Board recognises its responsibility to take into consideration the needs and concerns of the Group's stakeholders as part of its decision making process, fulfilling its duty under s.172 of the Companies Act 2006 to promote the long-term success of the Company. You can read in detail about why and how our Board engages with our stakeholders, the impact of the engagement and how we had regard to the factors in s.172 of the Companies Act 2006 in our s.172 statement on [pages 83 to 87](#). Our business model on [page 13](#) shows the role customers and colleagues play in delivering sustainable returns.

Reviewing our stakeholder engagement and information

In addition to existing stakeholder engagement and reporting of this to the Board, a review of our current stakeholder engagement activities was undertaken and reviewed by the Customer, Culture and Ethics Committee during the year.

The review considered:

- who the Company's key stakeholders are;
- our engagement activities with each key stakeholder across the Group and the appropriateness of this engagement;
- the information each Group and Divisional Board and Committee receives on our stakeholders, including as to the outcome of engagement activities;
- that stakeholder engagement is a two-way process and whether appropriate stakeholder feedback loops are in place; and
- whether there was a need for greater direct engagement with any stakeholders at Board level.

The Customer, Culture and Ethics Committee discussed the outcome of the review and whether any changes could be made to engagement, reporting and feedback processes in order to further support the directors in conducting their duties under s.172 of the Companies Act 2006 and to enhance stakeholder engagement. Following discussion, the Committee agreed that there were good levels of stakeholder engagement across the Group and that with the addition of new colleague engagement mechanisms (as detailed on the next page) and reporting to the Committee, the directors received sufficient information to enable them to effectively undertake their s.172 duties. The Committee approved changes identified to enhance stakeholder engagement and reporting, such as: changes to the Board reporting templates to increase focus on stakeholders; a review of stakeholder mapping; and a roll-out of refresher training for directors of Group companies on their s.172 duties.

Engaging with our employees

The focus of employee engagement this year related to the launch and embedding of our Blueprint. You can read about this in detail on [page 67](#).

You can also read about other employee engagement on [page 84](#), which included:

- the cascading of our Blueprint across the Group utilising direct employee engagement; and
- communication with colleagues in relation to the defence against the unsolicited offer by Non-Standard Finance plc; and our first Group-wide colleague survey.



Effective engagement with shareholders and other stakeholders continued



Engaging with our employees continued

As noted on page 104, during the year the Board undertook employee engagement activities in our Bradford office, including in relation to our Blueprint. Our Board members have also undertaken various other direct employee engagement activity, such as: site visits; visits with Customer Experience Managers (CEM); and customer call listening with colleagues at our call centres.

In response to the changes in the 2018 UK Corporate Governance Code and Board appetite to have greater visibility of the colleague perspective on key business and cultural matters, the Group has adopted a model of a combination of workforce panels and a designated non-executive director to lead employee engagement and represent the voice of the employee in the boardroom.

The format of elected workforce panels was already well known and understood by colleagues, with similar forums already in place to two of our three divisions, and take-up of such groups historically had been strong. During 2019 the approach to compliance with the Code requirements was designed and approved by the Board, with updated terms of reference and the role for the workforce panels finalised for alignment with the Code. During the year, workforce panels met and discussed what they would consider to be the emerging themes from our Group-wide colleague survey. Open discussions were held and the feedback from the panels was then reported to our Group Executive Committee and Board.

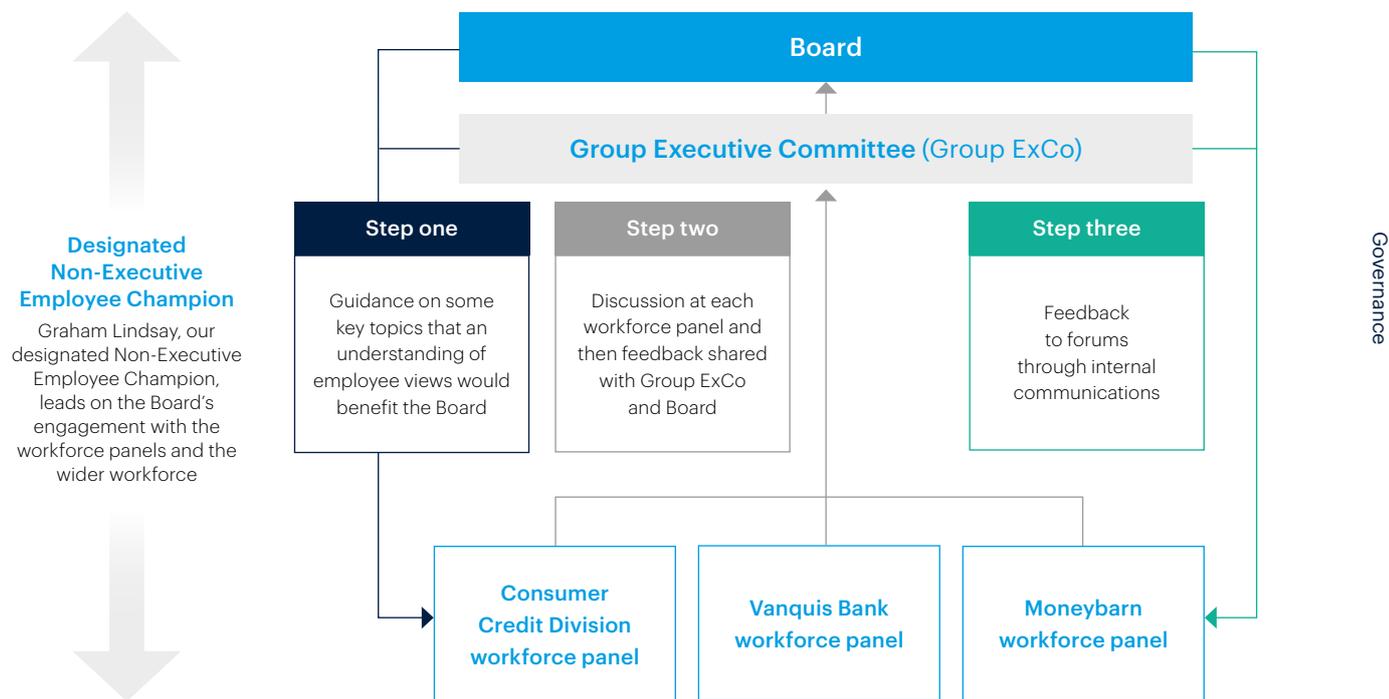
In order for the mechanisms to succeed, a feedback and reporting loop has been designed for 2020, as set out in the diagram on the next page. In order that the workforce panels also discuss key matters on the mind of the Board, topics will be identified by senior management for input by the workforce panels.

The structure of workforce panels also works to support our designated Non-Executive Employee Champion, Graham Lindsay. Graham's role will be to lead the Board's engagement with employees through a combination of engagement with the workforce panels and direct employee engagement. Graham has engaged with employees through multiple channels, including:

- visits to all Group sites;
- joining a regional meeting in our CCD;
- visiting customers with a CEM, attending a regional briefing session held by the Managing Director of CCD and participating in a 'question and answer' session;
- joining a colleague Blueprint session in Bradford and participating in 'break-out' sessions; and
- engaging with the Chairs of the workforce panels in order to understand how he could best engage with the forums in 2020.

These Board engagement arrangements support and complement existing employee engagement mechanisms, ranging from informal 'Q&A' opportunities and focus groups to a Group-wide colleague survey. This mix of activities is deliberate, acknowledging that colleagues like to give and respond to feedback in a variety of ways.

Our workforce panel and designated NED model



Workforce policies and practices

Part of the role of the Customer, Culture and Ethics Committee is to provide oversight that the Group's policies are aligned with its Blueprint. During the year, the Committee reviewed the sources of assurance the Board receives that workforce policies and practices are aligned with our Blueprint, such as: results of the colleague survey, our performance management process, our colleague recognition system, cultural key performance indicators reported to the Committee and whistleblowing. Management also monitors key colleague-related performance indicators, such as length of service, vacancies and turnover rates. During the year, management commenced a review of its workforce-related policies to ensure appropriate alignment with our Blueprint, which is expected to be completed during 2020.

Our approach to investing in and rewarding our workforce

You can read about how we invest in our workforce on [page 141](#) and also our approach to rewarding our workforce on [page 158](#).



During the year, the Customer, Culture and Ethics Committee reviewed the sources of assurance the Board receives that workforce policies and practices are aligned with our Blueprint.

Effective engagement with shareholders and stakeholders: investor relations

Key investor engagement themes in 2019	
<p>Engagement overview</p>	<p>The 2018 Code promotes an inclusive approach to stakeholder engagement and encourages boards to reflect on the way in which decisions are taken and how that might affect the quality of those decisions. It encourages a broad focus and a willingness to listen to different voices and influences, and supports openness and accountability in delivering long-term sustainable success. In that spirit, the Group is committed to engaging in open and honest dialogue with its stakeholders including its investors as shown below by some of the Board activities undertaken in the year, such as hosting the Capital Markets Day.</p> <p>The Chairman takes responsibility for ensuring that all directors are aware of any issues and concerns that major investors may have and also ensures that appropriate engagement mechanisms are maintained and kept under review so that they remain effective. In that realm, the Group maintains the following mechanisms to ensure ongoing effective and robust engagement with its investors:</p> <ul style="list-style-type: none"> • meetings with major investors to discuss what matters to them; • the Capital Markets Day; • the Annual Reports and Accounts; • the Annual General Meeting (AGM); • stock exchange announcements (RNS) and press releases; • a dedicated investor relations team; • investor roadshows; • the Corporate Responsibility Report; and • the Investors section of the Group website. <p>The Chairman and the Board believe that regular engagement provides investors with an opportunity to discuss particular areas of interest and raise any concerns. The Group is committed to effectively communicating its plans and understanding investors' views on its overall strategy and performance. In turn, this enables our investors and investment analysts to formulate a strong understanding of our purpose, strategy, performance and culture.</p>
<p>How the Board engages</p>	<p>Our Chairman's role is to ensure effective engagement with investors, to encourage their participation and to undertake regular engagement himself with investors in order to understand their views. This is demonstrated by the various engagement mechanisms listed above. Regular dialogue and direct engagement by Board members with institutional investors took place in 2019, including meetings after the announcement of the preliminary and interim results and in relation to the unsolicited offer by Non-Standard Finance plc. The Chairman and Senior Independent Non-Executive Director and Chairman of the Remuneration Committee have both held meetings with our investors during 2019. The Chairman also ensures that the Board as a whole receives feedback and attains a clear understanding of the views of investors.</p> <p>The Group has a dedicated investor relations (IR) team which is in regular dialogue with our investors and investor analysts. The IR team presents regular reports for the Board which outline the general nature of matters communicated and discussed with institutional investors, including feedback and engagement plans. Feedback from brokers is distributed to the Board and senior management team. Independent reviews of investor views are also commissioned through perception audits and reviewed by the Board. The Board reviews and approves quarterly management statements and half and full-year results statements which helps ensure that our investors are given timely information pertaining to the Group's performance.</p>
<p>Capital Markets Day (CMD)</p>	<p>A Capital Markets Day was held in November which provided a valuable opportunity for the Board to meet and engage with the Group's key investors in person and hear their views. Presentations were given on our marketplace; strategy; funding and capital; investment case; and the progress and plans for our three divisions: Vanquis Bank, Moneybarn and the Consumer Credit Division. These presentations were delivered by the Chief Executive Officer, the Chief Finance Officer and also the Managing Directors of each of our three divisions.</p> <p>The Capital Markets Day enabled the Group to discuss and communicate how the Group will seek to deliver its purpose, including our strategy and growth ambitions, details of the market in which we operate and the Group's funding and capital strategy. The presentation to investors provided a deeper insight of the Group's direction of travel and a compelling investment case designed to deliver medium to long-term sustainable and attractive shareholder returns for the success of the Group as a whole.</p>

Key investor engagement themes in 2019
Capital Markets Day (CMD)
continued

Investors were able to ask questions and seek clarity on certain issues, enabling an open and honest discussion to take place. To enhance wider engagement and inclusivity, the CMD was also streamed online and this can be found on the 'Results, reports and presentations' page of the Investors section on our website.

Session		Presenter
	Marketplace and strategy	Malcolm Le May
	Vanquis Bank	Neil Chandler
	Moneybarn	Shamus Hodgson
	CCD	Chris Gillespie
	Funding and capital	Simon Thomas
	Investment case	Malcolm Le May

Annual General Meeting (AGM)

The AGM presents investors with an opportunity to ask Board members questions and to cast their votes for proposed courses of action, including the appointment of Board members, the Directors' Remuneration Report (DRR) and the new Directors' Remuneration Policy (DRP).

Prior to the AGM, the Remuneration Committee undertook a formal and transparent procedure for developing the Remuneration Policy. This included Andrea Blance (the Chairman of the Remuneration Committee) engaging with key investors during the end of 2018 and early 2019, consulting and seeking their views on the changes that were being considered to the DRP for 2019.

Andrea also engaged with investors prior to the AGM regarding points raised by proxy advisors in relation to the Group's remuneration. At the AGM, all resolutions were passed. The resolution regarding the DRR recorded an outcome of 79.58% in favour. As a consequence, and in accordance with the Code, the Group published a statement when announcing its AGM results acknowledging that shareholder concern had been expressed through the vote in relation to the DRR. The views expressed by investors were considered following the AGM and discussed by the Remuneration Committee in order that they could be directly addressed. A series of changes to executive remuneration to directly respond to the concerns raised in an appropriate way were developed. In August 2019, Andrea wrote to investors and key proxy advisory groups to consult on the proposed changes, which had been designed to create clear, stretching, but achievable, objectives that would motivate executive directors to drive and deliver outstanding performance for our investors. Following individual dialogue and feedback received from investors during the engagement process, the proposed changes had been received positively.

After the closure of the consultation process, the Remuneration Committee considered the proposed changes and the feedback received from shareholders, and it confirmed the changes for 2019 implementation and beyond where appropriate. You can read the confirmed changes resulting from the review and shareholder consultation on [pages 146 and 147](#) and you can also read our update statement, which sets out the outcome of the shareholder consultation and actions taken, on the Investors section of our website. Our Directors' Remuneration Report, starting from [page 149](#), sets out how we have implemented the Directors' Remuneration Policy during the year and the changes following our shareholder consultation.

IR Programme

In addition to the above activities, our dedicated investor relations team maintains a planned IR Programme throughout the year that ensures active ongoing dialogue with our investors. Other investor engagement activities during the year include the following:



1 The Annual Report

This is the most significant engagement tool that is intended to show investors that the Board has set the Company’s purpose and strategy; and how the Board activities focused on meeting its objectives and achieving outcomes through the decisions it has taken. Most importantly, this enables investors to evaluate our approach to governance arrangements with all information at hand.

2 The Group website

The Group website provides investors with timely information on the Group’s strategy and performance as well as any other key Board activities. It also provides investors with details regarding the composition of the Board, up-to-date financial information, regulatory news and all released RNS, together with detail regarding how the Group meets its Code obligations.

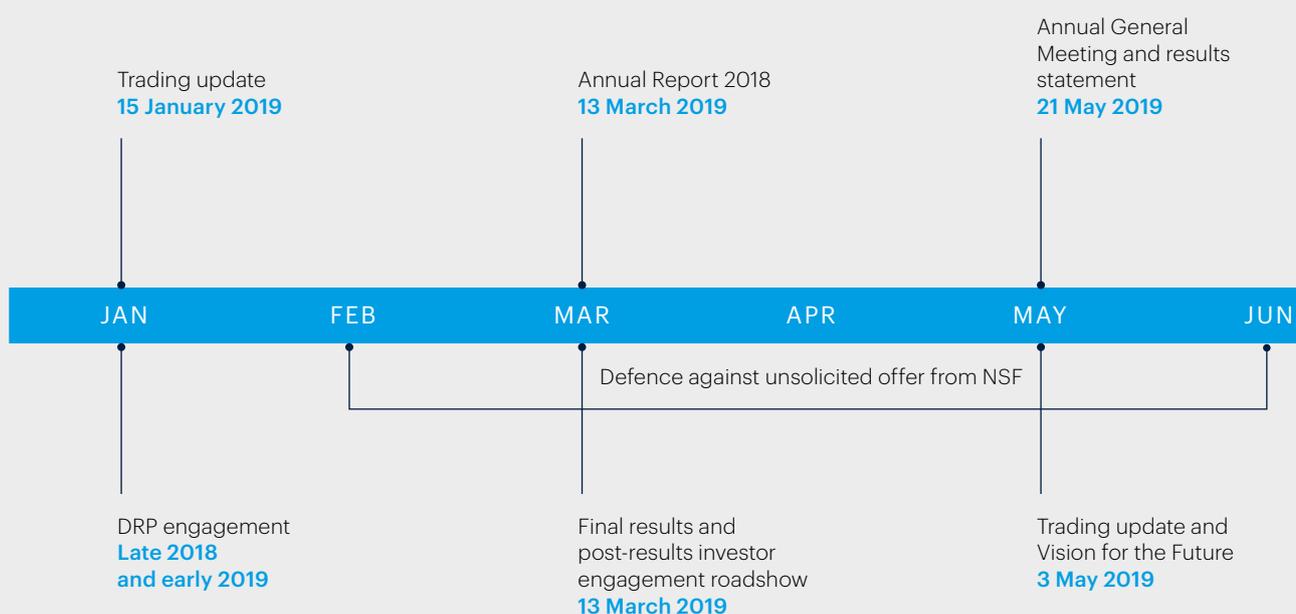
3 Investor days

As shown above, the Group held a Capital Markets Day which outlined the Board’s Vision for the Future and continuing to deliver for the underserved. These events are a key engagement tool with our key investors to hear their views and communicate the plans, risks and opportunities facing the Group.

4 Investor/analyst meetings

The Group takes a proactive approach by inviting investors and analysts to meet with divisional senior management and to visit operational facilities.

2019 IR Programme



5 US and European roadshow programmes

The Group is dedicated to facilitating necessary access for overseas investors to management, enabling them to receive the same access to information as investors in the UK. Roadshows are usually attended by the Chief Executive Officer, the Chief Finance Officer and the Head of IR. The Group did not undertake overseas roadshow activity in 2019 due to defending the unsolicited offer from NSF and preparation for the Capital Markets Day in November 2019. The Group plans to resume overseas roadshows in 2020.

6 Attending broker conferences

Management regularly attends and presents at various conferences hosted by brokers to ensure visibility and accessibility by a wide variety of investors, including those from different geographies. Attendance at broker conferences was limited to attendance at the Goodbody conference in Dublin in November 2019 but the Group plans to increase attendance in 2020.

7 Corporate Responsibility Report (CR Report)

The CR Report offers investors a clear and comprehensive insight into the Group's Blueprint and its social purpose of providing financial inclusion for those who are underserved and also highlights the Group's contribution towards reducing carbon emissions to protect our climate.

8 Shareholder correspondence

The Group is committed to engaging and responding to all investor queries within two working days of receipt of correspondence.

9 Perception audit

Designed to obtain formal independent feedback from investors and sell-side analysts. This enables management to consider and respond to any concerns in the investment community. The Group did not undertake an investor perception audit in 2019 as management was heavily engaged with shareholders through defending the unsolicited offer from NSF and it was considered appropriate to undertake the Capital Markets Day in November 2019 before obtaining feedback. Following a competitive tender process, the Group has now engaged a new independent third party to conduct the next investor perception audit which is scheduled in the first half of 2020 and will obtain feedback on both the Capital Markets Day and performance in 2019 as well as strategy, management and communication.

2019 interim results and post-results investor engagement roadshow
30 July 2019

Update statement on 2019 AGM resolution voting
11 November 2019

JUL

AUG

SEP

OCT

NOV

DEC

Consultation regarding AGM vote for DRR

Trading update and Capital Markets Day
7 November 2019

DIVISION OF RESPONSIBILITIES

Our governance framework

Board of directors

Nomination Committee

- Structure, size and composition of the Board.
- Diversity.
- Succession.
- Leadership needs of the Company.
- Board appointments.

[+ Read more on pages 125 to 128](#)

Audit Committee

- Integrity of the financial statements.
- Independence and effectiveness of the internal and external auditor.
- Reviews internal control systems and manage financial risks.
- Monitors the external auditor's independence.

[+ Read more on pages 129 to 134](#)

Group Risk Committee

- Risk appetite.
- Risk assessment processes.
- Principal and emerging risks.
- Effectiveness of risk management framework.
- Internal capital adequacy assessment process.

[+ Read more on pages 135 to 137](#)

Remuneration Committee

- DRP and alignment to our purpose and strategy.
- Level of remuneration for senior management, executive directors and the Chairman.
- Oversight of divisions.
- Workforce remuneration-related policies.

[+ Read more on pages 145 to 168](#)

Customer, Culture and Ethics Committee

- Stakeholder engagement.
- Approach to managing impact on environment.
- Oversees the alignment of policies, procedures, systems and behaviours with the delivery of customer experience and customer outcomes.
- Monitors embedding of purpose, culture and ethics.

[+ Read more on page 106](#)

Disclosure Committee

- Compliance with Market Abuse Regulation and disclosure requirements.
- Oversight of processes for identifying, treating and disclosing inside information.

Executive Committee

- Development and delivery of the Group's strategic objectives and delivery of purpose.
- Promotes the Group's culture and values.
- Reviews and debates matters before consideration by the Board.
- Monitors and manages financial and operations performance.
- Oversight of management of risk within risk appetite.
- Communication strategy and plan.
- Succession planning.

Delegated Authorities Manual

Board Governance Manual

Corporate policies

These governance documents are key components of the Group's governance framework and are designed to clearly set out roles, responsibilities and authorities. The Board reviewed and approved enhancements to the Group Delegated Authorities Manual and

Board Governance Manual during the year and the Group corporate policies are periodically reviewed. The divisions are responsible for embedding the corporate policies with the Board having oversight.

Information and reporting

The Chairman, Chief Executive Officer and Company Secretary collaborate on finalising agendas and ensure that there is adequate time allocated to support effective discussion. The Board and its Committees receive high-quality, up-to-date information for them to review at least seven days in advance of meetings.

During the year, the Group Company Secretariat department worked with senior management and other Board paper authors to renew and enhance Board and Committee reporting across the Group, providing training, tools and templates. The templates ensure that s.172 considerations and our Blueprint are taken into account when preparing Board papers. The work during the year on Board papers has resulted in improvements in their content, length and insightfulness and we believe has promoted better debate and discussion.

Role of the Board

The Board is responsible to its shareholders and other stakeholders for the management, performance and long-term success of the Company. It sets and oversees the Group's purpose and strategy, ensuring that the Group is managed effectively by monitoring internal controls and risk management and acts in the best interests of its shareholders, whilst having regard to its other stakeholders. Further details on how we engage with stakeholders are on [pages 83 to 87](#).

Where a matter is not reserved to the Board or one of its Committees, it has delegated all other matters to the Group Chief Executive Officer who is supported by the Executive Committee.

The Board operates within a formal schedule of matters reserved to it, which is reviewed and updated on a regular basis. The Board meets regularly and provides direction, oversight and detailed review and challenge to management.

In order for it to operate effectively and provide the right amount of time and consideration to relevant matters, the Board delegates authority to its principal Committees detailed below. Its Committees then report, and make recommendations, to the Board to ensure it maintains oversight of the Committees' activities. The Chairs of the Board Committees also report to the Board after each Committee meeting, as appropriate, on key areas of Committee discussion. More detail on the Committees and their work is described on [pages 125 to 137](#).

The Board also delegates the execution of the Group's strategy and day-to-day management of the Group to its executive directors, who are supported by the Executive Committee. An effective working relationship between the Board and senior management facilitates both support and challenge, with Board awareness enhanced through regular dialogue including upwards reporting from senior management. Executive Committee members attend Board meetings to present on matters that the Board has requested or requires oversight of.

Key Board reserved matters

- Approve and monitor the implementation of the corporate strategy.
- Oversight of the Group's operations and their performance.
- Approval of the annual budgets for the Group and its subsidiaries.
- Oversee the Group's sound systems of internal controls and risk management.
- Approve and monitor the Group's overall corporate governance arrangements.
- Approval of major changes to the Group's structure including acquisitions and disposals.
- Approval of the Group's regulatory capital requirements.
- Approve and monitor major investments and divestments, including cessation of any of the Group's businesses.
- Set, instil and monitor the Group's purpose, culture, values and standards.

The matters reserved for the Board and the terms of reference of each of its Committees can be found on the Group's website at www.providentfinancial.com.



Clear roles, responsibilities, policies and processes help create the conditions for overall Board and management effectiveness.

Managing the business

The Group Executive Committee (ExCo) is chaired by Malcolm Le May and its members are the Chief Finance Officer, the General Counsel and Company Secretary, the Managing Directors of the divisions, the Group HR Director, the Group Risk Officer, the Chief Internal Auditor, the Group Chief Information Officer and the Group Corporate Communications Director. The ExCo supports the Board by overseeing and delivering the Group's strategy and the day-to-day management of the business. The ExCo meets regularly and reviews all material matters prior to the Board, making recommendations to the Board and its Committees for approval. During the year, amongst other matters, the ExCo:

- reviewed operational and financial performance across the Group;
- reviewed the Group's succession plans and approach to talent pipeline development;
- reviewed the colleague survey data;
- reviewed customer complaints data;
- reviewed data relating to persistent debt;
- oversaw the successful completion of the Vanquis ROP redress programme;
- approved Moneybarn's move to a new office;
- oversaw the Group-wide Blueprint roll-out;
- approved the Group annual budget submission for Board approval;
- monitored progress on actions arising from the corporate planning conference;
- reviewed adequacy of the risk management framework;
- assessed and approved the Group risk appetite framework;
- reviewed and approved, for recommendation to the Board, the Group Delegated Authority Manual and Board Governance Manual;
- agreed the proposal of the Group-wide recognition platform 'Perks for Work';
- oversaw CCD's voluntary redundancy proposal programme;
- closely monitored the delivery of our strategic initiatives programme, including CCD's progress to breakeven in 2020;
- monitored progress on the implementation of SMCR in CCD and Moneybarn;
- received regulatory updates;
- approved the ICAAP submission for Board approval; and
- reviewed diversity statistics and diversity strategy and projects.

Division of roles

The roles of the Chairman, Chief Executive Officer and Senior Independent Director are clearly defined and are set out in writing. The Chairman leads the Board and ensures its effectiveness and the Chief Executive Officer is responsible for running the Company's business while leading the Executive Committee. The Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the Chief Executive Officer, other directors and shareholders.

Details of the roles and responsibilities are summarised below, with full details available on our website, www.providentfinancial.com.

Chairman

- Provides leadership of the Board.
- Safeguards corporate governance.
- Ensures effective communication with stakeholders.
- Demonstrates ethical leadership and promotes high standards of integrity.
- Ensures alignment to strategic objectives.
- Encourages and promotes critical discussion and appropriate challenge.
- Ensures Board decisions are taken on a sound and well-informed basis.

Chief Executive Officer

- Provides leadership and direction to the Group.
- Chairs the Executive Committee and makes decisions on matters affecting the operation, performance and strategy of the Group's businesses.
- Develops and recommends strategy and long-term objectives of the Group for approval by the Board.
- Responsible for day-to-day management of the Group.
- Ensures that there are appropriate risk management and internal controls in place.

Senior Independent Director

- Available to address any concerns of shareholders.
- Acts as a sounding board for the Chairman.
- Acts as a conduit for the other directors and takes the initiative to discuss any issues amongst Board members.
- Responsible for reviewing the effectiveness of the Chairman.

Chief Finance Officer

- Leads the Group finance teams.
- Supports the Chief Executive Officer in developing and implementing the Group strategy.
- Ensures effective financial reporting, processes and controls are in place.
- Deputises for the Chief Executive Officer.

Non-executive directors

- Provide independent and constructive challenge.
- Support the Chairman by ensuring effective governance across the Group.
- Monitor and review the performance of the executive directors.
- Bring experience and knowledge from other sectors which are of relevance to the Group.

Company Secretary

- Responsible to the Board.
- Ensures the information sent to the Board is fit for purpose and facilitates effective discussions.
- Provides comprehensive practical legal support and guidance to directors, both as individuals and collectively.
- Provides support for the Board on corporate governance.
- Responsible for communicating with shareholders, as appropriate.

Independence of non-executive directors

Independent non-executive directors provide independent oversight and constructive challenge to executive directors. As well as independence, they bring impartiality, skills and experience, knowledge and their own personal qualities to the boardroom.

Board balance



The Nomination Committee and Board review the independence of its directors on appointment and thereafter annually. The reviews consider factors set out in the 2018 Code, such as tenure and circumstances, which may impair or could impair independence. Following consideration and recommendation from the Nomination Committee, the Board determined that each non-executive director remained independent except the Chairman, who was independent on appointment. In determining the independence of Robert East, the Nomination Committee and Board did take into account that he is the Chairman of Vanquis Bank and confirmed that he still remained independent in relation to his appointment of the Company, particularly given his short tenure. Each of the non-executive directors appointed during the year was formally determined to be independent.

All directors are required to disclose to the Board any outside interests which may pose a conflict with their duty to act in the best interests of the Company. The Board reviewed and approved a Conflicts of Interest Policy during the year which applies to all Group directors and sets out the arrangements for when a director of any company within the Group has an actual or potential conflict of interest. Further details on conflicts of interest can be found in the Directors' Report on [page 139](#).

Board appointments and time commitment

The Committee reviewed the Board appointment process during the year to ensure it continued to be transparent and robust. The process sets out what the Committee needs to consider when recommending Board appointments which includes directors' skills, other commitments, diversity, independence and culture.

During the year, Graham Lindsay and Robert East were appointed as Independent Non-Executive Directors and Robert was also appointed as Chairman of Vanquis Bank Limited. As announced on 9 December 2019, Neeraj Kapur was appointed as Chief Finance Officer and will join the Board on 1 April 2020. A rigorous appointment process was followed for their appointments as detailed on [page 128](#).

The Board reviewed the time commitment of each director during the year, as well as on appointment and on the change of external time commitments, and determined that they had sufficient time to discharge their responsibilities having considered their external time commitments. Directors are required to ensure that they will have sufficient time to meet what is expected of them effectively.

The Board will consider appointments that the directors may wish to take on in order that they do not compromise their effectiveness and the Code also requires that additional external appointments should not be undertaken without approval of the Board. The Board's External Appointment Policy is designed to ensure that all directors remain able to effectively discharge their responsibilities to the Company, whilst recognising the benefit of external appointments. The contractual appointment documents for directors and our internal policies require that any proposed appointment to the board of another company will require the prior approval of the Board. The Board considers all requests for permission to accept other directorships carefully, subject to the following principles:

- a non-executive director would not be expected to hold more than four other material non-executive directorships;
- if a non-executive director holds an executive role in a FTSE 350 company, they would not be expected to hold more than two other material non-executive directorships;
- in line with the Code, an executive director will be permitted to hold one non-executive directorship in a FTSE 100 company (and to retain the fees from that appointment) provided that the Board considers that this will not adversely affect their executive responsibilities to the Company; and
- the Board would not permit an executive director to take on the chairmanship of a FTSE 100 company.

During the year, the Board considered Angela Knight's proposed appointment to Encore Capital Group, Inc., as a Non-Executive Director. The Board took account of her time commitments and resolved that she would have sufficient time to discharge her duties to the Company and, as such, approved the appointment after noting that she would also be stepping down from the board of TP ICAP plc in 2020. During 2019, the Board also considered proposed external appointments for other non-executive directors which were not significant enough to affect their time commitment and were therefore approved by the Board.

Member attendance at Board and Committee meetings in 2019

The Board held nine meetings during 2019. In addition to the formally scheduled meetings, the Board also met on 13 other occasions (in person and via telephone conferences) often at short notice, for example to discuss the unsolicited offer by Non-Standard Finance plc.

The Board holds meetings at regular intervals when the Group's financial and business performance is reviewed, along with risk, IT, legal, human resources and strategic matters. There is a comprehensive meeting pack and agenda which are circulated before both Board and Committee meetings to allow the directors adequate opportunity to consider the matters to be discussed. Board and Committee meetings are scheduled more than a year in advance and if any director is unable to attend a meeting, they are encouraged to provide their opinions and comment on the papers and matters to be considered when circulated before the meeting. Meetings are structured so that appropriate time is devoted to all agenda items. In addition to these scheduled meetings, 'ad hoc' meetings are held outside the published cycle where circumstances require – for example, to approve appointments to the Board, to deal with any material transactions or to approve regulatory submissions.

DIVISION OF RESPONSIBILITIES CONTINUED

Member attendance at Board and Committee meetings in 2019 continued

The table below sets out the Board and Committee attendance during the year. Attendance is shown as the number of meetings attended out of the total number of meetings possible for each individual director. During 2019, the absences by directors shown below were all as a result of other pre-planned commitments, urgent personal matters or meetings which were called at short notice.

Board member	Board	Ad hoc	Audit Committee	Ad hoc	Nomination Committee	Ad hoc	Remuneration Committee	Ad hoc	Group Risk Committee	Ad hoc	Customer, Culture and Ethics Committee
Total number of meetings	9	13	6	2	5	1	5	5	4	2	3
Patrick Snowball	9/9	12/13	—	—	5/5	1/1	—	—	—	—	—
Malcolm Le May ⁷	9/9	13/13	—	—	—	—	—	—	—	—	1/1
Simon Thomas ⁸	7/7	7/7	—	—	—	—	—	—	—	—	—
Andrea Blance ^{6,7}	9/9	13/13	6/6	1/2	5/5	1/1	5/5	5/5	2/2	—	1/1
Graham Lindsay ²	6/6	8/8	—	—	3/3	1/1	2/2	4/4	1/1	—	2/2
John Straw ¹	1/3	8/11	1/2	—	1/2	—	—	—	1/1	—	—
Robert East ³	4/4	0/1	—	—	2/2	0/1	—	—	—	—	2/2
Paul Hewitt ^{4,7}	9/9	13/13	6/6	2/2	5/5	1/1	3/3	5/5	4/4	2/2	1/1
Elizabeth Chambers ⁵	9/9	13/13	3/3	—	5/5	1/1	3/3	5/5	4/4	1/2	3/3
Angela Knight ⁷	9/9	13/13	6/6	2/2	5/5	1/1	5/5	5/5	4/4	2/2	1/1

1 John Straw stepped down on 20 May 2019.

2 Graham Lindsay was appointed on 1 April 2019.

3 Robert East was appointed on 26 June 2019.

4 Paul Hewitt and Elizabeth Chambers were members of the Remuneration Committee until July 2019.

5 Elizabeth Chambers was a member of the Audit Committee until July 2019.

6 Andrea Blance and Graham Lindsay were members of the Group Risk Committee until July 2019.

7 Malcolm Le May, Andrea Blance, Paul Hewitt and Angela Knight were members of the Customer, Culture and Ethics Committee until July 2019.

8 Simon Thomas took extended leave from April 2019 to July 2019 to have a heart operation.

“
Appointing directors who are able to make a positive contribution to the Board and the Company is one of the key cornerstones of Board effectiveness.

Board composition

We believe that it is key to have the right Board composition in order to ensure Board effectiveness and successful delivery of the Group’s strategy. In that regard, the Board strives to ensure that its composition and that of its Committees is appropriate with a sufficient combination of skills, diversity, experience and knowledge. In determining this, consideration is given to the length of service of the Board as a whole to ensure membership is appropriately refreshed. In addition, outcomes from the Board evaluation pertaining to Board composition are shared with and discussed by the Nomination Committee; these are then used to identify gaps in skills and experiences which would be built into the Board training and development programme.

A review of the Board to consider its composition, diversity and how effectively its members work together to achieve the Group’s objectives is undertaken annually. The Nomination Committee ensures that a rigorous and transparent appointment procedure is followed, with a diverse pool of candidates considered for any vacancy which arises, with any appointments based on merit, having regard to the skills, competencies and experience of the candidate. The Committee also ensures that succession plans are in place for Board and senior management positions and is also responsible for overseeing the development of a diverse pipeline of talent. More details on the role of the Nomination Committee in the Board appointments process can be found on [page 128](#).

As a result, the last 12 months have seen further Board changes reflecting the demands on the Board and Group in the delivery of our purpose. Importantly, the refreshed Board reflects a good balance of skills, experience and diversity, required for the Board to remain effective, supporting the delivery of the Group’s Blueprint purpose, culture and strategic goals.

Board changes

Our Board has continued to evolve in 2019 and, following a thorough search to identify appropriate candidates with the right cultural fit, skills and experience, the Group was pleased to welcome Graham Lindsay and Robert East in April and June 2019 respectively as Independent Non-Executive Directors. The appointments of Graham and Robert were completed at the recommendation of the Nomination Committee, providing the Board with a deep wealth in expertise. The refreshed Board now reflects sufficient size and independence, which enables the Board to operate effectively.

The Board currently consists of nine members which includes the Non-Executive Chairman, one Senior Independent Director, five Independent Non-Executive Directors, and two Executive Directors. Biographical details of all directors are given on [pages 92 to 97](#).

In addition, the composition of the Committees was also refreshed during the year to enhance the focus and efficiency of the Board Committees.

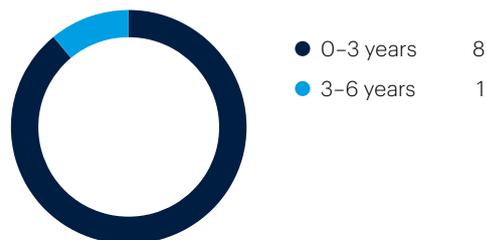
On appointment, non-executive directors receive a formal appointment letter and executive directors receive a formal service contract, which identifies the time commitment expected of them. Further details on the terms and conditions of appointment of non-executive directors and service contracts of executive directors are available to investors for inspection at the Group’s registered office address during normal business hours.

During 2019, the following changes to the Board took place:

- On 20 May, John Straw stepped down from the Board.
- On 1 April, Graham Lindsay was appointed to the Board as an Independent Non-Executive Director.
- On 26 June, Robert East was appointed to the Board as an Independent Non-Executive Director and he was also appointed as the Chairman of the Board of Vanquis Bank Limited, a subsidiary company of the Group.

More details of their skills and experiences can be found on [pages 92 to 97](#).

Tenure



Directors’ Board tenure as at 26 February 2020							
	2014	2015	2016	2017	2018	2019	Total tenure
Patrick Snowball						1 year, 6 months	1 year, 6 months
Malcolm Le May		3 years, 9 months	2 months	2 years, 1 month			2 years, 1 month 2 months 3 years, 9 months
Simon Thomas					1 year, 3 months		1 year, 3 months
Andrea Blance			3 years				3 years
Elizabeth Chambers					1 year, 6 months		1 year, 6 months
Paul Hewitt					1 year, 6 months		1 year, 6 months
Angela Knight					1 year, 6 months		1 year, 6 months
Graham Lindsay					11 months		11 months
Robert East					9 months		9 months

Malcolm Le May key: ■ Chief Executive Officer ■ Interim Executive Chairman ■ Non-Executive Director

Induction for new directors

Board induction

The Chairman and Company Secretary ensure that all newly appointed directors receive a comprehensive induction programme that is tailored to their skills and experiences. The programme is aimed at providing an in-depth understanding of the business, our purpose, culture and values, and the markets in which the business operates, as well as providing directors with the opportunity to meet with employees. The induction programme comprises a combination of site visits and meetings with other Group executives and senior management as illustrated below.

The tailored induction programme

On joining the Board in 2019, Graham and Robert were provided with a tailored induction programme which was designed to ensure that they gained a full understanding of the Group. An example of a programme that is individually tailored to the knowledge and experience of each director includes the following:

One-to-one meetings

Graham and Robert met with senior management including the members of the Executive Committee and the Divisional Managing Directors. A director's specific induction is tailored to the role they are appointed to; therefore senior management induction meetings are also held as appropriate, including with Group Internal Audit, Group Finance, Divisional Chief Finance Directors and Divisional Chief Risk Officers. The new director will also meet key stakeholders relevant to their specific role such as the Group's key advisors and brokers, representatives from the FCA and Prudential Regulatory Authority (PRA), the Group's major investors, and the Group's auditor, Deloitte LLP.

Induction materials

Each new director is provided with full access to an electronic 'reading room', which includes induction material, such as various relevant policies, terms of reference, Group organisational charts, the latest trading statements, the Annual Report and Accounts, recent shareholder information and broker notes as well as recent and relevant regulatory correspondence.

Field and site visits

Relevant arrangements are made for all new appointments to go on customer visits accompanied by a Customer Experience Manager. This gives an insight into the Consumer Credit Division and enables directors to experience how we seek to deliver our purpose. Each Board member also undertakes a field visit which includes spending time at a regional home credit office with local management who give an overview of the home credit operation and how the team, together with the Customer Experience Manager, works towards achieving best customer outcomes.

Graham and Robert undertook various site visits as part of their induction programme. This included a visit to the main offices of each of the businesses and spending time with key individuals at different operational levels to gain a thorough understanding of the business, its culture, its customers and its products. It is crucial to the Group that the Board understands not only how the business operates, but how it treats its customers and its employees on a day-to-day basis. Examples of tailored induction site visits include:

- time spent within the operations of CCD in the Group's head office in Bradford and with management who are responsible for the home credit and Satsuma brands;
- one-to-one meetings with senior management at Vanquis Bank's London office;

- time spent in the Vanquis Bank call centre meeting a variety of employees and gaining an understanding of the direct contact the business has with its customers. Time is also spent with the customer service team listening to calls, and receiving presentations which provide an overview on fraud, collections, analytics and customer services; and
- time spent at Moneybarn's head office in Petersfield, meeting the senior management team and gaining an understanding of the business operations in more depth which includes having one-to-one sessions with the members of the Moneybarn Executive Committee.

As Chairman of Vanquis Bank, Robert has undertaken additional significant engagement across the Vanquis Bank business, including operations visits, listening to customer calls, and meeting with Vanquis Bank's key stakeholders such as the Prudential Regulatory Authority and the Financial Conduct Authority.

Ongoing Board training and development

The Board believes that continuous director training and development supports Board effectiveness. Under the direction of the Chairman, the General Counsel and Company Secretary takes responsibility to facilitate and arrange Board training, and assist the Board with professional development.

The ever-evolving regulatory landscape means that there is an increased need to continuously scan the horizon and identify any key developments that need the Board's prioritisation. As such, the General Counsel and Company Secretary delivers updates to the Board on any developing regulations and laws and corporate governance by way of presenting Legal Reports at each meeting. Regular updates are also provided by the Chief Risk Officer in relation to emerging regulatory themes and anticipated regulatory changes.

During the year the Nomination Committee reviewed an updated Board Skills Matrix, which will enable more targeted training for our directors and will support the annual director performance review process. During the year, an enhanced Board training and deep dive rolling programme was developed and approved by the Board, which will be led by the General Counsel and Company Secretary to promote awareness and knowledge amongst the Board of key thematic and business-specific matters such as customer vulnerability and financial difficulty.

In addition, the Board also received:

- an advisory briefing from an external advisor during the defence against the unsolicited offer from Non-Standard Finance plc, which was primarily focused on its duties and legal obligations in the context of defending the unsolicited offer;
- a briefing on the SMCR ahead of its implementation for our Consumer Credit Division and Moneybarn businesses, to ensure that the directors were kept up to date on the regulatory regime and its implications for those businesses; and
- training on the regulatory changes in respect of reporting on how the directors undertake their duties under s.172 of the Companies Act 2006.

Directors are also given access to an external online academy tool which provides a wide array of briefings, education and bespoke training.

Board evaluation

Board evaluation: continuing to monitor and improve our performance

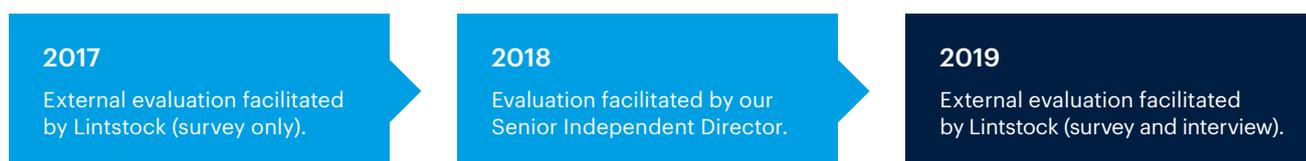
We fully recognise that a key cornerstone of corporate governance is an effective board. It is therefore important that boards continuously monitor and improve their performance in order to remain effective, supporting the long-term success of the company. As such, each year the Board undertakes a formal and rigorous evaluation of its own performance and the performance of its Committees and individual directors; this gives the Board and the directors an opportunity to identify and reflect upon their strengths and development areas and, ultimately, improve their effectiveness.

Reflecting his role in ensuring the effectiveness of the Board, our Chairman plays a key role in the design and approach of the annual Board and Committee effectiveness evaluation and agreed the proposed approach with the General Counsel and Company Secretary. The Board considered the proposed approach for the 2019 evaluation process at its September 2019 meeting and determined that following last year's internally led process and as the majority of the Board had been working together as a unit for over a year, it was appropriate to undertake an externally facilitated evaluation, led by Lintstock. The Board also determined that the evaluation should cover a broad range of areas, including composition, diversity and how effectively the Board members work together, including during the period of defence against the unsolicited offer by Non-Standard Finance plc.

We set out more details about this year's process and outcome below, together with updates on the actions identified last year. The conclusions of this year's externally facilitated review generated 66 individual points for the Board to consider across areas including Board composition and diversity, dynamics, the oversight of stakeholders, strategy, operations, risk and people, meeting management and support, as well as lessons from the successful defence of the unsolicited offer. These points informed a proposed plan of action that the Board considered at the January 2020 meeting, and a number of the meaningful recommendations for enhancement are reported on [pages 123 and 124](#).

Note: Lintstock also provides the Group with an insider list management system. Lintstock has no other connection with the Company or its directors, other than offering its services to other companies of which the Company's directors are also directors.

Our three-year evaluation cycle



Board evaluation 2018

As reported last year, given the relative short tenure of the Chairman and Board, the Chairman requested that the Senior Independent Director facilitate the 2018 Board and Committee evaluation process. Halfway through 2019, the Board reviewed progress made against the actions identified in the 2018 process to ensure they remained a focus area for continued Board effectiveness. An update on the actions is set out below:

Area	Activities during 2019
<p>Whilst the view was that the focus of time on the agendas was appropriate at this point, there was a need to increase the focus of agendas on the key strategic issues which, it was agreed, would add value for the Group's various stakeholders, as the Board members' knowledge of the Group and its businesses began to increase.</p> <p>Responsibility: Chairman.</p>	<p>The Board believes that good progress has been made during 2019, particularly given the amount of Board time that was committed to defending against the unsolicited offer from Non-Standard Finance plc. The Board held its first Corporate Planning Conference, following the significant changes in composition during 2018, in June 2019 at which it discussed the emerging and future challenges facing the Group and identified how it intends to deliver our Vision for the Future. Notable work has also taken place during the year to enhance the focus of the Board and Committee agendas and Board reporting so that the Board spends the appropriate time on the right matters, including strategy.</p>
<p>New Board members to continue deepening their understanding of the Group and its businesses.</p> <p>Responsibility: New Board members.</p>	<p>Each new director has undertaken a tailored induction plan which supports them in deepening their understanding of the Group. The non-executive directors who were appointed during 2018 have now been in role for over one year, and have developed their understanding of the business through Board and Committee meetings and engagement with management and the wider workforce. During 2019 the Board also identified key topics for further deep dive and Board training in 2020.</p>

Board evaluation continued

Board evaluation 2019

As noted on the previous page, Lintstock facilitated this year's evaluation process. Questionnaires were initially designed in consultation with the Deputy Company Secretary, Group General Counsel and Company Secretary and Chairman. The questionnaires were designed to ensure the evaluation focused on a broad range of key aspects of effectiveness, including: Board composition, including diversity; Board dynamics and the interaction between directors; the quality of Board information and support; and Board Committee effectiveness.

The 2019 process is summarised below:

1 Design of the questionnaire and Board approval

Detailed questionnaires were designed for:

- Board and Committee effectiveness;
- Chairman effectiveness; and
- individual director effectiveness.

The questionnaires were reviewed and approved by the Board at its September 2019 meeting.

2 Questionnaires issued, completed and returned

Following Board approval, Lintstock issued the questionnaires to the Board. The Group General Counsel and Company Secretary was also asked to complete the Board and Committee and Chairman effectiveness questionnaires in order to provide a perspective from outside the Board.

The Board members completed the questionnaires and returned these to Lintstock ahead of the commencement of interviews.

3 Analysis of responses and interviews with Board members

Lintstock undertook a detailed analysis of the responses to the questionnaires, identifying key areas to further explore with each director at interview stage.

Each director and the Group General Counsel and Company Secretary were interviewed by Lintstock. Interviews enabled Lintstock to focus on the matters of particular interest to the Board member and on areas in which their perception of the Board's performance is notably different to that of the other directors.

4 Reports produced

Following all the interviews, Lintstock prepared an anonymised report on Board and Committee effectiveness. This was reviewed by the Group General Counsel and Company Secretary and Chairman ahead of the January 2020 Board meeting.

Lintstock prepared an anonymised report on the effectiveness of individual directors. The report was shared with the Chairman.

Lintstock also prepared an anonymised report on the Chairman's performance, which was shared with the Senior Independent Director.

5a Board and Committee review of the outcome

The final Board and Committee effectiveness report provided by Lintstock was reviewed and discussed by the Board at its January 2020 meeting.

5b Consideration of Chairman's performance

Utilising the Chairman effectiveness report provided by Lintstock, the Senior Independent Director discussed the Chairman's performance with the Board, without the Chairman present, in January 2020.

5c Individual director performance discussions

The Chairman utilised the report on individual director effectiveness provided by Lintstock in order to support his performance and development discussions with each director.

6 Action plans

At its January 2020 Board meeting the Board approved a proposed clear action plan to enhance the effectiveness of the Board and its Committees. Where there were actions impacting the Board Committees, these were then discussed at the subsequent Committee meeting.

Feedback on the Chairman's performance, including areas of strength and enhancement, was provided to the Chairman by the Senior Independent Director.

The Chairman provided feedback on each director's performance at the individual performance and development discussions held.

Outcome of the evaluation process: Board and Committees

Set out below and on the next page is a summary of the outcome of the Board and Committee evaluation process, including the action plan identified for 2020.

Conclusions from the 2019 Board and Committee evaluation

The review this year identified 66 main points for the Board to consider, which have informed an agreed plan of action for 2020. Key conclusions from the Board evaluation included:

How the Board members work together	Given the relatively young tenure of the Board, it has come together well in a short period of time, with relationships developing well.
Board composition	The balance of skills and experience, following a period of concentrated recruitment, was rated very highly. It would be key to ensure that non-executive director succession was staggered appropriately and there were areas of skills and experience identified which the Board should consider as part of future appointment processes, including technological and customer expertise. It was recognised that gender diversity amongst the directors was strong in comparison to other companies and that a focus on diversity in its broadest sense should be continued.
Stakeholder oversight	It was noted that during 2020 the Board should seek to drive greater focus on customers. The value of engaging with the workforce was recognised and it was noted that the mechanisms to ensure enhanced colleague engagement, such as the Colleague Survey and designated Non-Executive Director, were put in place during the year.
Board support	Improvements to the quality of Board reporting were recognised, but it was acknowledged that continued focus was required to ensure continuing improvement. Enhancements to the structure of Board inductions were identified and acknowledgement of benefits of the directors' training programme which was developed during the year for implementation during 2020.
Board Committees	The performance of the Audit, Nomination, Remuneration and Group Risk Committees was highly rated overall. It was noted that the newly established Customer, Culture and Ethics Committee had a valuable role to play and it was key that clarity of its remit was maintained.
Management and focus of meetings	The Board had addressed a high volume of issues during the year, with decisive leadership by the Chairman. It was believed that as the Group moved towards a more 'business as usual' environment, more Board discussion time could be spent on key items.
Strategic and operational oversight	The Board believed it gave sufficient focus to strategy during the year, in the context of the significant disruption to the Board agenda caused by the offer, and looked forward to further focusing on the Group's strategy and delivery plan during 2020.
Defence against unsolicited offer	The overall role played by the Board in relation to the offer was very highly rated.
Risk and internal control	Risk management remained a key focus area for the Group, with further developments to be drawn from the work already done in this area. Whilst it was recognised that the approach to risk and compliance improved further during 2019, 2020 should bring a greater focus on risk mitigation actions.
Succession planning and HR management	Board oversight of succession plans for the most senior management received broadly positive ratings, but this should remain a focus area during 2020. Priorities for the Group's new HR Director were identified, including developing a more systematic Group approach to talent management and development plans.

Board evaluation continued

Board evaluation 2019 continued

Outcome of the evaluation process: Board and Committees continued

Conclusions from the 2019 Board and Committee evaluation continued

Following the Board's discussion on the findings of this year's evaluation of the performance of the Board and its Committees, the directors agreed that the Board and its Committees were performing effectively, discharging their duties and responsibilities.

Some of the Board strengths identified	Areas of focus for 2020 to enhance performance
<ul style="list-style-type: none"> The Board's role in defending against the unsolicited offer. Understanding of regulators. Understanding of investors. Quality of the relationships between the non-executive directors and the executive directors. Committee performance. Board atmosphere. 	<p>As always, there are some areas that provide room for improvement. You can read about some of these areas on page 123. Additionally, the following key actions were also identified for focus during 2020:</p> <ul style="list-style-type: none"> Continue to enhance the Board's understanding of the Group's: customer proposition; key commercial relationships; performance relative to competitors; and strategic plan. Continue to ensure the Board dedicates appropriate time to setting and overseeing strategy. Continue to focus on the Board's understanding of colleagues and oversight of talent management and development. Increase focus on ensuring that the Board has a clear understanding of the regulatory agenda and horizon scanning. <p>The Board will review progress against all actions during 2020.</p>

Outcome of the evaluation process: Chairman

As noted above, each director completed a questionnaire on the performance of the Chairman. The review of the Chairman's performance focused on, amongst other matters, the effectiveness of his relationship with the Chief Executive Officer and other Board members, how he manages meetings and how he manages the input of directors both inside and outside of meetings.

It was concluded that the Chairman was performing his role of leading the Board effectively. Andrea Blance discussed the feedback and areas for development with the Chairman.

Individual director performance, independence and reappointment

As noted above, utilising the report provided by Lintstock, the Chairman held an individual performance and development discussion with each director. The Chairman also utilised our Board Skills Matrix in order to inform his discussions regarding the directors' development.

The composition of our Board is reviewed annually by the Nomination Committee to ensure that there is an effective balance of skills, experience and knowledge. Having considered the skills, experience, knowledge and tenure of the Board, and the independence and time commitment of the directors and Chairman, the Nomination Committee considered that each director should stand for re-election at the 2020 AGM and recommended as such to the Board. Following recommendations from the Nomination Committee, the Board determined that all directors continue to be committed to their roles, have sufficient time available to perform their duties and continue to contribute effectively. As such, all the directors will be seeking election or re-election by the shareholders at the 2020 AGM, with the exception of Simon Thomas who is stepping down from the Board prior to the AGM.

The independence of the non-executive directors is also considered at least annually along with their character, judgement, commitment and performance. The Board took into consideration the 2018



I am pleased with the performance of the Board and Committees during the year, particularly given the relatively recent Board changes and the externally driven challenges we have faced. We will remain focused on enhancing effectiveness during 2020.

Patrick Snowball
Chairman

Code and circumstances which would likely impair, or could appear to impair, a non-executive director's independence, including length of service. At year end, all of the non-executive directors, with the exception of the Chairman, whose independence is only determined on appointment, have been determined by the Board to be independent. In determining the independence of Robert East, the Nomination Committee and Board did take into account that he is the Chairman of Vanquis Bank, and confirmed that he still remained independent in relation to his appointment of the Company, particularly given his short tenure.

Next year

A rigorous and formal evaluation will also be undertaken next year. Under the 2018 Code, we are not required to undertake an external evaluation next year; however, the Chairman and Board will review and determine the most appropriate evaluation process at the time.

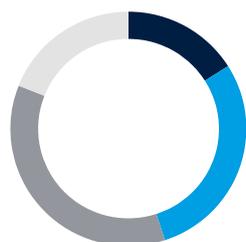
Focused on leadership



Members

- Patrick Snowball** (Chairman)
- Andrea Blance**
- Elizabeth Chambers**
- Paul Hewitt**
- Angela Knight**
- Graham Lindsay** (member from 1 April 2019)
- Robert East** (member from 26 June 2019)

Allocation of time



- Succession 16%
- Diversity 29%
- Board composition (including Board appointments) 36%
- Governance (including 2018 Code) 19%



The Board has been strengthened and the Nomination Committee can now continue to focus on overseeing Board and senior management composition so that it is optimised to deliver for our customers, shareholders and other stakeholders.

Patrick Snowball
Nomination Committee Chairman

I am pleased to present my Nomination Committee Report for 2019 and would first like to reflect on the number of changes that have been made to the Board this year and last year.

2019 has been a year where the new Board members appointed in 2018 and 2019 have been deepening their understanding of the Group and its businesses. This year, we have further strengthened the Board and senior management, with the addition of two Independent Non-Executive Directors and a new Chairman of Vanquis Bank, following the appointments of Graham Lindsay and Robert East respectively. We also recommended to the Board the appointment of Neeraj Kapur as Chief Finance Officer and, following Board approval, Neeraj will join the Board on 1 April 2020. As a Board, we can now continue to focus on operating effectively and on delivering for our customers, shareholders and other stakeholders. The appointment processes are detailed on [page 128](#).

As well as considering the composition of the Board and its Committees, we considered the independence of the non-executive directors during the year and concluded that they all remain independent in character and judgement and contribute effectively to Board discussions and debate. We are recommending to shareholders that all directors be either elected or re-elected at the 2020 AGM (with the exception of Simon Thomas, who will be stepping down prior to the AGM). You can read about each director's contribution to the Board in their biographies on [pages 92 to 97](#).

In its role of overseeing Board composition and succession planning and following significant change in Board membership over the last two years, the Committee oversaw a process to put in place a new Board Skills Matrix. The Group's Board Skills Matrix is designed to assess how key skills and experience (including in relation to culture, stakeholders and personal and cognitive strengths) are represented across the Board and thus supports the Committee in its consideration of the appropriateness of the Board composition and the combination of skills, experience and knowledge on the Board. The completed Board Skills Matrix also supports the Committee and me, as Chairman of the Board, in relation to Board appointments, the evaluation of Board, Committee and individual director performance and training and development.

Nomination Committee report continued

Key achievements in 2019	Committee priorities for 2020
<ul style="list-style-type: none"> • The recruitment and appointment of Robert East as a Non-Executive Director and Chairman of Vanquis Bank Limited. • The appointment of Graham Lindsay as a Non-Executive Director. • The appointment of Neeraj Kapur as Group Chief Finance Officer. • Embedded changes needed to ensure compliance with the 2018 Code. • Reviewed Board Skills Matrix. • Reviewed diversity and approved an updated Board Diversity Policy and Equality, Diversity and Inclusion Policy. • Reviewed the Group's Board and senior management succession planning. 	<ul style="list-style-type: none"> • Continue to work towards having the right mix of diversity and skills by working to achieving a target of 33% female representation on its Executive Committee (and its direct reports) as well as maintaining its target at Board level. • Continue to focus on succession planning and leadership development across the Group, including senior management roles and Board appointments, to strengthen the diverse talent pipeline and identify recruitment needs for key roles. Seek to enhance coordination across the Group in relation to these matters. • Continue to strengthen the Board where appropriate.

Key Committee responsibilities

The primary function of the Committee is to monitor the balance of skills and experience on the Board and its Committees and to ensure that the Board comprises individuals with the necessary skills, knowledge, experience and diversity to ensure it is effective. The Committee's key responsibilities are detailed on [page 114](#).

How does the Company oversee Board composition and promote diversity?

The Board oversees its composition through an agreed and completed Board Skills Matrix which supports Board appointments, succession planning, training and development and the evaluation of Board, Committee and director effectiveness.

The Committee reviewed an updated Equality, Diversity and Inclusion (EDI) Policy in December, which detailed our commitment to maintaining a safe, welcoming, inclusive and diverse workplace which nurtures a culture of mutual respect and consideration. Further details on our EDI Policy can be found on [page 72](#).

The Board is committed to supporting diversity and inclusion in the boardroom and beyond, and it believes that a wide range of experience, age, background, skills, knowledge and cognitive and personal strengths combine to contribute towards a high-performing and effective Board and colleague population. The Committee also reviewed, updated and approved a Board Diversity Policy during the year, which is available on the Investors section of our website.

Our EDI Policy recognises diversity in its broadest sense and acknowledges how diversity supports the Group in delivering its purpose and strategy; it is our ambition to build and sustain an inclusive culture and diverse workforce which will help us to respond to our diverse customer base and enable our people to realise their potential. An effective, diverse Board, senior management team and wider colleague population have the foundations to be able to support stakeholder views, challenge each other and achieve the Group's overall strategic aims by having a wider range of perspectives represented at each level of management.

Our EDI Policy also requires that appointments and succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths, thus supporting the development of a diverse pipeline. This is further supported through all our colleagues being encouraged to maximise their potential and contribution through personal development to develop their knowledge and skills in both their current and likely future roles. Our HR functions across the Group are responsible for monitoring EDI-related matters throughout our colleagues' lifecycle with the business.

During the year, the Group signed up to the Women in Finance Charter and set a target to have at least 33% female representation in the Group's senior management population by the end of 2020 and 40% by 2024. The progress against the target is detailed below.

Board diversity and EDI Policy

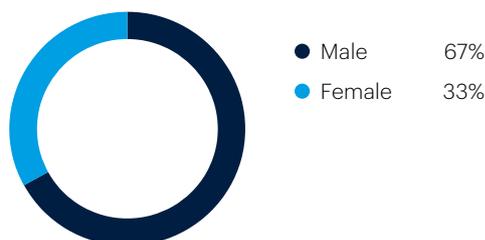
Objective	Progress
Board appointments will be made taking into account different backgrounds, diverse experience, perspectives, personalities, skills and knowledge.	<p>The Committee regularly reviews the composition of the Board. This year, the Committee also:</p> <ul style="list-style-type: none"> • approved an updated Board Diversity Policy; • reviewed and approved an enhanced documented Board appointment process during the year which emphasised the importance of diversity; and • reviewed and approved a Board Skills Matrix.
Maintain a balance of one-third of the directors being women as a minimum.	The graph on page 127 shows that the percentage of women on the Board is 33%.
The Board will also support and monitor Group activities to increase the percentage of senior management roles held by women, and other underrepresented groups across the Group.	The Committee reviewed a report on gender across the Group of senior management populations which showed progress in some areas against the targets. As set out on page 72 , senior management population is 30% female. The Committee also reviewed diversity statistics regarding other underrepresented groups and approved an updated Group EDI Policy, which included a commitment that we would seek that all shortlists, wherever possible, for our Board and senior management positions were balanced from a gender perspective.
Monitor internally set targets for diversity and inclusion at all levels across the Group.	The Committee kept under review the progress made regarding the equality, diversity and inclusion strategy across the Group, including the delivery of EDI initiatives.

What was the output of the Board evaluation regarding composition and diversity?

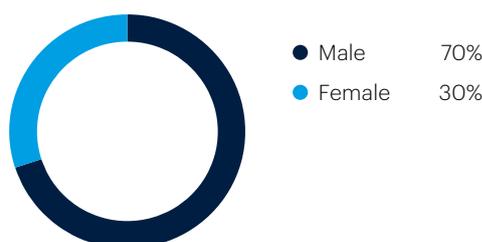
This year Lintstock was engaged to undertake an external evaluation of the Board and its Committees. The review process is described in more detail on [page 122](#). In relation to Board composition, the balance of skills and experience, following a period of concentrated recruitment, was rated very highly. The Board recognised that it would be important for non-executive director succession to be staggered appropriately and there were areas of skills and experience identified which the Board should consider as part of future appointment processes, including technological and customer expertise. The evaluation recognised that gender diversity amongst the directors was strong in comparison to other companies and that a focus on diversity in its broadest sense should be continued during 2020. The Committee will consider how these matters raised in the Board and Committee evaluation should influence Board composition during 2020.

The performance of the Committee was considered as part of the annual evaluation process and the evaluation found the performance of the Committee to be rated highly overall.

The Board



Executive Committee and direct reports



Following review, the Committee and Board concluded that the composition of the Board and its Committees was appropriate and that they have the knowledge, skills and experience to enable the requirements of the business to be met.

Committee calendar in 2019

January

- Reviewed non-executive director independence and recommended to the Board that all non-executive directors remained independent.
- Reviewed director time commitment and recommended to the Board that all directors continued to have sufficient time to continue their roles.
- Reviewed the composition of the Board, including: the size and structure; skills; experience; knowledge; diversity; and tenure. Following review, the Committee recommended to the Board that the Board and Committee composition and structure remained appropriate.
- Reviewed Audit Committee composition and recommended to the Board that it remained appropriate.
- Reviewed and approved changes required to comply with the 2018 Code.

March

- Reviewed the proposed appointments of Graham Lindsay and Robert East as Non-Executive Directors of the Company and recommended their appointment to the Board.

May

- Reviewed the Group's progress against its Board and senior management diversity targets and progress of its diversity initiatives.
- Reviewed a proposed approach to developing a Board Skills Matrix.

September

- Reviewed and approved an updated Board Diversity Policy.
- Received an update and discussed the appointment process for the Chief Finance Officer.
- Reviewed the Board and senior management succession plan, providing feedback.
- Reviewed an updated Board Skills Matrix.
- Reviewed and approved an enhanced documented Board appointment process.

December

- Reviewed the proposed appointment of Neeraj Kapur as Chief Finance Officer and recommended the appointment to the Board.
- Reviewed and approved an updated Board and senior management succession plan.
- Reviewed the Group's progress against its Board and senior management diversity targets and progress of its diversity initiatives.
- Reviewed and approved an updated Group Equality, Diversity and Inclusion Policy.
- Reviewed the final Board Skills Matrix.

Nomination Committee report continued

What plans are in place for succession to the Board and senior management?

We believe that succession planning is important to the continued success of the Group and it is achieving its strategic aims. It safeguards a diverse pipeline of talented individuals and enables the Group to fill vacancies by internal appointments, creating a good balance with the skillset available through external appointments. As set out in our EDI and Board Diversity Policies, succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strength. As the Board believes in its importance, succession planning for the Board and senior management across the Group is kept under review by the Committee.

During 2019, the Committee reviewed and approved the succession plans of the Board and Group senior management and we, as a Committee, discussed what support could be given to potential successors to Board and Group Executive Committee roles to support them in their ongoing professional development. Following the appointment of a Group HR Director during the year, the Committee will be focused in 2020 on enhancing the coordination across the Group in relation to succession planning.

The Board Diversity Policy, the Board Skills Matrix and the outcome of the Board effectiveness evaluations are utilised by the Nomination Committee to support its succession planning oversight role.

A number of senior management roles were secured during the year, with the appointment of a new Group General Counsel and Company Secretary, Group HR Director, Group Chief Internal Auditor, Group Chief Risk Officer and Managing Director of Vanquis Bank.

Does the Company have a rigorous and transparent appointment process?

Appointment of Graham Lindsay	Appointment of Robert East	Appointment of Neeraj Kapur
<p>The selection process was facilitated by Per Ardua Associates, and three potential candidates were interviewed by members of the Group Board including Patrick Snowball, Malcolm Le May and Andrea Blance.</p> <p>Graham Lindsay was identified as the preferred candidate for the Non-Executive Director role.</p>	<p>The selection process was facilitated by Per Ardua Associates, and three potential candidates were interviewed by some members of the Group and Vanquis Bank boards including Patrick Snowball, Malcolm Le May, Jonathan Roe and Andrea Blance.</p> <p>Robert East was identified as the preferred candidate for the Chairman of Vanquis Bank.</p>	<p>A role specification was agreed with Russell Reynolds to commence the search.</p> <p>The selection process was then facilitated by Russell Reynolds.</p> <p>A list of internal and external candidates was considered, with seven candidates initially interviewed by Malcolm Le May. Three of those candidates were taken through to the next stage.</p> <p>These three potential candidates were interviewed by members of the Nomination Committee, including Paul Hewitt, the Audit Committee Chairman. The preferred candidate was then interviewed by Patrick Snowball and Andrea Blance. Neeraj Kapur was identified as the preferred candidate for the Chief Finance Officer role.</p>

The Nomination Committee recommended the appointments of Graham Lindsay and Robert East to the Board as Non-Executive Director, and Chairman of Vanquis Bank and Non-Executive Director of the Company, respectively.

The appointments were approved by the Board on 25 March 2019.

The Committee also recommended the appointment of Neeraj Kapur to the Board as Chief Finance Officer and the appointment was approved by the Board on 6 December 2019.

The Committee gave consideration to the structure, size and composition of the Board and its Committees, having made a determination that each of the above directors had sufficient time, skills, knowledge and experience to carry out their proposed roles and responsibilities.

All of the above directors will be standing for election at the 2020 AGM.

Per Ardua is a member of the Association of Executive Search and Leadership Consultants and, as such, is a signatory to its stringent Code of Professional Practice. Russell Reynolds is accredited for the FTSE 350 category of the Enhanced Voluntary Code of Conduct for Executive Search Firms, which specifically acknowledges those firms with a strong track record in and promotion of gender diversity in the FTSE 350 companies against the scope of the Davies Review. Other than in relation to the recruitment as described above, and for the recruitment of other roles, Russell Reynolds and Per Ardua had no other connection to the Group or directors.

I look forward to reporting to you on the progress we have made in our 2020 Annual Report.

Patrick Snowball

Chairman

27 February 2020



Ensuring integrity of our internal controls



Members

Paul Hewitt (Chairman)

Andrea Blance

Angela Knight

Allocation of time



● Governance	28%
● Financial reporting	32%
● External audit	13%
● Internal audit	27%

At each meeting, the Committee:

- had, on a rotating basis, a discussion with both the external and internal auditor without any executive director being present;
- reviewed a Group internal audit activity report;
- reviewed updates from the external auditor; and
- received an update on the activities of the Vanquis Bank audit committee.



The Audit Committee provides oversight of the financial reporting and disclosure process, to enable shareholders to have confidence in the integrity of our financial results, the quality of our audit process and the efficacy of our system of internal controls.

Paul Hewitt
Audit Committee Chairman

I am pleased to present the Audit Committee’s report for the year ended 31 December 2019. This report provides a summary of the activities of the Audit Committee and its key responsibilities and confirms compliance with the Competition and Markets Authority’s Statutory Services Order. Furthermore, I look forward to attending the AGM on 7 May 2020 to answer any questions on the work of the Committee.

The membership of the Committee has been refined, now comprising Angela Knight, Andrea Blance and me. The members have a wide range of business and financial experience which is evidenced by their biographical summaries on [pages 92 to 97](#). In compliance with the Code Provision 24, the Committee is considered to have competence in the sector in which the Group operates and Andrea Blance and I both have considerable recent and relevant financial experience, as detailed on [pages 93 and 94](#). It is considered important given the potential overlap of responsibilities that Angela Knight, Risk Committee Chairman, is a member.

Key Committee responsibilities

The main responsibilities and primary role of the Committee are to assist the Board in fulfilling its oversight responsibilities by monitoring the integrity of the financial statements of the Group and other financial information before publication, and reviewing significant financial reporting judgements contained in them. In addition, the Committee also reviews:

- the system of internal financial and operational controls on a continuing basis (the Group Risk Committee reviews the internal control and risk management systems); and
- the accounting and financial reporting processes, along with the roles and effectiveness of both the Group Internal Audit function and the external auditor.

However, the ultimate responsibility for reviewing and approving the Annual Report and Financial Statements 2019 remains with the Board. The terms of reference of the Committee can be found on the Group’s website at www.providentfinancial.com.

Audit Committee report continued

Key achievements in 2019	Committee priorities for 2020
<ul style="list-style-type: none"> • Provided oversight of the continued embedding of IFRS 9 and other new accounting standards into the control-related framework. • Increased its focus on Group-wide IT issues and an enhanced risk culture, as well as ensuring that historical internal and external audit control observations were either remediated or consciously risk accepted by the Committee. • Monitored the embedding of the changes made to the Group Internal Audit function during 2019, most notably the merging of the Group and VBL Internal Audit functions. • Rebased and approved the Group’s H1 2020 internal audit plan following the merging of the Group and Vanquis Bank Internal Audit functions. • Continued to monitor developments and recommendations arising from the reviews into the market and financial reporting requirements in the UK. • Reviewed the efficacy of screening tools utilised in the identification and categorisation of those who pose a potential financial crime risk to the Group. • Sought clarity on the accounting treatment of credit card amortisation within VBL. 	<ul style="list-style-type: none"> • Provide oversight of the continued embedding of IFRS 9, IFRS 16 and other new accounting standards into the control-related framework. • Provide oversight of the first line of defence control review which is being undertaken by VBL. • Provide continued monitoring of the closure of historical overdue internal audit actions. • Commence preparations for the external audit tender in readiness for 2022.

Key Committee responsibilities continued

The Committee is also specifically responsible for:

- conducting the tender process and making recommendations to the Board in relation to the appointment of an external auditor, and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor’s independence and objectivity;
- reviewing the effectiveness of the external audit process;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence and reporting to the Board on any improvement or action required;
- assisting the Board in assessing the Company’s ongoing viability, the basis of the assessment and the period of time covered;
- reviewing and recommending to the Board quarterly trading statements;
- approving the Group internal audit plan on a bi-annual basis; and
- keeping under review the effectiveness of the Group’s system of internal controls by considering Group internal audit activity reports at each meeting and reporting to the Board on a regular basis.

The Audit Committee debated and approved the internal audit plan for H1 2020 and I can confirm that the audit plan is reflective of both the material risk themes the Group faces, as well as the Group’s strategic drivers. The Committee is satisfied that the Group Internal Audit function has the appropriate resources to deliver the 2020 plan.

 Committee calendar in 2019

January

- Reviewed the 2018 financial statements and areas of significant judgement, including going concern and the viability statement.
- Received an update on historical IT audit issues (including the degree of materiality to the Group).
- Reviewed and approved the Committee terms of reference.
- Received an update on non-audit fees.
- Received an update on the 2019 Budget and future years’ outlook.
- Reviewed and approved the internal audit charter 2019.
- Approved the 2019 Committee agenda planner.

February

- Received an update on historical IT issues.
- Reviewed and approved the Non-Audit Fee Policy and approved the non-audit fees for 2018.
- Reviewed and approved the viability statement for the final results.
- Reviewed and recommended that the Annual Report and Financial Statements 2018 be prepared on a going concern basis, and recommended that the Annual Report and Financial Statements 2018 be approved by the Board.
- Reviewed and confirmed that the Annual Report and Financial Statements 2018 were fair, balanced and understandable.
- Reviewed the Chairman’s annual audit report for inclusion in the Annual Report and Financial Statements 2018.
- Reviewed and approved the draft preliminary announcement.

- Confirmed the internal auditor's statement of independence and objectivity.
- Reviewed the 2018 external audit full year report.
- Reviewed external audit's management letter.
- Reviewed and proposed the reappointment of the external auditor to the Board.
- Reviewed and approved the annual internal statement of governance, risk management and internal control.
- Approved the internal audit charter.
- Reviewed and confirmed internal audit effectiveness.

May

- Received an update on outstanding internal audit actions, including a plan for remaining IT audit action remediation.
- Received an update from the CCD Managing Director in relation to an overdue internal audit action and consciously risk accepted the finding.
- Reviewed feedback from Group Finance on the external auditor's performance.

July

- Received an update on the outstanding internal audit IT findings.
- Reviewed, carefully considered and approved the areas of significant judgement for the six months ended 30 June 2019.
- Reviewed and approved the going concern paper for the interim results.
- Reviewed and recommended to the Board the interim results for the six months ended 30 June 2019.
- Received the external auditor's interim report and carefully considered contingent liabilities.
- Approved a revised schedule of non-audit fees for 2018.

September

- Approved, prior to Board approval, the Group Tax Strategy.
- Received an update on the Group's risk assessment and implementation plan in relation to the prevention of facilitation of tax evasion.

October

- Reviewed the Q3 Trading Statement.
- Received an update on IT audit actions.
- Received an update on Special Interest Persons (SIPs) screening tools.
- Reviewed and approved the 2020 external audit plan.
- Reviewed and approved the external audit fees.
- Ratified the appointment of the Group Chief Internal Auditor.
- Reviewed the Group internal audit update and activity report.
- Received an internal audit plan update.
- Received an update on the external auditor's External Quality Assessment.

November

- Reviewed and recommended the Q3 Trading Statement to the Board.

December

- Reviewed and approved the Committee's terms of reference and 2020 forward agenda planner.
- Received an update on the year-end audit and the interim timetable for 2020 from Finance.
- Confirmed the coordination between the activities of internal and external audit.
- Reviewed and approved the internal audit plan for the first six months of 2020.
- Received the Committee Terms of Reference Adherence Plan.
- Reviewed and approved the Group's Policy on Non-Audit Work.
- Received a paper detailing the external audit tender process as Deloitte LLP approaches the end of its 10-year term of appointment in 2021.
- Received the final results on Deloitte LLP's External Quality Assessment.

Is the Annual Report and Financial Statements 2019 fair, balanced and understandable?

At the request of the Board, the Committee considered, as required by Code Principle N, whether, in its opinion, the Annual Report and Financial Statements 2019, taken as a whole, is fair, balanced, and understandable and provides the necessary information for the reader to assess the Group's position and performance, business model and key audit matters.

What is the process for ensuring this?

In justifying this statement the Committee considered the robust process in place to create the Annual Report and Financial Statements 2019 including:

- the early involvement of the Committee in the preparation of the Annual Report and Financial Statements 2019 which enabled it to provide input into the overall messages and tone;
- the input provided by divisional and Group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;
- the regular review of the Group internal audit activity reports which are presented at Committee meetings and the opportunity for the non-executive directors to meet the external auditor without any executive of the Group being present via the private sessions of the Committee;
- the Committee meetings reviewed and considered the draft Annual Report and Financial Statements 2019 in advance of the final sign-off;
- the reviews conducted by external advisors appointed to advise on best practice; and
- the final sign-off process by the Board.

Audit Committee report continued

Is the Annual Report and Financial Statements 2019 fair, balanced and understandable? *continued* What are the key considerations when considering whether the report is fair?

- Is the narrative reporting consistent with the reporting in the financial statements?
- Are the key messages in the narrative reporting reflective of the financial reporting?
- Are the KPIs disclosed appropriate to understand the underlying performance of the Group and its divisions?

What are the key considerations when considering whether the report is balanced?

- Is there a good level of consistency between the narrative reporting and the financial reporting and is the messaging in each consistent when read independently of each other?
- Does the narrative reporting reflect both the positive and negative aspects of performance?
- Are both the statutory and adjusted financial measures explained clearly and given equal priority and prominence?
- Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures and critical judgements set out in the financial statements?
- How do these judgements and issues compare with the risks that the external auditor will include in its report?

What are the key considerations when considering whether the report is understandable?

- Is there a clear and understandable structure to the report?
- Are the important messages highlighted appropriately and consistently throughout the document with clear signposting to where additional information can be found?
- Is the narrative within the Annual Report and Financial Statements 2019 straightforward and transparent?

What additional steps were undertaken?

- The papers on critical accounting assumptions and key sources of estimation uncertainty were presented by management to the Audit Committee, detailing the approach taken and key sources of estimation uncertainty documented in the financial statements on [page 182](#). The assumptions and the going concern statement were carefully reviewed and challenged by the Committee with the assistance of the external auditor which also fully analysed and concurred with the assumptions made as part of the year-end process.
- A review of the consistency between the risks identified and the issues that were of concern to the Committee was performed.
- The external auditor's report on the Annual Report and Financial Statements 2019 was presented to the Committee.

What is the conclusion of this process?

Following its review, the Committee is of the opinion that the Annual Report and Financial Statements 2019 is representative of the year, and presents a fair, balanced, and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

What are the main features of the Group's internal control and risk management systems in relation to the financial reporting process?

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by Group Risk and Group Internal Audit. The Audit Committee receives reports from Deloitte LLP, the Group's external auditor. Deloitte LLP also provides a management letter on an annual basis, which draws significant internal control matters which have been identified to the Audit Committee's attention, along with management's response. The Audit Committee also has a discussion with the auditor at least once a year without executives present, to ensure that there are no unresolved issues of concern.

The Group's risk management and internal controls systems are reviewed by the Board and are consistent with the guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council and compliant with the requirements of CRD IV. They have been in place for the full year under review and up to the date of the approval of the Annual Report.

Annual assessment of risk management and internal control systems

To assess the effectiveness of the risk management and internal control systems within the Group, Internal Audit conducted an analysis of the aggregate outcomes from audits carried out in 2019 and an assessment of open and overdue audit issues. In addition Internal Audit also worked closely with the second line of defence to monitor levels of risk awareness across the Group. Internal Audit confirmed to the Committee that the level of risk and control awareness had increased within the Group during 2019 and that there was a commitment from management to maintain momentum with regard to the embedding of a risk aware culture.

What is the structure and role of Group Internal Audit?

The Group operates an in-house Group Internal Audit function which is managed by the Group Chief Internal Auditor, who was appointed on 2 September 2019, with specialist services provided by third-party consultants where necessary. The Group Internal Audit function also reports, via the Group Chief Internal Auditor, to the Committee which ensures the function's independence from Group management.

The Committee reviews regular reports on the activity of this function, and as Chairman of the Audit Committee, I also meet separately with the Group Chief Internal Auditor on a quarterly basis. In Q4 2019, the Committee approved the merging of the Group Internal Audit team with the Vanquis Bank Limited internal audit team to facilitate a more pan-Group review and assessment of risks and controls.

How is internal auditor effectiveness assessed?

The Committee approves the internal audit charter on an annual basis and reviews, approves and monitors progress against the annual internal audit plan. As part of this approval process, the Committee requires confirmation from the Group's Chief Internal Auditor that the Internal Audit function has the requisite expertise and resources to successfully fulfil its role. The Committee also confirms annually that the activities of internal and external audit are coordinated.

As part of its review of Internal Audit's effectiveness, the Committee received Internal Audit's 2019 self-assessment of its conformance with the CIIA Financial Services Code, a benchmark against good practice for internal audit functions operating within the financial services sector in the UK. The Committee confirmed Internal Audit's conclusion that it generally conformed with the CIIA Financial Services Code and agreed with Internal Audit's plan to address those areas where conformance could be enhanced. Following the outlined process, the Committee confirmed the effectiveness of the Internal Audit function for the year ended 31 December 2019.

What is the role of external audit?

Principle M of the Code states that the Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of Internal and External Audit functions.

How is the external auditor appointed?

Deloitte LLP, the Group's external auditor, has been the Group's auditor for eight years. It is the Group's policy to undertake a formal tender process every 10 years, or earlier, if the Audit Committee feels that this would be in the best interests of the Group. At February's meeting it was concluded that Deloitte LLP was performing in line with expectations and was considered to be independent of the Group. It was therefore considered that Deloitte LLP be proposed to be reappointed as the Group's auditor for the financial year ended 31 December 2019. An annual assessment of the performance of Deloitte LLP is undertaken following finalisation of the Annual Report and Financial Statements and presented to the Committee in May each year and the last assessment took place in May 2019.

In accordance with best practice and guidance issued by the FRC, the Committee will continue to review the qualification, expertise, resources and independence of the external auditor and the effectiveness of the audit process during the next financial year.

How does the Committee work with the external auditor?

The Committee held separate sessions with the external auditor without any executive director or employee of the Group being present at three of its meetings in 2019. This gave members of the Committee the opportunity to raise any issues, including any issues on the interim and final results of the Group, directly with the external auditor. The Committee schedules private sessions with the internal and external auditors on a rotating basis, with the option for a private session upon request. In addition I meet with the external audit partner on a quarterly basis to discuss pertinent issues. An annual feedback report was provided to the external auditor and discussed by the Committee at the May 2019 meeting.

How does the Group ensure the independence and objectivity of its external auditor?

The Committee has in place a policy on the appointment of staff from the external auditor to positions within the various Group finance departments. Neither a partner of the audit firm who has acted as engagement partner, nor the quality review partner, nor other key audit partners, nor partners in the chain of command, nor a senior member of the audit engagement team, may be employed as Group Chief Finance Officer, Group Finance Director or Divisional Finance Director.

The Committee has considered the independence of the Deloitte LLP audit team and has deemed that adequate safeguards have been in place including: separate partners and staff being responsible for the delivery of this work; the non-audit team does not prepare anything which would be relied upon in the audit of the Group; and the work performed is also subject to an independent Professional Standards Review and Engagement Quality Control Review process.

What is the Group's policy on non-audit work?

The Company has a formal policy on the use of the external auditor for non-audit work which reflects the requirements of the EU Audit Directive and Regulations. This policy is reviewed annually by the Committee and was reviewed and approved at the December 2019 meeting.

The award of non-audit work to the external auditor is managed and monitored in order to ensure that the external auditor is able to conduct an independent audit and is perceived to be independent by the Group's shareholders and other stakeholders. Work is awarded only when, by virtue of its knowledge, skills or experience, the external auditor is clearly to be preferred over alternative suppliers.

I am also required to approve in advance any single award of non-audit work with an aggregate cost of between £50,000 and £250,000 and the Committee must provide prior approval for items in excess of £250,000. The Committee will always seek confirmation that Deloitte LLP's objectivity and independence are safeguarded.

The level of paid Deloitte LLP fees for non-audit work during the year was £151,000 (2018: £2,202,000) comprising £70,000 for services related to profit verifications for inclusion within regulatory capital and £81,000 for the Group interim review. The ratio of audit to non-audit fees during the year was 8.7:1.

How is external auditor effectiveness assessed?

The Committee considers the reappointment of the external auditor, including the rotation of the audit partner, annually. This includes an assessment of the independence of the external auditor and an assessment of its performance in the previous year. This is achieved primarily through a questionnaire and scorecard which is completed by key stakeholders involved in the annual audit process, including the Audit Committee, and Heads of Finance in each of the divisions and at Group level. The scores and results of the questionnaire are collated and shared with the external auditor and an action plan to address any areas of concern identified is agreed.

What were the significant issues and areas of judgement considered by the Group Audit Committee?

The critical accounting assumptions and key sources of estimation uncertainty considered by the Committee in relation to the Annual Report and Financial Statements 2019 are outlined on [page 182](#). In addition to the matters set out on [page 182](#), the Committee also considered the going concern statement set out on [page 63](#). The Committee discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus as outlined in the Independent Auditor's Report on [pages 226 to 236](#).

What were the results of the external auditor's Audit Quality Review?

During the year the FRC concluded a review of the audit performed by Deloitte LLP of the Group's financial statements for the year ended 31 December 2018. The focus of the review and its reporting is on identifying areas where improvements are required. The Chairman of the Audit Committee received a full copy of the findings of the Audit Quality Review Team and has discussed these with Deloitte LLP. Limited matters were identified as requiring improvement and an action plan was agreed to ensure that the matters identified were addressed, where relevant, as part of the audit of the 2019 financial statements. The Audit Committee was satisfied that there was nothing within the report which might have a bearing on its audit appointment.

Audit Committee report continued

What are the significant issues and areas of judgement?

Issue	Judgement	Actions
<p>Impairment of receivables Receivables are impaired on recognition in accordance with IFRS 9. The level of impairment is initially dependent on the probability of a customer defaulting (PD) within 12 months utilising historical repayment data, the loss incurred if a customer defaults (LGD) and the exposure at default (EAD).</p> <p>Repayment data for home credit excludes data through 2017 which is not deemed to be indicative of future performance given the operational disruption within the home credit business.</p> <p>Lifetime losses are recognised following a significant increase in credit risk.</p>	<p>Judgement is applied as to the level of impairment recognised. There is a judgement as to whether past payment performance provides a reasonable guide as to the collectability of the current receivables book, the probability of default, loss given default and exposure at default. Accordingly, this is a primary source of audit effort for the Group's external auditor.</p>	<p>In order to assess the appropriateness of the judgements applied, management produces a detailed report for the Audit Committee and the external auditor which sets out the assumptions underpinning the calculations of the probability of default, loss given default and exposure at default:</p> <ul style="list-style-type: none"> • reviewed management's report and challenged management on the results and judgements used in the test; • considered the work performed by Deloitte LLP on validating the data used in the testing performed by management and its challenge of the assumptions used; • considered the findings within the report in light of current trading performance and expected future performance; • considered the work performed by the Group Internal Audit function on information technology controls and operational controls such as cash collections, credit management and arrears management; and • considered the review performed by the Vanquis Bank audit committee on the Vanquis Bank impairment provisions.
<p>Retirement benefit asset The valuation of the retirement benefit asset is dependent upon a series of assumptions. The key assumptions are the discount rate, inflation rates and mortality rates used to calculate the present value of future liabilities.</p>	<p>Judgement is applied in formulating each of the assumptions used in calculating the retirement benefit asset.</p>	<p>The Company's external actuary, Willis Towers Watson, proposes the appropriate assumptions and calculates the value of the retirement benefit asset.</p> <p>The Committee considered the work performed by Deloitte LLP on the valuation and its views on the suitable ranges of assumptions based on its experience.</p>
<p>Provisions The Group makes provisions for customer remediation if all of the following are present: (i) a present obligation (legal or constructive) has arisen as a result of a past event; (ii) payment is probable (more likely than not); and (iii) the amount can be estimated reliably.</p> <p>A contingent liability is recognised if the present obligation is not probable or the amount cannot be estimated reliably or there is a possible obligation dependent on a future event occurring.</p>	<p>Judgement is applied as to whether the criteria for recognition have been met. In addition, if the criteria for recognition are met, judgement is applied to determine the quantum of such liabilities including making assumptions regarding the number of future complaints that will be received and the extent to which they will be upheld, average redress payments and related administrative costs.</p> <p>If a contingent liability is disclosed, judgement is then required as to the nature of the event and potential outcomes included in the disclosure.</p>	<p>In order to assess the appropriateness of the judgements applied, the Committee:</p> <ul style="list-style-type: none"> • challenged the assumptions made by management to determine the provision for redress to be recognised; • where a provision is not recognised and a contingent liability is disclosed, the Committee has reviewed the level of disclosure and sensitivity analysis of the range of outcomes; • reviewed the work performed by external consultants in respect of conduct matters relating to the investigations where applicable; and • considered the work performed by Deloitte LLP and its views on the appropriateness of assumptions used by management, based on its experience.

Compliance statement

The Group has fully complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 throughout the 2019 financial year.

Paul Hewitt

Audit Committee Chairman

27 February 2020

A proactive approach to risk management



Members

Angela Knight (Chairman)

Elizabeth Chambers

Paul Hewitt

Allocation of time



Pie chart indicates time spent during usual schedule of meetings; however, two additional meetings were held during the year for additional ICAAP discussions.

- Setting Group risk management and reviewing material risk status 32%
- Assessing overall risk appetite, assessing outcomes and overseeing management actions 18%
- Assessing risk management effectiveness 24%
- Approving ICAAP and external reporting 26%

At each meeting, the Committee:

- reviewed and confirmed the overall risk management status of the Group;
- reviewed and confirmed the key Group risks;
- reviewed and confirmed the risk appetite status across the Group;
- reviewed minutes and actions from prior meetings; and
- received a report on the Cross-Divisional Risk Forum (CDRF).

“

As the Risk Committee Chairman, I am pleased to report on the Committee’s work and achievements in 2019. This has been a year which has seen the Committee adopt a more forward-looking and proactive approach to the assessment and management of risk across the Group, providing a solid basis upon which Provident Financial can achieve its strategy.

Angela Knight
Group Risk Committee Chairman

2019 has been another year of good progress in the improvement of the Group’s risk assessment and monitoring tools and with further alignment achieved between the Group and divisional methodologies and reporting.

In the year a permanent Group CRO was appointed, who has worked closely with me and has enabled a renewed focus on our key risk priorities and improved the planning process and the smooth operation of the Committee. Further enhancements have been made to the Group’s risk management framework and methodology, including the Group’s risk appetite framework, so refining the Group’s aggregate risk profile and enabling the Board to set a revised overall risk appetite which reflects the changing dynamic of the Group. In addition, our reporting capabilities have been strengthened and with an increased focus on strategic and emerging risks, alongside regulatory horizon scanning, one result has been that the Committee is now sponsoring thematic risk assessments of risk across the Group.

The newly established Group Executive Risk Committee provides greater emphasis and challenge by executive management of the material divisional and Group risks, enabling greater consistency of risk assessment and proactive tracking of mitigating actions prior to reporting to the Committee. This activity is enhancing the manner in which the Group holistically manages its risks and I believe this dynamic approach to risk management will enable the Group to adapt to the evolving macroeconomic environment. The outputs of this from the Group Executive Risk Committee will be discussed at the Committee.

Key Committee responsibilities

As a non-regulated Group parent company owning three individually regulated operating entities, the primary role of the GRC is to make sure that there is an effective Group-wide risk framework in operation which enables effective oversight over the Group’s aggregated risk position.

Group Risk Committee report continued

Key Committee responsibilities continued

The GRC's principal areas of responsibility are as follows:

- understanding the Board's strategy, desired culture and direction and identifying the key strategic and emerging risks;
- endorsing an overall risk appetite and recommending it to the Board for approval at least annually;
- through the Group CRO, monitoring the effectiveness of the divisions in establishing and maintaining risk management frameworks, policies and procedures;
- carrying out an assessment of the principal risks facing the Group;
- reviewing the Group's capability to identify and manage new risk types, and keeping under review the effectiveness of the Group's internal control and risk management systems in conjunction with the Audit Committee;
- reviewing the Group's management of current and forward-looking risk exposures;
- reviewing the Group's business continuity plans;
- notifying the Board of any changes in the status and control of risks;
- reviewing and approving the Group ICAAP, including the stress testing and capital allocation approach; and
- continuous improvement of risk outcomes for the Group through effective risk management planning.

Key achievements in 2019	Committee priorities for 2020
<ul style="list-style-type: none"> • The establishment and monitoring of the Group risk management framework and policy to ensure that they operate consistently alongside those in place at a divisional level. • The development of an enhanced Group risk appetite framework and reporting methodology, which utilised the current divisional thresholds and reporting mechanisms to present a clearer picture of the Group's aggregate risk profile. • The ongoing monitoring of the CDRF and its output, which provided a mechanism for the review of divisional risks and a clear escalation route for emerging issues. • Considering the impact of risk events and risk issues upon executive director remuneration. • The sponsoring of thematic risk reviews across the Group into key areas of concern. • The performance of a strategic review of the ICAAP via a Joint Risk Committee with Vanquis Bank. 	<ul style="list-style-type: none"> • Adopt a more harmonised approach to risk management between the Group and divisions by enhancing the efficiency and effectiveness of our key risk processes, policies, tools and methodologies. • Seek further operational alignment of the separate risk functions in the context of evolving the Group's business strategy. • Support the Board in the execution of its strategy through the embedding of a customer-centric risk culture which is aligned to the Blueprint. • Maintain a forward-looking focus and ensure the Group quickly identifies emerging risks and issues, addressing them with timely and robust action plans.

Committee calendar in 2019

January

- Reviewed and approved the Committee terms of reference (ToR) and noted the corresponding adherence plan.
- Received a CRO report including key risk themes and regulatory update and agreed the future of risk management information.
- Received divisional risk profile reports.
- Reviewed the principal risks and internal control reports within the 2018 Annual Report and Accounts.
- Received a Group treasury risk thematic review.
- Received an update on the prudential regulation timetable for 2019.

May – Joint Risk Committee with Vanquis Bank for ICAAP discussion

- Reviewed and approved the ICAAP approach, stress tests and scenarios.
- Received a CRO report including key risk themes and regulatory update and agreed the future of risk management information.
- Received divisional risk profile reports.
- Agreed future thematic reviews.

July – additional Joint Risk Committee with Vanquis Bank for ICAAP discussion

- Reviewed the ICAAP risk scenarios and stress test results.
- Received a CRO report including key risk themes, a regulatory activity update and a regulatory horizon scanning report.

July

- Reviewed approach for risk management framework (RMF) harmonisation across the Group and divisions.
- Received an update on the programme governance approach.
- Agreed the working relationship between the GRC and the Customer, Culture and Ethics Committee.

September – Joint Risk Committee with Vanquis Bank

- Reviewed and endorsed the Vanquis Bank ICAAP for submission to the Vanquis Bank board for approval and the Consolidated ICAAP to the Board for approval.

October

- Received a CRO report including key risk themes and a regulatory update.
- Reviewed the draft Group risk appetite framework and reporting approach.
- Received divisional risk profile reports.
- Reviewed and approved the Group Wind Down Plan (WDP).
- Reviewed and approved the Business Continuity Planning approach (BCP).
- Received an IT risk assessment for the years 2019/20.
- Received an update on anti-bribery and corruption.
- Reviewed a future ILAAP and funding approach.
- Received the 2020 GRC Agenda Planner.

Principal and emerging risks

The Committee is responsible for carrying out an assessment of the principal and emerging risks to the Group, including those which have the potential to impact its strategy and culture, business model, future performance, solvency or liquidity. The Committee received reports from the CRO detailing the Group's aggregated risk profile, reviewing this in detail and confirming its accuracy.

Our principal and emerging risks are set out in the table below.

Principal risks	Emerging risks
<ul style="list-style-type: none"> • Credit risk. • Capital risk. • Liquidity and funding risk. • Operational risks. • Information and data security risk. • Regulatory risk. • Conduct risk. • Business resilience risk. • People risk. • Model risk. 	<p>Threats to our sector and business plans:</p> <ul style="list-style-type: none"> • Risk governance and culture. • Responsible lending and affordability. • Challenge to agent self-employed status. • Home credit recovery – financial performance. • Persistent debt (Vanquis Bank).

For further details regarding the principal risk assessment and mitigations, including full details of the Group's principal and emerging risks, please see [pages 46 to 53](#).

Committee review of internal controls

In accordance with the 2018 UK Corporate Governance Code Principle O, the Group Board has a responsibility to establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives. Provision 29 requires the Board to monitor the Company's risk management and internal control systems. The directors can confirm that the Group's key risks have been robustly assessed. This has been achieved through ongoing review of the emerging and principal risks at the Group Risk Committee and Board, as well as tracking of the associated

mitigating actions undertaken by management. Internal Audit has supported the Board in this regard by providing independent assurance over the key internal control systems.

To manage risk and ensure compliance with regulatory obligations the Board sets the overall risk appetites of the Group and seeks to ensure that the divisions (and corporate centre) have designed, implemented and maintained effective and appropriate risk management frameworks and processes of their own, consistent with those set by the Group. The divisions have day-to-day responsibility for risk management through their regulatory responsibilities, with key risks aggregated by Group Risk and closely monitored at the Group Risk Committee. Each division predominantly adopts a three lines of defence approach, with the Group continually seeking opportunities to enhance the model through improved collaboration and integration over time.

The second line of defence consists of independent review and challenge of first line actions against established risk appetites. In each division, Risk and Compliance functions constitute the second line of defence and are responsible for assessing adherence to risk appetites and providing independent review and challenge to the first line.

The third line of defence consists of independent assurance. The Group Internal Audit function constitutes the third line of defence and is responsible for providing independent assurance in connection with the identification, assessment and management of risk and maintenance of appropriate controls. The work of the Group Internal Audit function is subject to review by the Audit Committee established by the Board.

Each of the divisions has risk and control self-assessment processes within the first line. Through this approach, all key controls are identified, evaluated and monitored by line management as part of day-to-day activities. All divisions have continued to enhance these internal control frameworks during the year, with greater focus on end-to-end processes ensuring a better articulation of risks and controls.

2020 will be a year to build on the progress made, to consider whether further Group risk integration steps might be useful, within regulatory constraints, and to ensure the Committee stays focused on key risks and takes direct action.

Angela Knight
Group Risk Committee Chairman

27 February 2020

Our responsibilities as a listed business



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The Group continues to improve its governance and enhance Board composition.

Charlotte Davies
General Counsel and Company Secretary

Introduction

In accordance with section 414C(11) of the Companies Act 2006 (the Act), the directors present their report for the year ended 31 December 2019. The following provisions, which the directors are required to report on in the Directors' Report, have been included in the Strategic Report:

- future business developments (throughout the Strategic Report, in particular on [pages 14 to 41](#));
- important events since the balance sheet date throughout the Strategic Report;
- Viability Statement ([page 64](#));
- greenhouse gas emissions ([page 81](#));
- risk management ([pages 42 to 53](#));
- how the directors have engaged with employees, how they have had regard to employee interests and the effect of that regard, including on the principal decisions taken by the Company in the financial year ([pages 83 to 87](#)); and

- how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year ([pages 83 to 87](#)).

Both the Strategic Report and the Directors' Report have been prepared and presented in accordance with, and in reliance upon, applicable company law. The liabilities of the directors in connection with both the Directors' Report and the Strategic Report shall be subject to the limitations and restrictions provided by company law. Other information to be disclosed in the Directors' Report is given in this section.

Directors

The membership of the Board and biographical details of the directors at the year end are given on [pages 92 to 97](#) and are incorporated into this report by reference.

All directors, except as set out below, served throughout 2019 and up to the date of signing the Annual Report and Financial Statements 2019. The following individuals stepped down from the Board on the following dates:

- Kenneth Mullen 1 April 2019 (Secretary)
- John Straw 20 May 2019

With effect from the beginning of the 2019 financial year there have been the following additions to the Board on the following dates:

- Graham Lindsay 1 April 2019
- Charlotte Davies 1 April 2019 (Secretary)
- Robert East 26 June 2019

Further commentary about the Board's composition, Board changes and Board tenure can be found on [page 119](#).

During the year, no director had a material interest in any contract of significance to which the Company or a subsidiary undertaking was a party.

Appointment and replacement of directors

Rules about the appointment and replacement of directors are set out in the Company's articles of association (the Articles). In accordance with the recommendations of the 2018 UK Corporate Governance Code (the Code), all directors will offer themselves for appointment or reappointment, as appropriate, at the 2020 AGM. This is with the exception of Simon Thomas, who will step down from the Board as a director with effect from 31 March 2020.

Articles

The directors' powers are conferred on them by UK legislation and by the Articles. Changes to the Articles must be approved by shareholders passing a special resolution and must comply with the provisions of the Act and the FCA's Disclosure Guidance and Transparency Rules.

Directors' indemnities

The Articles permit the Company to indemnify directors of the Company (or of any associated company) in accordance with section 234 of the Act.

The Company may fund expenditure incurred by directors in defending proceedings against them. If such funding is by means of a loan, the director must repay the loan to the Company, if they are convicted in any criminal proceedings or judgement is given against them in any civil proceedings. The Company may indemnify any director of the Company or of any associated company against any liability.

However, the Company may not provide an indemnity against:

1. any liability incurred by the director to the Company or to any associated company;
2. any liability incurred by the director to pay a criminal or regulatory penalty;
3. any liability incurred by the director in defending criminal proceedings in which they are convicted;
4. any liability incurred by the director in defending any civil proceedings brought by the Company (or an associated company) in which judgement is given against them; or
5. in connection with certain court applications under the Act. No indemnity was provided and no payments pursuant to these provisions were made in 2019 or at any time up to the date of this report.

There were no other qualifying indemnities in place during this period.

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors.

Information required by Listing Rule 9.8.4R

Information required to be disclosed by LR 9.8.4R (starting on page indicated):

Interest capitalised	Not applicable
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Page 153
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non-pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 153
Shareholder waivers of future dividends	Page 153
Agreements with controlling shareholders	Not applicable

Share capital

The Company's issued ordinary share capital comprises a single class of ordinary share. The rights attached to the ordinary shares are set out in the Articles. Each share carries the right to one vote at general meetings of the Company.

During the year, 94,296 ordinary shares in the Company with an aggregate nominal value of £19,545 were issued to employees as follows:

- 85,798 shares in relation to the Deferred Bonus Plan (DBP) at a price of £5.12 in relation to grants made on 1 April 2019; and
- 8,498 shares in relation to the Provident Financial Savings-Related Share Option Scheme 2013 and the Provident Financial Employee Savings-Related Share Option Scheme (2003) at prices ranging between 509p and 575p in relation to grants made between 30 August 2011 and 29 September 2017.

No new shares were issued to satisfy awards made under the Provident Financial Long Term Incentive Scheme 2015 (LTIS).

Conflicts of interest

The Act and the Articles require the Board to consider any potential conflicts of interest of its members.

The Board has a formal policy and operates formal procedures regarding conflicts of interest in order to identify and manage conflicts and to maintain independent judgement. All members of the Board have completed conflict of interest forms which are reviewed annually. All directors have an ongoing duty to notify the Company of any changes and to ensure that appropriate authorisation is sought where required and are required to renew and confirm their external interests annually.

The Board (excluding the director concerned) considers and, if appropriate, authorises each director's reported actual and potential conflict of interest, taking into consideration what is in the best interests of the Company and whether the director's ability to act in accordance with his or her duties is affected. The Board will stipulate, where it deems appropriate, controls to manage an approved conflict of interest.

Records and Board minutes of all authorisations granted by the Board and the scope of any approvals given are held and maintained by the Company Secretary.

Rights of ordinary shares

All of the Company's issued ordinary shares are fully paid up and rank equally in all respects and there are no special rights with regard to control of the Company. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Articles. There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except:

1. where the Company has exercised its right to suspend its voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Act; or
2. where their holder is precluded from exercising voting rights by the FCA's Listing Rules or the City Code on Takeovers and Mergers.

Substantial shareholdings

In accordance with the Disclosure Guidance and Transparency Rules (DTR 5) the Company, as at 19 February 2020 (being the latest practicable date prior to publication of this report), had been notified that the following persons hold directly or indirectly 3% or more of the voting rights of the Company.

Invesco Ltd	15.97%
Schroders plc	15.66%
Coltrane Asset Management LP	8.27%
BlackRock Inc	6.55%
Marathon Asset Management LLP	4.60%
The Vanguard Group Inc	4.31%
Fidelity International Ltd	4.03%
Standard Life Aberdeen	3.23%

Interests as at 31 December 2019 were as follows:

Invesco Ltd	17.43%
Schroders Plc	15.09%
Coltrane Asset Management	8.45%
BlackRock Inc	6.55%
Marathon Asset Management LLP	4.76%
The Vanguard Group Inc	4.26%
BlackRock (Transitional Manager)	4.20%
Standard Life Aberdeen	3.28%
Fidelity International Ltd	3.11%

All interests disclosed to the Company in accordance with DTR 5 that have occurred since 21 February 2020 can be found on the Group's website: www.providentfinancial.com.

Directors' interest in shares

The beneficial interests of the directors in the issued share capital of the Company were as follows:

	Number of shares	
	31 December 2019	31 December 2018
Patrick Snowball	96,477	—
Malcolm Le May	528,395	204,498
Simon Thomas	174,384	—
Andrea Blance	—	—
Angela Knight	—	—
Elizabeth Chambers	12,000	—
Paul Hewitt	34,205	—
Robert East	5,000	—
Graham Lindsay	9,771	—

There have been no changes to the above interests between 31 December 2019 and the date of this report.

Dividend waiver

Information on dividend waivers currently in place can be found on [page 153](#).

Powers of the directors

Subject to the Articles, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The directors currently have powers both in relation to the issuing and buying back of the Company's shares, which were granted by shareholders at the 2019 AGM. The Board is seeking renewal of these powers at the 2020 AGM.

All-employee share schemes

The current schemes for employees resident in the UK are the Provident Financial plc Employee Savings-Related Share Option Scheme (2003), the Provident Financial Savings-Related Share Option Scheme 2013 and the Provident Financial Share Incentive Plan (SIP).

The current scheme for employees resident in the Republic of Ireland is the Provident Financial Irish Savings-Related Share Option Scheme 2014.

Share schemes are a long-established and successful part of the total reward package offered by the Company, encouraging and supporting employee share ownership. The Company's schemes aim to encourage employees' involvement and interest in the financial performance and success of the Group through share ownership.

Around 1,259 employees were participating in the Company's save as you earn schemes as at 31 December 2019 (2018: 1,718).

The Company's SIP offers employees the opportunity to further invest in the Company and to benefit from the Company's offer to match that investment on the basis of one matching share for every four partnership shares purchased.

Around 553 employees were participating in the SIP as at 31 December 2019 (2018: 483).

Executive share incentive schemes

Awards are also outstanding under the LTIS and the DBP and the Remuneration Committee did not grant any options during the year under the LTIS or DBP. Further information is set out on [pages 153 to 155](#).

Provident Financial plc 2007 Employee Benefit Trust (the EBT)

The EBT, a discretionary trust for the benefit of executive directors and employees, was established in 2007. The trustee, SG Kleinwort Hambros Trust (CI) Limited, is not a subsidiary of the Company. The EBT operates in conjunction with the LTIS and the PSP and either purchases shares in the market or subscribes for the issue of new shares. The EBT is funded by loans from the Company which are then used to acquire, either via market purchase or subscription, ordinary shares to satisfy awards granted under the LTIS and awards granted under the DBP. For the purpose of the financial statements, the EBT is consolidated into the Company and Group. As a consequence, the loans are eliminated and the cost of the shares acquired is deducted from equity as set out in [note 26](#) on [page 218](#) of the financial statements.

In 2019, the EBT agreed to satisfy awards made under the LTIS in relation to 1,736,159 shares in the Company and subscribed for the issue of 85,798 new shares in relation to the DBP. The EBT also agreed a buyout award agreement in relation to 11,254 shares in the Company.

As at 31 December 2019, the EBT held the non-beneficial interest in 2,853,722 shares in the Company (2018: 2,853,722). The EBT may exercise or refrain from exercising any voting rights in its absolute discretion and is not obliged to exercise such voting rights in a manner requested by the beneficiaries.

Provident Financial Employee Benefit Trust (the PF Trust)

The PF Trust, a discretionary trust for the benefit of executive directors and employees, was established in 2003 and operated in conjunction with the PSP. The trustee, Provident Financial Trustees (Performance Share Plan) Limited, is a subsidiary of the Company.

The PF Trust has not been operated with the PSP since 2012, when the previous PSP expired. As at 31 December 2019, the PF Trust had no interest in any shares in the Company (2018: nil).

Provident BAYE Trust (the BAYE Trust)

The Provident BAYE Trust is a discretionary trust which was established in 2013 to operate in conjunction with the SIP. The trustee, YBS Trustees, is not a subsidiary of the Company. The BAYE Trust is funded by loans from the Company which are then used to acquire ordinary shares via market purchase to satisfy the Matching Awards for participants of the SIP.

For the purposes of the financial statements, the BAYE Trust is consolidated into the Company and Group. Participants in the SIP can direct the trustee on how to exercise its voting rights in respect of the shares it holds on behalf of the participant. As at 31 December 2019, the BAYE Trust held the non-beneficial interest in 180,363 shares (2018: 134,417 shares).

Profit and dividends

The profit, before taxation, amortisation of acquisition intangibles and exceptional items amounts to £162.6m (2018: £153.5m).

The directors have declared dividends as follows:

Ordinary shares (p) per share

Interim dividend	
2019	9p
2018 (dividend withdrawn)	£nil
Proposed final dividend	
2019	16p
2018	10p
Total ordinary dividend	
2019	25p
2018	10p

The final dividend will be paid on 22 May 2020 to shareholders on the register on 3 April 2020.

Employee engagement and involvement

The Group is committed to employee involvement across the Group. You can also read about how our directors have engaged with employees, how they had regard to employee interests and the effect of that regard on [pages 83 to 87](#).

We provide colleagues with information on matters of concern to them through a number of mechanisms, including: workforce panels in each division, Company briefings and updates, the intranet, mobile applications, 'town halls' and internal newsletters from our CEO and Managing Directors. Colleagues were also kept up to date during the year in relation to the defence of the unsolicited offer from Non-Standard Finance plc in 2019. Following external announcements regarding the Group's operational and financial performance, internal communications and engagement are carried out to keep colleagues up to date on Group performance. Senior leaders across the Group regularly keep colleagues updated on financial and operational performance and relevant strategic issues through frequent updates. A monthly update from the CEO, Malcolm Le May, highlights our progress and focus on plans across the Group.

Colleagues are consulted with via our Group-wide colleague survey and our divisional workforce panels, as well as other local engagement initiatives.

You can read how we encourage the involvement of UK employees in the Company's performance through an employees' share scheme on [page 140](#).

Business relationships with suppliers, customers and others

You can read about how our directors had regard to the need to foster the Company's business relationships with suppliers, customers and others and the effect of that regard, including on the principal decisions taken by the Company, on [pages 83 to 87](#).

Training

The Group is fully committed to continual personal and professional development, encouraging employees at all levels to study for relevant educational qualifications.

In particular, the Group has initiated a series of talent and development initiatives as part of its investment in the career progression of its employees.

The Group is also fully committed to making full use of the Apprenticeship Levy in 2019 and has plans in place to grow both its graduate entry and apprenticeship training programmes. The Group is authorised by the Solicitors Regulation Authority and the Institute of Chartered Accountants of England and Wales to issue training contracts to employees wishing to qualify as solicitors or chartered accountants, respectively.

Equal Opportunities and Diversity Policy

The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of gender, pregnancy, race, colour, nationality, ethnic or national origin, disability, sexual orientation, age, marital or civil partner status, gender reassignment or religion or belief. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the Group to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary. In 2017, the Group signed up to the National Equality Standard, and the initial report identified some key opportunities. Details of our Diversity Policy are set out on [page 72](#).

Investing in our workforce

We invest in our colleagues through recognition, reward, development, wellbeing, the working environment and culture. Colleagues are recognised through our new 'Better Everyday' recognition platform (see [page 72](#) for more detail) and our 'Perks at Work' scheme, which offers colleagues in-store rewards and discounts.

Vanquis Bank operates its 'Make Work Mean More' proposition, which is designed to provide a total rewards package to colleagues, which not only covers financial reward, but also includes lifestyle, culture, wellbeing and career opportunities, seeking to provide a suite of benefits to suit the needs of colleagues at every stage of their personal and professional lives. During the year, Moneybarn launched its 'Be Brilliant' leadership programme and increased its support for professional qualifications and all divisions offer new colleagues a comprehensive induction programme. CCD provides colleagues with the opportunity to find a mentor through the 'Mentoring for Success' programme, which supports the personal development of colleagues. The Group also has mentoring programmes to focus on the personal development of colleagues and the apprenticeship levy has enabled CCD to provide opportunities for our existing workforce to develop their key technical skills and achieve industry recognised qualifications which range from digital to accountancy and HR.

Investing in our workforce continued

Our divisions support colleague wellbeing in a number of ways, such as through mental health training and mental health first aiders, and access to gyms and free fruit. 2019 also saw a Group-wide roll-out of our Blueprint and broad engagement activities regarding culture, which you can read more about on [page 67](#).

In 2019, we signed up to the Women in Finance Charter with the aim to increase female senior leadership representation to 33% for Group Executive Committee members and direct reports by December 2020 and to 40% by December 2024.

Pensions

The Group operates four pension schemes in the UK.

Employee involvement in the Group defined benefit pension scheme is achieved by the appointment of member-nominated trustees and by regular newsletters and communications from the trustees to members. In addition, there is a website dedicated to pension matters. The trustees manage the assets of the defined benefit pension scheme which are held under trust separately from the assets of the Group. Each trustee is encouraged to undertake training and regular training sessions on current issues are carried out at meetings of the trustees by the trustees' advisors. The training schedule is based on The Pension Regulator's Trustee Knowledge and Understanding requirements. The trustees have a business plan and, at the start of each year, review performance against the plan and objectives from the previous year. In addition, they agree objectives and a budget for the current year. The trustees have a risk register and an associated action plan and a Conflicts of Interest Policy, both of which are reviewed at least annually.

As at the year end there were three trustees nominated by members and three trustees appointed by the Company.

The trustees have implemented a de-risking investment strategy which has been agreed with the Company. The objective of the strategy is to reduce the risk that the assets would be insufficient in the future to meet the liabilities of the scheme. The de-risking investment strategy is kept under close review by both the trustees and the Company.

The Company has put Pension Trustee Indemnity Insurance in place to cover all of the Group's pension schemes where individuals act as trustees. The trustees are also protected by an indemnity within each scheme's rules and this insurance effectively protects the Group against the cost of potential claims impacting on the solvency of the pension schemes.

The Group also operates a Group Personal Pension Plan for employees who joined the Group from 1 January 2003. Employees in this plan have access to dedicated websites which provide information on their funds and general information about the plan.

In 2011, the Company established an Unfunded Unapproved Retirement Benefits Scheme (UURBS), for the benefit of those employees who are affected by the HMRC annual allowance and lifetime allowance which applies to members of registered pension schemes. The UURBS offers an alternative to a cash payment in lieu of a pension benefit. This scheme was not offered to new entrants after 2015.

In October 2013, the Group auto-enrolled all eligible staff into a new scheme designed for auto-enrolment.

The Group also operates two defined contribution pension schemes for employees in the Republic of Ireland.

Health and safety

The Group is committed to achieving high standards of health and safety in relation to all of its employees, those affected by its business activities and those attending its premises. Each division has its own health and safety agenda, policy standards and mandatory training in place to help colleagues work safely at all times.

The CCD division has the particular risk of personal safety whilst out collecting from customers. CCD has a strong safety culture and in our 2018 Annual Report and Accounts we made a commitment to redouble our efforts in the safety space. As a result it has carried out a number of initiatives to further enhance its safety systems and processes. The business continues to carry out an extensive training programme and conduct safety weeks for employees twice a year; 2019 has also seen a focus on further engagement with colleagues on safety matters. CCD is constantly looking for ways to further strengthen its safety culture.

Anti-bribery and corruption

The Group Policy

The Group has a policy on anti-bribery and corruption which reflects the requirements of the Bribery Act 2010 (the Policy). The Policy sets out the Group's zero-tolerance approach to bribery and corruption and its commitment to acting professionally, fairly and with integrity in all its business dealings and relationships, wherever it operates, and implementing and enforcing effective systems and controls to counter bribery, corruption and other financial crimes.

The Policy applies to all employees, self-employed agents, contractors and directors in relation to the business activities undertaken by, or on behalf of, the Group. It also applies to any third party which is undertaking business for or on behalf of the Group, which must comply with the Policy or maintain equivalent standards and safeguards to prevent bribery and corruption.

Under the Policy, all employees, self-employed agents, contractors, directors, and relevant third parties of the Group and its divisions must comply with the following minimum requirements:

- they must not directly or indirectly engage in bribery or corruption in any form; and
- they also must not accept, solicit, agree to receive, promise, offer or give a bribe, facilitation payment, kickback or other improper payment.

The Policy also states that if an employee, self-employed agent, contractor, director or a relevant third party of the Group or its divisions becomes aware of a breach of the above minimum requirements they must immediately comply with applicable protocols and procedures to inform an appropriate person within the Group who must as soon as is reasonably practicable report the incident to the Deputy Company Secretary.

Compliance

The Group Risk Committee and the Audit Committees oversee compliance and work together to review the systems and controls for the prevention of bribery. Compliance is also monitored by the Divisional Boards.

Related policies

Gifts and Corporate Hospitality Policy

The Group also has a Corporate Hospitality Policy which requires divisional review, approval and documentation of any gifts or corporate hospitality which is accepted, offered or provided. The Audit Committee oversees the Corporate Hospitality Policy.

Whistleblowing Policy

The Group has a Whistleblowing Policy which is overseen by the Board. The Group is committed to fostering a culture of openness, honesty and accountability and requires the highest possible standards of professional and ethical conduct.

A Group Whistleblowing Forum is now in place which oversees whistleblowing investigations, reviews management information and takes the opportunity to consider any concerns regarding persistent trends and shares best practice.

Should any Group employee have any concerns relating to anti-bribery and corruption or corporate hospitality then anonymous concerns can be raised through the Group's external third-party helpline facility as detailed in the corporate Whistleblowing Policy. Whistleblowing arrangements are overseen by the Board.

Training

The Group provides anti-bribery and corruption and whistleblowing training to all of its employees.

Environmental management

The Group is committed to minimising its impact on the environment and acting to address specific environmental issues such as climate change. The Group's Environmental Management System (EMS) helps to identify, assess and address key environmental risks and impacts; set and achieve environmental targets; and ensure compliance with environmental rules, regulations and policy requirements. The EMS at the Group's Bradford head office has been certified to the international environmental management standard ISO 14001:2015 since 2011 and in 2018 we extended the scope of the ISO 14001:2015 certified EMS to include all of Vanquis Bank's operations in Chatham and London. Details relating to the Group's approach to environmental management and our direct and indirect greenhouse gas (GHG) emissions, which we are required to disclose in order to meet the requirements of the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, are set out in the Strategic Report section of this document on [page 81](#). The GHG data has been subjected to external assurance by the management consultancy, Corporate Citizenship.

Overseas branches

The Group has an overseas branch in the Republic of Ireland.

Important events since the end of the financial year (31 December 2019)

The Group successfully signed a bilateral securitisation facility with NatWest Markets to fund Moneybarn business flows on 14 January 2020. The new facility provides up to £100m of initial funding and is anticipated to grow to £275m over the next 18 months. The successful completion of this facility builds the Group's capability in securitisation, allowing similar funding to be deployed elsewhere in the Group. As a part of obtaining consent for the securitisation from the Group's existing lenders, the Group's revolving syndicated credit facility has reduced from £235m to £211m and the Group has repaid in full the M&G loan facility of £50m, which was repayable in two equal instalments of £25m in February 2020 and 2021. Please see [page 61](#).

As announced by the Company on 17 February 2020, the Financial Conduct Authority (FCA) has issued its final notice in respect of the investigation into Moneybarn's historical lending practices. The Final Notice relates to aspects of Moneybarn's

previous forbearance and termination practices between April 2014 and October 2017. The FCA imposed a fine of £2.77m on Moneybarn. Moneybarn worked collaboratively with the FCA during the investigation, accepted its findings, and put in place clear, effective and appropriate processes to address the FCA's concerns by October 2017. Moneybarn completed a redress programme to compensate all potentially affected customers in the third quarter of 2019, and the total cost of the investigation was within the £20 million provision originally established in 2017. Please see [page 36](#).

Corporate governance statement

The Group's Corporate Governance Report is set out on [pages 88 to 137](#). The Group was fully compliant with all the provisions of the Code by October 2019 and complied with all the provisions of the Code throughout the whole of 2019 with the exception of the following:

Provision 5 – workforce engagement mechanism

At its meeting in December 2018, the Board approved the use of workforce panels as a mechanism to engage with colleagues. The first workforce panel meetings were held in October 2019. The Board also determined in October 2019, in order to further support workforce engagement, that Graham Lindsay would be the designated Non-Executive Director to lead Board workforce engagement. Whilst the workforce engagement mechanism under the 2018 Code did not operate until October 2019, this was driven by prioritisation of significant colleague engagement prior to this, focused on the roll-out and embedding of our Blueprint and in relation to the defence against the unsolicited offer from Non-Standard Finance plc. You can read about our range of colleague engagement mechanisms that operated during the year on [pages 68 and 84](#).

Financial instruments

Details of the financial risk management objectives and policies of the Group and the exposure of the Group to credit risk, liquidity risk, cash flow risk, price risk, interest rate risk and foreign exchange rate risk are included on [pages 183 to 187](#) of the financial statements.

Significant agreements

There are no agreements between any Group company and any of its employees or any director of any Group company which provide for compensation to be paid to an employee or a director on termination of employment or for loss of office as a consequence of a takeover of the Company.

Political donations

The Group did not make any political donations nor incur any political expenditure during the year.

Directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the Independent Auditor's Report on [pages 226 to 236](#), is made to distinguish for shareholders the respective responsibilities of the directors and of the external auditor in relation to the financial statements.

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable laws and regulations.

Directors' responsibilities in relation to the financial statements *continued*

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU and must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors have also considered and accepted the review undertaken and the report provided by the Audit Committee, as set out on [pages 129 to 134](#) of this report, and are satisfied that the Annual Report and Financial Statements 2019, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

The directors are also required by the FCA's Disclosure Guidance and Transparency Rules (DTR) to include a management report containing a fair review of the business of the Group and the Company and a description of the principal risks, emerging risks and uncertainties facing the Group and Company.

The Directors' Report and the Strategic Report constitute the management report for the purposes of DTR 4.1.5R and DTR 4.1.8R. The directors are responsible for keeping proper accounting records that are sufficient to:

- show and explain the Company's transactions;
- disclose with reasonable accuracy at any time the financial position of the Company and Group; and
- enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report and Financial Statements 2019 will be published on the Group's website in addition to the normal paper version. The directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Each of the directors listed below confirms that, to the best of their knowledge, the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, the Company and the undertakings included in the consolidation taken as a whole, and that the Strategic Report contained in this Annual Report and Financial Statements 2019 includes a fair review of the development and performance of the business and the position of the Company and Group, and the undertakings included in the consolidation taken as a whole, and a description of the principal risks and uncertainties they face.

Patrick Snowball	Chairman
Malcolm Le May	Chief Executive Officer
Simon Thomas	Chief Finance Officer
Andrea Blance	Senior Independent Director
Angela Knight	Non-Executive Director
Elizabeth Chambers	Non-Executive Director
Paul Hewitt	Non-Executive Director
Graham Lindsay	Non-Executive Director
Robert East	Non-Executive Director

Disclosure of information to auditor

In accordance with section 418 of the Act, each person who is a director as at the date of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the Company's external auditor is unaware; and
- they have taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's external auditor is aware of that information.

Auditor

Deloitte LLP, the external auditor for the Company, was first appointed in 2012 and a resolution proposing its reappointment will be proposed at the 2020 AGM.

2020 AGM

The 2020 AGM will be held at Provident Financial plc, No.1 Godwin Street, Bradford BD1 2SU, on 7 May 2020 at 3pm. The Notice of AGM, together with an explanation of the items of business, will be contained in the circular to shareholders dated 16 March 2020.

Approved by the Board on 27 February 2020 and signed by order of the Board.

Charlotte Davies
General Counsel and Company Secretary

27 February 2020



Our 2019 remuneration report

Remuneration has an important part to play in realigning our culture and ensuring best practice.

- 146 Annual statement by the Chairman of the Remuneration Committee
- 149 Annual report on remuneration
- 162 Directors' remuneration policy

Engaging positively with our investors



Members

Andrea Blance (Chairman)

Angela Knight

Graham Lindsay (member from 1 April 2019)

“

I am pleased to present the report of the Group Remuneration Committee which explains how we have engaged positively with our investors during 2019. As a result, we have enhanced our reward framework to strengthen the links with performance, our strategic agenda, underlying Blueprint behaviours and cultural transformation. We have also introduced a post-employment Share Ownership Requirement policy. This enhanced framework will continue to be applied in 2020 and beyond.

Andrea Blance

Chairman of the Remuneration Committee

The report complies with the provisions of the Companies Act and the Listing Rules of the Financial Conduct Authority (FCA). The Company also follows the requirements of the UK Corporate Governance Code (the Code) updated in July 2018.

This has been a complex year including the unsolicited offer for the Group made by NSF and the 79.63% vote in favour of the Directors' Remuneration Report (DRR) at the AGM. Following this vote, we consulted with investors, to understand and address their concerns. Throughout this period, the Board remained focused on meeting shareholder expectations on financial performance and the wider strategic outcomes.

I want to thank all investors (and their representative bodies) who provided me with feedback as part of the 2019 DRR consultation. Investor views have been incorporated into the Committee's year-end decision making and will inform our approach in 2020 and beyond.

This report explains our approach to colleague and executive pay and provides information on how we reward our people. This year we have sought to use a more constant lens to ensure a joined-up approach to colleague and executive performance assessment and pay outcomes.

Changes and developments in 2019

As a result of the feedback from the shareholders following the AGM, we made the following commitments and have now delivered them all:

Annual bonus – structure

- a change in the split between financial and non-financial metrics for annual bonus, increasing the financial metrics from 50% to 60% and reducing the non-financial metrics from 50% to 40%;
- non-financial objectives are now based upon five qualitative categories: strategy, regulatory risk and conduct, Investor Relations, customers and employees;
- within each non-financial category corporate (strategic) measures of success and KPIs will be clearly distinguished from personal objective measures of success and KPIs. The weightings, assessments and outcomes of corporate (strategic) elements and personal objective elements (set out separately) can be found in the main body of the DRR;
- Group adjusted PBT (prior to exceptional items and amortisation of acquisitions and intangibles) – is now the sole financial metric used for financial performance, accounting for 60% of annual bonus scorecard weighting; and
- the Common Equity Tier 1 (CET1) metric was removed as a financial metric in the annual bonus, and was repositioned as a threshold or 'gating' requirement since the maintenance of capital is a core requirement for the business and not an objective.

Annual bonus – risk assessment

- in addition to the assessment of the regulatory risk and conduct category of the scorecard, the Committee considered overall risk adjustments for annual bonus outcomes, based on the Risk Committee overlay report, which provides further flexibility to reduce bonus in respect of materialised and non-materialised risks, deficiencies in risk culture and risk conduct behaviours as well as consideration of audit findings.

Long Term Incentive Scheme (LTIS)

- as part of the wider review on grant levels the Committee used the risk overlay and also took into consideration the impact on the share price arising from the trading statement issued in January 2019 when determining the appropriate grant level.

Share Ownership Requirement (SOR) policy

- a post-employment SOR policy has been adopted. Executive directors will have a contractual requirement to retain the in-employment SOR of 200% of base salary or, if lower, the shareholding position reached at termination for a period of two years. This covers shareholdings from share grants from 2020 in the Deferred Bonus Plan (DBP, previously PSP) and the LTIS. Shares purchased by the executive directors are not included in the post-employment SOR.

We believe that these changes clearly set out our commitment to improving our processes and provide greater alignment with the shareholders.

Performance in 2019

Adjusted PBT of £162.6m (2018: £160.1m – restated) and a CET1 ratio in excess of 25.5%. In addition, we successfully defended the unsolicited, hostile bid from NSF and consequently preserved shareholder value. Further details can be found in the DRR.

The roll-out, and ongoing embedding, of our Cultural Blueprint (see [page 12](#)) has been another successful milestone and demonstrates our commitment to long term sustainable shareholder value.

Executive director pay Salary

The workforce average salary range increase is 2.5%–3.0%.

For 2020, we have decided to award a salary increase of 2.0% (nil in 2018) with effect from 1 January 2020 to the CEO. This approach reflects restraint and is within market levels of salary increases for executive directors. This has the effect of increasing the CEO's base salary from £700k per annum to £714k per annum.

There is no change to Simon Thomas' salary and he will be stepping down from the Board as set out below. Details about his successor, Neeraj Kapur, can also be found below.

Annual bonus outcomes in respect of 2019

As approved at the AGM, the CEO bonus opportunity increased from 120% to 175% of base salary and we have been sensitive to the need to demonstrate restraint in the quantum uplift (which consequently means that the bonus awarded for 2019 is a smaller percentage of the maximum than that awarded in 2018). An important element of the transition was to increase the importance of the financials in determining the bonus outcome and the realignment of those financials around a single measure, adjusted PBT. Further details on the results can be found below and in the main body of the DRR.

The adjusted PBT outcome of £162.6m (2018: £160.1m – restated) is 93.7% of target, hence qualifying for a payment of 45.2% of maximum payment. With a CET1 ratio in excess of 25.5% the CET1 hurdle has also been met. Finally, the non-financial element is assessed at 65% achievement (further details in the DRR). Overall the non-financial assessment was: (i) CEO – 65.2% of maximum target; and (ii) CFO – 63% of maximum target.

The CRO, and the Chairman of the Risk Committee, advised that, during 2019, material progress was made in mitigating a number of the major risks – despite significant uncertainty in the external environment and regulatory challenges facing the Group. As a result, the Committee determined that no risk overlay adjustment was necessary. Therefore, the Committee made an award of: (i) CEO – 53.2% of maximum award (£651,900) – this equates to 93% of base annual salary; and (ii) CFO – 52.3% of maximum award (£300,150) – this equates to 59% of base annual salary (pro-rated).

To ensure improved shareholder alignment 40% of the value of executive directors' annual bonus awards are granted in shares and deferred for 3 years in the Deferred Bonus Plan. These shares will contribute towards the SOR from date of grant.

Annual statement by the Chairman of the Remuneration Committee continued

LTIS matters in 2019**Vesting of 2017 LTIS**

Neither the current CEO, nor CFO, were in role at the grant for the LTIS 2017 Award.

Grants of LTIS in 2019

As set out in the 2018 DRR, an LTIS grant of 200% of base salary was made to Malcolm Le May in 2019. This will vest in 2022 subject to three performance metrics: (i) relative total shareholder return (TSR) – 30%; (ii) earning per share (EPS) – 60%; and (iii) risk indicators – 10%. A two-year post-vesting holding period applies to his LTIS award (net of tax).

Simon Thomas received a grant of 175% of base salary with the same terms as Malcolm Le May.

Grants of LTIS in 2020

Further to the commitment made as a result of the shareholder consultation, in making this year's award we have considered the share price movement over the year and have decided to make a reduction in the 2020 LTIS grant value. A 15% reduction has been approved by the Committee. As a result, Malcolm Le May's LTIS grant in 2020 will be reduced from 200% to 170% of salary this year.

Board changes**Simon Thomas' illness and departure**

Simon Thomas, the Chief Finance Officer, took three months medical leave, starting on 5 April 2019. Upon his return, he decided to leave the business for health reasons in March 2020, after the 2019 preliminary results announcement. Simon Thomas is being treated as a 'good leaver'. No special departure terms have been agreed and his bonus has been pro-rated for medical leave of absence. Departure terms are within the Directors' Remuneration Policy (DRP) and in accordance with the plan rules; his 2019 annual bonus has been pro-rated for medical leave of absence and he will be considered post year end for a pro rated 2020 bonus for the period worked. He will be covered by the new post-employment SOR policy when he steps down from the Board.

Appointment of Chief Finance Officer

Neeraj Kapur will be appointed to the Board on 1 April 2020 as Chief Finance Officer. The terms of his appointment are in accordance with the DRP approved by shareholders in 2019.

His base salary will be £525,000. This represents a 2.9% increase to the salary of the departing CFO, Simon Thomas, and is broadly aligned to the workforce salary increase this year. He will be entitled to a maximum annual bonus and maximum LTIS opportunity of 125% and 150% of salary per annum respectively which is less than the current office holder. Following appointment, Neeraj will be granted a 2020 LTIS award subject to performance measured over a three-year period. His bonus for 2020 will be pro-rated to reflect actual service during the year. He will be entitled to participate in pensions arrangements in the same manner as other UK-based employees with an employer contribution of 10% of base salary. To secure his appointment in accordance with the DRP approved in 2019, it was necessary to compensate him for certain cash and share-based incentive awards that he will forfeit on leaving his previous employer, Secure Trust Bank.

The buyout award, which has been designed to mirror the time horizon and value of the remuneration forfeited, will be delivered in cash (to the extent that this aligns to forfeited awards at the time of joining) and shares to provide alignment with the Group and its shareholders. Further details on his package are set out on [page 156](#).

Full details of the Board changes are set out on [page 168](#).

Details of the remuneration earned by the non-executive directors, and Malcolm Le May and Simon Thomas as executive directors, during the year ended 31 December 2019, have been included in the DRR.

Conclusion

We have made a great number of changes in 2019 to further align our compensation with shareholder expectations. We are confident that we now have in place a much improved 'pay for performance' commitment and rigour. No discretion was exercised by the Committee to override performance outcomes.

I would like to thank shareholders for the support they have given this year, and I hope you will recognise and approve of the substantive changes that have been made and support our 2019 DRR at the 2020 AGM.

Andrea Blance

Chairman of the Remuneration Committee

27 February 2020



Annual report on remuneration

This Annual Report on Remuneration provides an overview of the workings of the Remuneration Committee (the Committee) during the year, sets out details of how the approved Directors' Remuneration Policy (DRP) was applied in 2019, and explains the total remuneration earned by the directors during the year.

This report, together with the Committee Chairman's annual statement, will be subject to an advisory vote at the 2020 AGM.

1. Implementation of the approved DRP in 2019

1.1 Directors' remuneration

The table shows the directors' emoluments for the 2019 financial year and the 2018 financial year for comparison.

Executive directors' remuneration

Director's name	Fixed pay								Variable pay								Total			
	Salary		Benefits in kind ³		Pension		Total fixed pay		Annual bonus ⁴		Vesting of LTIS ⁵		Share incentive schemes		Total variable pay		2019 £'000	2018 £'000		
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000				
													Vesting of PSP Matching Awards ⁶		PSP dividends					
Executive directors																				
Malcolm Le May ¹	700	692	42	29	105	93	847	814	651	573	—	—	—	—	9	—	660	573	1,507	1,387
Simon Thomas ²	510	43	10	1	77	6	597	50	300	—	—	—	—	—	—	—	300	—	897	50
Total	1,210	735	52	30	182	99	1,444	864	951	573	—	—	—	—	9	—	960	573	2,404	1,437

1 Malcolm Le May received an annual salary of £600,000 for the period from 1 January 2018 to 31 January 2018, as the Executive Chairman.

His annual salary as the Chief Executive Officer is £700,000, effective from 1 February 2018.

2 Simon Thomas was appointed the Chief Finance Officer on 3 December 2018.

3 This figure includes amounts in respect of a company car benefit or car cash allowance, and private medical insurance.

4 The annual bonus represents the gross bonus payable to the directors in respect of 2018 and 2019.

5 Amount calculated based on no vesting of the 2017 LTIS.

6 Amount calculated based on no vesting of the 2017 PSP Matching Awards.

Non-executive directors' fees and benefits

Director's name	Fees		Benefits in kind		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Chairman						
Patrick Snowball ¹	320	88	—	1	320	89
Non-executive directors						
Andrea Blance	116	116	2	3	117	119
Elizabeth Chambers ²	103	43	16	5	119	48
Paul Hewitt ²	102	41	1	1	103	42
Angela Knight ²	104	41	—	—	104	41
John Straw ³	30	78	1	3	31	81
Graham Lindsay ⁴	64	—	—	—	64	—
Robert East ⁵	39	—	—	—	39	—
Total	877	407	21	13	898	420

Note: The non-executive directors did not receive a pension benefit nor did they receive any bonus or share incentive entitlements.

1 Patrick Snowball was appointed Chairman and joined the Board on 21 September 2018.

2 Angela Knight, Elizabeth Chambers and Paul Hewitt were appointed as directors effective 31 July 2018.

3 John Straw stepped down from the Board on 20 May 2019.

4 Graham Lindsay joined the Board on 1 April 2019.

5 Robert East joined the Board on 26 June 2019. Robert East received an additional fee of £102,500 in respect of his chairmanship of Vanquis Bank Ltd.

Further details on the non-executive directors can be found on [page 161](#).

Annual report on remuneration continued

1. Implementation of the approved DRP in 2019 continued

1.2 Executive directors' fixed pay and non-executive directors' fees in 2019

Executive directors' salaries

Malcolm Le May received an annual salary of £700,000 for the period between 1 January and 31 December 2019 as the Chief Executive Officer. This did not change from 2018 based on his CEO role.

Simon Thomas received an annual salary of £510,000 for the period between 1 January and 31 December 2019 as the Chief Finance Officer.

Executive directors' pension arrangements

The executive directors receive a cash allowance in lieu of pension as do eligible employees affected by the HRMC limits. For new executive directors appointments, including Neeraj Kapur, under the DRP the pension allowance is capped at 10% of base salary, in line with the level available to the wider workforce. The Committee carried out a detailed review last year, and it determined that the maximum pension level of 30% under the previous DRP should be reduced to 15% of salary for incumbents to bring it in line with market practice at that time and closer in line with employees below executive director level. This will be reviewed again at the next DRP review in 2022.

Chairman

The fees for the Chairman are set by the Committee. Full details of the Chairman's fees are set out on page 161.

Other non-executive directors' fees

Non-executive directors' fees are designed both to recognise the context of responsibilities, time commitment and the market of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the strategy and future growth of the Company. Full details of the fees are set out on page 161. Non-executive directors' remuneration is set by the Board, except for the Board Chairman whose fee is set by the Committee. The fees do not include share options or other performance-related elements for which they are not eligible.

Fees from other directorships

Malcolm Le May has been a non-executive director of IG Group plc since September 2015. He retains the fees from this appointment. During 2019, the fees amounted to £103,000 (£113,235 for 2018).

Simon Thomas did not hold any external directorship for the period from 1 January to 31 December 2019.

1.3 Annual bonus scheme

1.3.1 Annual bonus opportunities and targets for 2019

A number of changes to the annual bonus plan have been made in 2019. The changes sought to strengthen further our commitment to stronger pay and performance alignment. As approved at the AGM, the CEO bonus opportunity increased from 120% to 175% of base salary (with the CFO maximum being 150%) and we have been sensitive to the need to demonstrate restraint in the quantum uplift (which consequently means that the amount awarded is a smaller percentage of the maximum). An important element of the transition was to increase the importance of the financials in determining the bonus outcome and the realignment of those financials around a single measure – Group adjusted profit before tax (prior to exceptional items and amortisation of acquisitions and intangibles) – or adjusted PBT – set out on page 224.

A new balanced scorecard of non-financial measures was also introduced for the 2019 annual bonus with the aim of increasing focus on key objectives and the continuing transformation of the business. The scorecard considered performance within five categories: (i) strategy; (ii) customer; (iii) regulatory risk and conduct (see page 151); (iv) investor relations; and (v) employee. Within each of these headings the targets were split into corporate/strategic objectives and personal objectives.

The overall weighting was 60% financial (adjusted PBT), 24% non-financial (corporate/strategic) and 16% non-financial (personal). It should be noted that both non-financial categories were aggregated into a single percentage of achievement. Further details on the targets and their assessment can be found below.

The maximum bonus opportunity, in respect of 2019, was 175% of salary for the CEO and 150% of salary for the CFO, and was split as follows:

Performance metric weightings	Malcolm Le May		Simon Thomas ¹	
	% of max bonus	Max as % of salary	% of max bonus	Max as % of salary
Adjusted PBT	60%	105%	60%	90%
Non-financial objectives	40%	70%	40%	60%
Total		175%		150%

1 For 2019, the bonus of Simon Thomas was pro-rated to take account of his leave of absence.



1.3.2 Assessment of performance and pay-outs for 2019 annual bonus

The bonus assessment was as follows:

Financial

The Group achieved adjusted PBT of £162.6m, which is 93.7% of target and hence qualifies for a payment of 45.2% of maximum payment. The Group achieved a CET1 ratio in excess of 25.5%; thus, the CET1 hurdle has also been met and a bonus is potentially payable.

	Performance range			Actual	Weighting	Outcome
	Threshold 85%	Target 100%	Maximum 110%			
Adjusted PBT	£147.6m	£173.6m	£191.0m	£162.6m	60%	45.2%

Non-financial

The non-financial element was assessed at 65% achievement with this broken down as follows:

Category	Weighting	Type	Description	Individual weighting	Rating	CEO	CEO bonus %	CFO	CFO bonus %
Strategy	20%	Corporate	(i) Roll-out of Blueprint across the Group and embedding Blueprint principles into PFG customer culture and the employee appraisal process; and (ii) Conceptualisation and initiation of the CPC strategic initiatives programme	15%	On target	63.3%	9.5%	63.3%	9.5%
		CEO	Employee feedback action plan developed with target dates against all actions	5%	Exceeds target-	75%	3.75%	—	—
		CFO	Group strategic cost review and financial strategy execution	5%	On target+	—	—	65%	3.25%
Regulatory risk and conduct	40%	Corporate	(i) Regulator (PRA, FCA, CBI) understanding of Group approach to affordability, forbearance and complaints; and (ii) Improving the dialogue with the regulator and changing the economic and political perception of the business	25%	On target	58.75%	14.7%	58.75%	14.7%
		CEO	(i) Quarterly FCA all-Group forum, and (ii) Expansion of cross-business forums for collaboration on areas including FOS, complaints, risk, HR and financial crime	15%	Exceeds target	78.3%	11.75%	—	—
		CFO	Plan for PRA risk capital add on reduction	15%	On target+	—	—	65%	9.75%

Annual report on remuneration continued

1. Implementation of the approved DRP in 2019 continued

1.3 Annual bonus scheme continued

1.3.2 Assessment of performance and pay-outs for 2019 annual bonus continued

Non-financial continued

Category	Weighting	Type	Description	Individual weighting	Rating	CEO	CEO bonus %	CFO	CFO bonus %
Investor Relations	10%	CEO	(i) Positive investor feedback; and (ii) Investor perceptions and feedback improved from 2018	10%	On target+	70%	7%	—	—
		CFO	(i) Renegotiation and completion of Risk Control Framework; and (ii) Investor perceptions and feedback improved from 2018	10%	On target+	—	—	67.5%	6.75%
Customer	20%	Corporate	(i) Customer, product and funding strategy defined; (ii) Proactive price management; (iii) Optimal legal structure defined; and (iv) Project plan for delivery complete	20%	On target+	65%	13%	65%	13%
Employee	10%	CEO	Board and Executive Committee succession planning in place	10%	On target-	55%	5.5%	—	—
		CFO	Equality, Diversity and Inclusion Policy taken into account for all succession planning	10%	On target+	—	—	60%	6%
Total							65.2%		63.0%

Risk overlay

A risk overlay approach was used for potential risk adjustment with a range of factual criteria for assessment agreed with the Committee. This allowed for a more flexible and holistic approach to be adopted which considers not only the business outcomes (quantitative), but also how these have been achieved (qualitative).

For 2019, the conclusion was that material progress was made in mitigating a number of the major risks – despite significant uncertainty in the external environment and regulatory challenges facing the Group. There was evidence of renewed focus and direction from the Group Board and the Executive Committee (ExCo) through much improved understanding of our Group risk profile, attitude towards managing risk, and closure of material risk and audit issues. This enabled the organisation to start planning for the future and shifting the balance away from the historical issues which have severely hamstrung the Group's performance over the last three years. On this basis, and with reference to the 'risk overlay', the Committee has determined that no further risk adjustment is required at a Group level which has not already been considered as part of the existing financial and non-financial objectives.

It should be further noted that the Chief Risk Officer (CRO), and the Chairman of the Risk Committee, have also been materially involved in the process and its advice was sought by the Committee prior to its final deliberations.

Conclusion

The CRO and the Chairman of the Risk Committee advised that, during 2019, material progress was made in mitigating a number of the major risks – despite significant uncertainty in the external environment and regulatory challenges facing the Group. As a result, the Committee determined that no risk overlay adjustment was necessary.

40% of the value of executive director annual bonus awards will be granted as deferred bonus share awards. These are subject to continuing employment but not subject to performance criteria and are deferred for 3 years. Deferred bonus share awards are contributing towards the minimum SOR from date of grant.

	Malcolm Le May		Simon Thomas	
Financial	45.2% of max £332,420		45.2% of max £155,650	
Non-financial	65.2% of max £319,480		63.0% of max £144,500	
Total	53.22% of max 93% of salary £651,900		52.31% of max 59% of salary ¹ £300,150	
	Cash	Deferral	Cash	Deferral
	£391,140	£260,760	£180,090	£120,060

1 Pro-rated to take account of Simon Thomas' three-month medical absence.

1.4 Long-term incentive schemes

In 2019 the Committee granted awards under the LTIS, which have a three-year performance period covering the years from 2019 to 2021. Details of the LTIS grants are provided below.

1.4.1 LTIS – 2020 grant and performance targets

It is intended that LTIS awards of 170% of base salary will be granted to Malcolm Le May. This award level incorporates an adjustment to acknowledge the reduction in the share price during 2019. A grant will also be made to Neeraj Kapur (see [page 156](#)) but no grant will be made to Simon Thomas. The grants are due to vest in 2023 subject to performance conditions, continued service and a further two-year holding period.

The performance conditions will be as follows:

Performance metrics	Weighting	Threshold		Maximum		Between threshold and max
		Performance requirement	% of max vesting	Performance requirement	% of max vesting	
Cumulative EPS	60%	162.5p	20%	198.6p	100%	Straight-line vesting
Relative TSR	30%	Median	20%	Upper quartile	100%	
Risk indicators	10%	Based on Committee assessment	20%	Based on Committee assessment	100%	

1.4.2 LTIS – 2019 grant and performance targets

LTIS awards of 200% of base salary were granted to Malcolm Le May and 175% of base salary to Simon Thomas in 2019. The grants are due to vest in 2022 subject to performance conditions, continued service and a further two-year holding period.

For the 2019 LTIS grant, the absolute TSR metric was replaced with relative TSR compared with the constituents of FTSE 250 excluding investment trusts. The performance targets for 2019 LTIS and the corresponding vesting schedule are provided in the table below.

Performance metrics	Weighting	Threshold		Maximum		Between threshold and max
		Performance requirement	% of max vesting	Performance requirement	% of max vesting	
Cumulative EPS	60%	153.0	20%	187.0	100%	Straight-line vesting
Relative TSR	30%	Median	20%	Upper quartile	100%	
Risk indicators ¹	10%	Based on Committee assessment	20%	Based on Committee assessment	100%	

1 Risk indicators include: (i) relationship with the Company's regulators; (ii) successful completion of the ICAAP and the ILAAP; (iii) credit risk; (iv) reduction in operational risk through the divisions working together more productively and the Company being managed more efficiently; and (v) culture, conduct, governance and adherence to the FCA Handbook, its principles of business and treating customers fairly outcomes.

Dividend waiver

To the extent an award vests at the end of the performance period, either additional ordinary shares in the Company or a cash amount equivalent to the dividends that would have been paid on the vested awards from the date of grant would be provided to the executive directors on vesting. As the awards did not vest during 2019, no dividends were paid.

Annual report on remuneration continued

1. Implementation of the approved DRP in 2019 continued

1.4 Long-term incentive schemes continued

1.4.2 LTIS – 2019 grant and performance targets continued

LTIS – 2019 award

Details of the LTIS awards granted to the executive directors during 2019 are summarised below:

Director's name	Date of award	Number of shares	Face value ¹	Percentage of salary	Performance condition	Performance period	% vesting at threshold
Malcolm Le May	01.04.2019	273,544	£1,400,000	200%	See table above	Three consecutive financial years ending 31 December 2021	20%
Simon Thomas	01.04.2019	174,384	£892,500	175%			20%

1 Face value calculation is based on the share price of £5.1180 on 29 March 2019. Actual value at vesting may be greater or lesser depending on actual share price at vesting and as a result of any dividend equivalent payable on vested shares.

Awards held by the executive directors under the LTIS at 31 December 2019 were as follows:

Director's name	Date of award	Awards held at 01.01.2019	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Awards held at 31.12.2019	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Malcolm Le May	16.04.2018 ¹	204,498	—	—	—	204,498	684.60	—	16.04.2021
	01.04.2019 ²	—	273,544	—	—	273,544	511.80	—	01.04.2022
Simon Thomas	01.04.2019 ²	—	174,384	—	—	174,384	511.80	—	01.04.2022

1 Details of the performance targets for the 2018 awards were included in the Annual Report on Remuneration in 2018.

2 Details of the performance targets for the 2019 awards are provided in the table '2019 grant and performance targets'.

LTIS 2017 and 2018 awards

Neither executive director received a 2017 LTIS award.

1.4.3 DBP – Deferred Bonus Plan (formerly known as the Performance Share Plan)

The DBP was originally a bonus deferral and matching plan. Deferred bonuses vest after three years. As reported previously, to align with best practice, the facility to grant Matching Awards was discontinued in 2018. There is a mandatory deferral of bonus for executive directors which is a minimum of one-third of any bonus awarded.

DBP 2019 awards

Details of the awards granted to the executive directors during 2019 are summarised below:

Director's name	Date of award	Type of award	Number of shares	Face value ¹	Percentage of bonus	Vesting date
Malcolm Le May	01.04.2019	Basic – forfeitable shares	44,781	£229,190	40%	01.04.2022

1 Face value is calculated based on the share price of £5.1180 on 29 March 2019. The actual value may be greater or lesser depending on the actual share price at vesting and as a result of any dividend equivalent payable on vesting shares.

Awards held by the executive directors under the DBP as at 31 December 2019 are summarised below:

Director's name	Date of grant	Basic Awards (number of shares) held at 01.01.2019	Basic Awards granted during the year	Total Basic Awards (number of shares) vested during the year	Total Basic Awards (number of shares) held at 31.12.2019	Market price at date of grant (p)	Market price at date of vesting (p)	Vesting date
Malcolm Le May	01.04.2019	—	44,781	—	44,781	511.80	—	01.04.2022

Vesting of DBP 2017 awards

There was no grant in 2017.

DBP dividends

For awards granted under the DBP, the dividends payable on the Basic Award are paid to participants on the normal dividend payment date. Any dividend payable on the shares comprising the DBP Matching Awards are paid to participants as a dividend equivalent on the normal vesting date and to the extent of vesting.

No executive directors received any dividends during 2019 in respect of DBP Matching Awards granted in 2017.

1.4.4 Other relevant share incentive scheme information

The mid-market closing price of the Company's shares on 31 December 2019 was £4.57. The range during 2019 was £6.58 to £3.56.

No consideration is payable on the award of conditional shares.

1.4.5 Offshore Employee Benefit Trust

The rules of the LTIS and DBP allow these schemes to be operated in conjunction with any employee trust established by the Company. The Company established the Provident Financial plc 2007 Employee Benefit Trust (EBT) in Jersey with SG Kleinwort Hambros Trust (CI) Limited (KB Trustees) acting as the trustee of the trust.

The EBT, together with any other trust established by the Company for the benefit of employees cannot, at any time, hold more than 5% of the issued share capital of the Company.

Previously lapsed shares were used to satisfy the 2019 awards made under LTIS. The trustee transferred the beneficial ownership (subject to achievement of performance conditions) in 447,928 of the shares for no consideration to the executive directors on 1 April 2019.

1.5 Savings-related share option schemes

The executive directors may also participate in the Provident Financial Savings-Related Share Option Scheme 2013 (the SAYE Scheme) after six months of service.

The SAYE Scheme does not contain performance conditions, but the employee must remain employed by the Company, as it is an HMRC-approved scheme designed for employees at all levels. Invitations to join the scheme were issued to eligible employees in September 2019. No consideration is payable on the grant of an option.

During the year, neither executive director exercised any options.

Options held by the executive directors under the SAYE Scheme at 31 December 2019 were as follows:

Director's name	Options held at 01.01.2019	Granted in 2019	Exercised in 2019	Lapsed in 2019	Options held at 31.12.2019	Exercise price for options granted (£)	Market value at date of exercise (£)	Range of normal exercisable dates of options held at 31.12.2019
Malcolm Le May	5,576	5,572	—	5,576	5,572	3.23	—	08.10.2022 to 07.04.2023
Simon Thomas	—	—	—	—	—	—	—	—
Total	5,576	5,572	—	5,576	5,572	—	—	—

1.6 Malus and clawback

In accordance with the recommendations within the Code and other best practice guidance, the Committee introduced malus and clawback provisions into all awards under the annual bonus scheme, the LTIS and the DBP (previously the PSP) from December 2010. This enabled the Committee, at its discretion, to reduce awards before vesting (malus) or to claw back value overpaid for a period of three years from the date of vesting/payment in the event of: (i) a material prior period error requiring restatement of the Group financial statements; or (ii) an error in assessing the extent to which a performance target (and/or any other condition) has been met.

The mechanisms open to the Committee when undertaking a clawback include the withholding of variable pay to offset the value to be clawed back and/or seeking repayment from the individual of the value overpaid.

Annual report on remuneration continued

1. Implementation of the approved DRP in 2019 continued

1.7 Dilution and use of equity

Since 2008, the Company had, with shareholder approval, disapplied the 5% anti-dilution limit on the use of newly issued shares for the LTIS and DBP and only applied the 10% anti-dilution limit that covers all of the Company's share plans. The disapplication of the limit related back to the demerger of the international business in 2007 and the subsequent share consolidation which made it impossible to operate the LTIS and DBP within the 5% limit if the plans were to act as a motivational tool and reward performance. In 2018, the Committee undertook to reintroduce the 5% limit when the LTIS and DBP could be effectively operated within that limit and is pleased to confirm that the 5% limit continues to be applied.

The table below sets out the headroom available for all share schemes (10% in 10 years limit) and shares held in trust, and discretionary share schemes (LTIS and DBP) (5% in 10 years limit) as at 31 December 2019:

Headroom	2019	2018
All share schemes	4.9%	5.6%
Shares held in trust	3.8%	3.8%
Executive share schemes	1.5%	2.2%

1.8 Simon Thomas' leaving arrangements

Simon Thomas, the Chief Finance Officer, took three months' medical leave. Upon his return, he decided to leave the business for health reasons in March 2020, after the 2019 preliminary results announcement. Simon Thomas is being treated as a 'good leaver'. Departure terms are within the DRP and in accordance with the plan rules; his 2019 annual bonus has been pro-rated for medical leave of absence and he will be considered for a 2020 bonus pro-rated for the period worked during the year assessed following the year-end outcome on performance. He will be covered by the new post-employment SOR policy when he steps down from the Board.

1.9 Neeraj Kapur's appointment

Neeraj will be appointed to the Board on 1 April 2020 as Chief Finance Officer. The terms of his service contract have been set in accordance with the policy approved by shareholders in 2019. On appointment, he will receive a salary of £525,000, with an annual bonus and LTIS opportunity for 2020 of 125% and 150% of salary respectively which is below that of the current office holder. His bonus for 2020 will be pro-rated to reflect actual service during the year and he will receive an LTIS award in the grant window following the date of his joining.

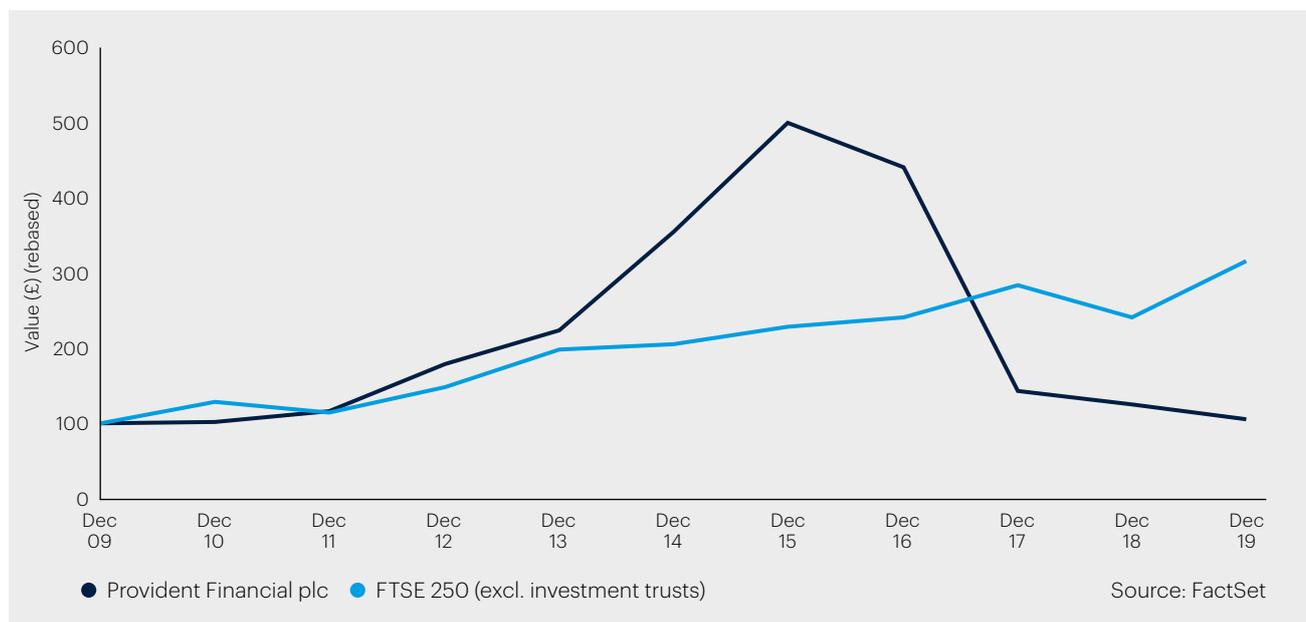
He will also receive a buyout award in compensation for cash and share-based awards forfeited on leaving Secure Trust Bank, his previous employer. The buyout award, which was designed to mirror the time horizon and value of remuneration forfeited, will be delivered in cash (to the extent that this aligns to forfeited awards at the time of joining) and shares to provide alignment with the Group and its shareholders. The grant value of the buyout award will be approximately £776,000.

A pension provision or, where at HMRC limits, a cash equivalent of 10% of basic salary will be provided. This is in line with the structure in place for the UK employees. Neeraj will receive standard benefits set out in the policy including life cover, permanent health insurance, private medical insurance, car benefit and participation in all-employee share plans.

1.10 Total shareholder return: Provident Financial plc vs FTSE 250 (excluding investment trusts)

The graph below shows the total shareholder return for Provident Financial plc against the constituents of the FTSE 250 (excl. investment trusts) for the past ten years. The FTSE 250 has been selected as the Committee considers it the index most relevant to the Company.

Total shareholder return: Provident Financial plc vs FTSE 250 (excl. investment trusts) – 31.12.2009–31.12.2019



1.11 Chief Executive Officer pay

The table below shows the total remuneration figure for the Chief Executive Officer over the ten-year period. Peter Crook's figure is shown up to the date his employment terminated in August 2017 (Chief Executive Officer data for Peter Crook's predecessors are also used). Malcolm Le May's figure is shown from January 2018, including the period he was in the role of the Executive Chairman. The total remuneration figure includes the annual bonus paid together with LTIS and PSP Matching Awards which vested based on the relevant performance targets in those years. The annual bonus, LTIS and PSP Matching Awards percentages show the pay-out for each year as a percentage of the maximum opportunity.

Chief Executive Officer remuneration 2010 to 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single total figure of remuneration (£'000)	2,727	3,443	4,326	4,985	6,594	7,500	6,315	962	1,387	1,507
Annual bonus (%)	81	100	98	89	100	98	100	—	69	53
LTIS vesting (%)	66	49	100	100	100	100	100	—	—	—
PSP Matching Awards vesting (%)	100	79	—	100	100	100	100	—	—	—

Chief Executive Officer relative pay

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the years ended 31 December 2018 and 31 December 2019 for the Chief Executive Officer, compared to the average for the corporate office employees during the same period. A comparison with the corporate office employees is considered to be more suitable due to the range and composition of employees across the Group and the wide range of different remuneration structures and practices which operate in the divisions, making any meaningful comparison difficult.

	2018/2019		
	Salary	Benefits	Annual bonus
Chief Executive Officer	(8)%	(46.3)%	n/a
Average corporate office employee	4.2%	1.3%	n/a

It should be noted that the 8% reduction in salary (and 46% in benefits) is based on the change between the current and prior Chief Executive Officer (Peter Crook).

1.12 Relative importance of spend on pay

The table below shows the total pay (including bonuses) for all the Group's employees in the 2017, 2018 and 2019 financial years compared to the distributions made to shareholders in the same periods.

Relative importance of spend on pay	Year ended 31 December			% change 2018/2019	% change 2017/2018
	2019	2018	2017		
Total employee remuneration (£m)	184.5	205.6	177.5	(10.3)	15.8
Total shareholder distributions (£m)	47.6	—	133.4	n/a	(100.0)

Chief Executive Officer to employee pay ratio

For the purposes of the above, we have decided to use Option B for the purposes of calculation. This decision reflects that the hourly pay metric used in the Group's gender pay gap reporting continues to provide an accurate comparison of workforce pay to Chief Executive Officer pay. This is due to the components of remuneration that are not captured in hourly pay being either highly standardised (benefits) or where more variable (such as bonus awards), being of a relatively low absolute and relative value, as evidenced in the table below.

There are three approved methodologies for reporting:

- Option A – all employees in the organisation listed by descending compensation;
- Option B – leveraging gender pay gap reporting data (hourly pay metric); and
- Option C – other approach – to be defined and explained by the Company.

The current Chief Executive Officer to employee pay ratio is as follows:

PFG Chief Executive Officer pay ratio reporting – 2019 (£'000)

2019 Chief Executive Officer single figure total remuneration:

Year	Method	P25 pay ratio	Median pay ratio	P75 pay ratio
2019	Option B	62.3:1	53.3:1	44.4:1

Year	Pay measure	P25 pay	Median pay	P75 pay
2019	Fixed pay	£23,700	£27,400	£31,600
	Total pay	£24,200	£28,000	£32,300

Option B reflects the decentralised nature of multiple payroll systems across the Group, and a short turnaround time to capture and analyse bonus and total pay data.

Annual report on remuneration continued

1. Implementation of the approved DRP in 2019 continued

1.13 Remuneration policy for employees

We provide employees across the Group with a competitive reward package. We provide a competitive package which includes:

- salary;
- benefits;
- annual bonus – eligibility is dependent upon market comparisons; and
- Share Purchase Plan.

The purpose of each element is the same for all employees, which creates a consistent approach throughout the organisation. Each element is based on market comparisons and supports the recruitment and retention of colleagues of the calibre, capability and experience needed to perform their role.

- **Base salary** – provides fixed remuneration and reflects the size, scope and complexity of individual role responsibilities. The annual salary review takes place for all employees at the same time.
- **Benefits** – a market-competitive level of benefits for colleagues, which enhance the reward package and provide other reasons to work at the Company, i.e. life assurance.
- **Pension** – the opportunity to save for retirement, with the employing company providing a match to employee contributions.
- **Annual bonus** – the opportunity (where appropriate) for employees to receive an annual bonus for the delivery of business and personal goals (including Blueprint behaviours). It is also a function of a standard scorecard across the business which provides a consistent lens for all employees. Annual bonus opportunity provides colleagues with a balance between fixed and variable pay related to market practice based on role. At senior levels a proportion of any bonus is deferred into our shares to provide additional alignment with shareholders' experience.
- **Share Purchase Plan** – an opportunity for all employees to acquire shares through regular savings for alignment with shareholders.

The balance between the different elements of remuneration depends largely on the role and seniority of employees. In more junior roles remuneration is principally fixed pay, reflecting our principle of helping to support a decent standard of living, where regular pay levels help with personal budgeting and planning. For more senior employees, remuneration is weighted more towards variable pay, which can increase or decrease based on the performance achieved against our goals. This approach to pay design also reflects each individual's ability to influence our performance and also takes into account behaviour which incorporates the impact on risk – (to the degree appropriate for each role). We also take account of the requirements of the UK Corporate Governance Code and the views of our investors and other external bodies.

We have a consistent overall principle that all employees should be paid competitively against the relevant pay benchmark.

1.14 Shareholding requirements

The Company has a SOR policy for executive directors which in 2019 required them to acquire and maintain shares in the Company with a total value of 200% of basic salary normally within five years from appointment. Executive directors are required to retain 50% of shares obtained from any share plan, net of tax, until this requirement has been reached.

The Committee reviews the shareholdings of the executive directors in light of these guidelines once a year, based on the market value of the Company's shares at the date of assessment. When performing the calculation to assess progress against the guidelines during employment, shares held by a spouse or dependant, or in an ISA or pension scheme are included or whilst unvested LTIS awards are not.

The current shareholdings of the executive directors under the SOR policy as at 31 December 2019 are as follows:

Share ownership guideline holdings

Director's name	Share ownership as a percentage of salary	Share ownership (number of shares) ¹⁴
Malcolm Le May ²	29.2%	44,781
Simon Thomas ³	—	—

1 Net of notional tax.
 2 Malcolm Le May was appointed CEO on 1 February 2018.
 3 Simon Thomas was appointed CFO on 3 December 2018.
 4 Includes shares owned outright, unvested DBP and vested LTIP in the holding period.

Effective for 2020, the Committee reviewed the approach and updated it with a formal policy as follows:

- a post-employment SOR policy has been adopted. Executive directors will have a contractual requirement to retain the in-employment SOR of 200% of salary or, if lower, the shareholding position reached at termination of office for a period of two years. This covers shareholdings from share grants made from 2020 onwards in the Deferred Bonus Plan (DBP, previously PSP) and the LTIS. Shares purchased by the executive directors (including through all-employee share plans) are not included in the post-employment SOR; and
- in the in-employment SOR policy, it has been updated to include the DBP, for consistency across the policy.

It should be noted that Simon Thomas will be covered by the post-employment SOR policy when he steps down from the Board for his 2020 DBP award.

1.15 Directors' share ownership

Details of shares held by the executive directors and their connected persons, are shown in the table below:

Director	Type	Unvested			Total as at 31.12.19
		Owned outright	Subject to performance conditions	Not subject to performance conditions	
Malcolm Le May	Own name	—	—	—	—
	Held in YBS Trustees (SIP)	—	—	—	—
	LTIS	—	478,042	—	478,042
	DBP	—	—	44,781	44,781
Total		—	478,042	44,781	522,823
Simon Thomas	Own name	—	—	—	—
	Held in YBS Trustees (SIP)	—	—	—	—
	LTIS	—	174,384	—	174,384
	DBP	—	—	—	—
Total		—	174,384	—	174,384

Details of shares held by the non-executive directors and their connected persons are shown in the table below:

Director	Owned outright	Total as at 31.12.19
Andrea Blance	—	—
Elizabeth Chambers	12,000	12,000
Robert East	5,000	5,000
Paul Hewitt	34,205	34,205
Angela Knight	—	—
Graham Lindsay	9,771	9,771
Patrick Snowball	96,477	96,477
Total	157,453	157,453

There have been no changes in the beneficial or non-beneficial interests of the executive directors and non-executive directors between 1 January and 27 February 2020.

1.16 Audit

The elements of the Directors' Remuneration Report (including pension entitlements and share options set out on pages 149 to 159 of this report) which are required to be audited have been audited in accordance with the Companies Act 2006.

This Annual Report on Remuneration has been approved by the Remuneration Committee and the Board and signed on its behalf.

Andrea Blance

Chairman of the Remuneration Committee

27 February 2020

Annual report on remuneration continued

2. Committee effectiveness and governance

2.1 Committee role

The role of the Committee is set out in its terms of reference which are reviewed annually and were last updated in December 2018. These can be found on the Group's website at www.providentfinancial.com. The Committee meets at least three times a year and thereafter as circumstances dictate.

The Committee regularly reviews the approved DRP in the context of the Group's strategy and the Group's risk management framework to ensure it does not inadvertently promote irresponsible behaviour. It has coordinated its work with both the Audit Committee and the Group Risk Committee, which assist with the monitoring and assessment of risk management specifically in relation to the incentives provided under the approved DRP.

The Committee considers remuneration policy across the Company seeking to ensure that policy is fair and equitable and supports the Company's culture and values. When determining policy, care is taken to ensure that solutions meet the objectives and are: clear, proportionate, aligned to the culture (and the policy on risk) and as simple to explain as possible. Recent evidence of this approach can be found in the evolution of the annual bonus arrangements in 2019. When we review the DRP in 2022, we will incorporate these principles further.

This year the Committee has pursued active engagement with shareholders on policy and the approach to its implementation. This will be ongoing in future years.

2.2 Membership

The members of the Committee, all of whom are considered to be independent, are shown in the table below. Their attendance at meetings during the year on [page 118](#).

Details of the work undertaken by the Committee during the year are set out below.

Committee members

Name	Notes	Date appointed
Andrea Blance	Chairman	27 November 2017
Andrea Blance	Member	1 March 2017
Angela Knight	Member	31 July 2018
Graham Lindsay	Member	1 April 2019

2.3 Effectiveness

This year the Board undertook an externally facilitated evaluation of the effectiveness of the Board and its Committees. You can read about this process on [pages 122 to 124](#).

2.4 External advisors

In 2019, independent advice on executive remuneration and share schemes is received from the Executive Compensation practice of Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct, which requires its advice to be objective and impartial. The total fees paid to Aon in respect of the provision of advice to the Committee during the year were

£96,591 (excluding VAT). Aon has also provided support to the HR team on remuneration implementation, and pension consultancy and investment advice to the Company. The Committee is satisfied that these additional services provided by other parts of Aon in no way compromised the independence of the advice received from Aon's Executive Compensation practice.

The terms of engagement for Aon are available from the Company Secretary on request.

The Company Secretary is secretary to the Committee.

In selecting advisors, the Committee considers a range of factors, such as independence and objectivity, experience, technical ability and market knowledge.

Priorities for 2020

Continue to monitor upcoming changes relating to remuneration and assess the potential impact on the Group's remuneration structure and framework.

Continue to engage with shareholders and shareholder advisory bodies, as appropriate, in relation to further alignment between shareholder interests and the executive directors' remuneration.

2.5 Statement of shareholder voting at the AGM

At the 2019 AGM the directors' Annual Report on Remuneration received the following votes from shareholders:

	Total number of votes ¹²	% of votes cast
For	122,617,524	79.63
Against	31,366,266	20.37
Total votes cast (for and against)	153,983,790	100.00

- The total number of votes withheld was 1,716,728.
- A total of 73,005 shares were voted at proxy's discretion, which have been added to the votes cast for.

At the 2019 AGM, the DRP received the following votes from shareholders:

	Total number of votes ¹²	% of votes cast
For	152,767,368	98.12
Against	2,921,610	1.88
Total votes cast (for and against)	153,988,978	100.00

- The total number of votes withheld was 11,541.
- A total of 66,739 shares were voted at proxy's discretion, which have been added to the votes cast for.

Following the 2019 AGM, the Committee engaged with the shareholders. The outcomes of this engagement are set out in the Annual Statement on [pages 146 to 148](#).

2.6 Remuneration Committee key items in 2019

The following sets out the key considerations of the Committee by meeting:

	Governance		Annual bonus		Share plans		All employee matters		
	General	DRR	Design	Review	Grant	Review	Risk	Shareholder	Shareholder
January	●	●		●	●	●	●	●	●
February	●	●	●	●	●		●	●	
June	●			●			●		●
October	●			●					●
December	●		●	●		●	●	●	●

Note: There were several additional meetings in connection with the NSF bid.

3. Implementation of Remuneration Policy

3.1 Executive directors

3.1.1 Developments in 2019

As a result of the feedback from the shareholders post the AGM, and our improved ability to implement changes due to progress on the strategic agenda, we made a number of changes in 2019 which are highlighted in the Chairman's letter – see [page 147](#).

3.1.2 Implementation of Policy for 2020

Annual bonus

Developments in 2020 include the ongoing evolution of the scorecard for the annual bonus plan. For 2020, the Committee has agreed the following:

- hurdle: minimum level of CET1;
- financial objective: adjusted PBT (60%); and
- non-financial objective: scorecard measures (40%):
 - strategy (20%);
 - regulatory risk and conduct (40%);
 - investor relations (10%);
 - customer (20%); and
 - employee (10%).

These non-financial measures are the same as 2019 as this approach was supported by shareholders. The Committee has measures of success for each approved objective. These measures of success have a clear metric and/or narrative-based system, to enable the accurate tracking and monitoring of each objective so that an accurate and unambiguous outcome is determined. This will enable scorecard performance to be tracked and assessed during 2020. They are all linked to the strategy set by the Board.

The maximum bonus opportunity in respect of 2020 is as per the policy at 175% of salary for the CEO and 125% of salary for the new CFO, and will be split as follows:

Performance metric weightings	Malcolm Le May		Neeraj Kapur	
	% of max bonus	Max as % of salary	% of max bonus	Max as % of salary
Adjusted PBT	60%	105%	60%	75%
Company non-financial objectives	40%	70%	40%	50%
Total		175%		125%

Post-employment SOR

In addition, a post-employment SOR policy has been adopted. Executive directors will have a contractual requirement to retain the in-employment SOR of 200% of base salary or, if lower, the shareholding position reached at termination of office for a period of two years. This covers shareholdings from share grants from 2020 in the Deferred Bonus Plan (DBP, previously PSP) and the LTIS. Shares purchased by the executive directors are not included in the post-employment SOR.

3.2 Non-executive directors

3.2.1 Non-executive directors' fees

During the year the Board reviewed Committee membership to enhance the focus and efficiency of the Board Committees. As part of this review, the Board approved the non-executive directors' fees as set out below with effect from 1 July 2019. At its meeting in December 2019, the Board further reviewed the non-executive directors' fees in the context of responsibilities, time commitment and the market taking due account of the need to use such benchmarking exercises with caution. After taking into account the circumstances facing the Company, the Board determined the fee levels with effect from 1 January 2020 as follows:

- non-executive director base fee: £68,000 (no change);
- supplementary fee for chairing the Group Audit, Remuneration, Risk and Customer, Culture and Ethics Committee: £20,000 (no change);
- supplementary fee for Committee membership (except the Disclosure Committee): £15,000 (previously a supplementary fee of £5,000 per Committee for membership of the Audit, Remuneration, Risk and Customer, Culture and Ethics Committees was paid). This fee is not paid to the chairman of these Committees. Additional fee information is as follows:
 - Angela Knight receives a further supplementary fee of £5,000 to reflect additional Board Committee responsibilities, since she sits on more Committees;
 - Robert East receives a fee of £10,000 for Committee membership due to sitting on fewer Board Committees. He sits on fewer Board Committees due to his additional time commitment as Non-Executive Chairman of Vanquis Bank Ltd. He also received an additional fee of £102,500 in respect of his chairmanship of Vanquis Bank Ltd; and
 - supplementary fee for the role of Senior Independent Director (SID): £15,000 (no change).

3.2.2 Chairman's fee

The Committee reviewed the Chairman's fee in the context of responsibilities, time commitment and the market taking due account of the need to use such benchmarking exercises with caution. Following review, the Committee determined that the Chairman's fee for 2020 should remain at £320,000.

Andrea Blance

Chairman of the Remuneration Committee

27 February 2020

Directors' remuneration policy

The Committee is responsible for the remuneration of the Chairman, the executive directors and the Company Secretary. The remuneration and terms of appointment of the non-executive directors are determined by the Board as a whole. The Committee also reviews and sets the remuneration of the senior management teams within the three divisions and the corporate office.

The Chief Executive Officer is consulted on proposals relating to the remuneration of the other executive directors and the senior management teams. The Chairman is consulted on proposals relating to the Chief Executive Officer's remuneration. When appropriate, both are invited by the Committee to attend meetings but are not present when their own remuneration is considered.

The Committee recognises and manages any conflict of interest when consulting the Chief Executive Officer and Chairman about its proposals.

The current DRP was approved by shareholders at the 2019 AGM on 21 May 2019. During 2019, the Committee carried out a consultation process with the shareholders taking into account the new circumstances facing the Company, the latest shareholder feedback and the 2018 UK Corporate Governance Code. Following the review, the Committee decided to propose a number of amendments to the current DRP. The proposed amendments will bring the DRP in line with best practice and ensure the overall remuneration of executive directors is at a market-competitive level.

Considerations when setting policy

In setting the remuneration policy for the executive directors and senior management, the Committee takes into account the following:

- the need to maintain a clear link between the overall reward policy and the specific performance of the Group;
- the need to achieve alignment to the business strategy both in the short and long term;
- the requirement for remuneration to be competitive, with a significant proportion dependent on risk-assessed performance targets;
- the responsibilities of each individual's role and their individual experience and performance;

- the need to attract, retain and motivate executive directors and senior management when determining remuneration packages, including an appropriate proportion of fixed and variable pay;
- pay and benefits practice and employment conditions both within the Group as a whole and within the sector in which it operates; and
- periodic external comparisons to examine current market trends and practices and equivalent roles in companies of similar size, business complexity and geographical scope.

How employees' pay is taken into account

Pay and conditions elsewhere in the Group were considered when finalising the policy for executive directors and the senior management teams. The same principles apply throughout the Group but are proportionate relative to an individual's influence at Group level. The base salary increases awarded to the executive directors are consistent with the average percentage increases awarded elsewhere in the Group and reflect the financial performance of the Group and each individual director's personal performance. The Committee does not formally consult directly with employees on executive pay but does receive periodic updates from the divisions on remuneration issues in general and specifically in relation to remuneration structures throughout the Group.

How the executive directors' remuneration policy relates to the senior management teams

Remuneration for the level below executive director (including share incentives, bonus, benefits and pension entitlement) is set primarily by reference to market comparatives.

Long-term incentives are typically only provided to the most senior executives and are reserved for those identified as having the greatest potential to influence Group-level performance.

How shareholders' views are taken into account

We remain committed to taking into account shareholder views on any proposed changes to our remuneration policy. The Committee Chairman maintains contact, as required, with the Company's principal shareholders about all relevant remuneration issues and the Company consulted with its principal shareholders, as well as the shareholder advisory bodies, in relation to the renewal of its remuneration policy. Ongoing and transparent dialogue with our shareholders on the topic of executive remuneration is very important to us and the feedback received on the proposed remuneration policy was carefully considered and discussed by the Committee.



Executive director remuneration policy

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Salary	<p>To reflect the responsibilities of the individual role.</p> <p>To reflect the individual's skills and experience and their performance over time.</p> <p>To provide an appropriate level of basic fixed income and avoid excessive risk taking arising from over reliance on variable income.</p>	<p>Reviewed annually and effective from 1 January.</p> <p>Typically set following review of the budget for the forthcoming year, taking into account salary levels in companies of a similar size and complexity.</p> <p>Typically targeted at or around median. Annual increases typically linked to those of the wider workforce. Increases beyond those granted to the wider workforce may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, or a significant increase in the scale of the role and/or size, value and/or complexity of the Group.</p>	<p>Broad assessment of Group and individual performance as part of the review process.</p> <p>Malus and clawback provisions do not apply.</p>
Retirement benefits	<p>Provision of market-competitive pension benefits.</p>	<p>Provide either a cash allowance or a contribution to the defined contribution plan or a combination of the two.</p> <p>Pension allowance of up to 15% of salary per annum is given to all existing executive directors. For any future executive director appointments from the 2019 AGM onwards, pension allowance will be capped at 10% of salary, in line with the allowance available to the workforce.</p>	<p>Not applicable.</p>
Annual bonus	<p>Incentivises annual delivery of agreed financial and operational goals.</p> <p>Rewards the achievement of an agreed set of annual financial and operational goals.</p>	<p>Financial and operational goals set annually.</p> <p>Maximum opportunity of 175% of salary.</p> <p>40% of the bonus is subject to compulsory deferral in which case an award is made under the Deferred Bonus Plan (formerly PSP).</p> <p>Remainder of bonus paid in cash.</p> <p>At the discretion of the Committee, participants may also be entitled to receive dividend or dividend equivalent for the period between grant and vesting on vested deferred bonus shares.</p>	<p>A minimum of 60% of any bonus opportunity will be subject to financial targets, e.g. adjusted PBT with up to 20% linked to personal objectives.</p> <p>A graduated scale operates from threshold performance through to the maximum performance level. For financial targets, 25% of the maximum bonus becomes payable for achieving the threshold performance target. 60% of the maximum bonus becomes payable for achieving on-target performance. 100% of the maximum bonus becomes payable for achieving stretch performance. A straight-line pay-out is operated between threshold and on-target performance and between on-target and stretch performance. In relation to non-financial and personal objectives, it is not always practicable to set a sliding scale for each objective. Where it is, a similar proportion of the bonus becomes payable for exceeding the threshold performance level as for financial targets.</p> <p>Malus and clawback provisions apply in accordance with the strengthened Group Malus and Clawback policy. The period of clawback is three years from the date of payment.</p> <p>Details of the bonus measures operating each year will be included in the relevant Annual Report on Remuneration.</p> <p>The Committee reserves the power to make changes over the life of the policy to achieve alignment with the Group's annual strategy.</p>

Directors' remuneration policy continued

Executive director remuneration policy continued

Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
<p>Long Term Incentive Scheme (LTIS)</p>	<p>Alignment of management's long-term strategic interests with long-term interests of shareholders.</p> <p>Rewards strong financial performance and sustained increase in shareholder value.</p> <p>Encourages an increased shareholding in the Group.</p>	<p>Annual grant of share awards (structured as conditional share awards or nil-cost options).</p> <p>Executive directors are eligible for awards of up to 200% of salary which is the maximum opportunity contained within the scheme rules.</p> <p>Executive directors are required to retain vested LTIS shares, net of tax, for a further period of two years.</p> <p>Dividend equivalent provisions allow the Committee to pay dividends on vested shares at the time of vesting.</p> <p>Shareholders approved the renewal of the LTIS at the 2015 AGM.</p>	<p>Awards vest based on a three-year performance period against a challenging range of EPS, relative TSR targets, and risk metrics set and assessed by the Committee. The relative TSR will be measured against a suitable comparator group. 20% of the award vests at the threshold performance level with full vesting taking place on a graduated scale for achieving the maximum performance level. The performance conditions are reviewed annually by the Committee prior to grant (in terms of the range of targets and the choice of metrics) and may be refined to ensure that the targets remain aligned with the Group's strategy and KPIs. Any substantive reworking of the current performance metrics would be accompanied by appropriate dialogue with the Company's shareholders and/or approval sought for a revised remuneration policy depending on the nature of the change.</p> <p>The Group Malus and Clawback policy applies. The period of clawback is three years from the date of vesting.</p>
<p>Other benefits</p>	<p>Provision of a range of insured and non-insured benefits commensurate with the role.</p>	<p>Market-competitive benefits, which may include:</p> <ul style="list-style-type: none"> • life cover; • permanent health insurance; • private medical insurance; • car benefits; • participation in any all-employee share plans operated by the Company on the same basis as other eligible employees; or • other benefits that the Committee may consider appropriate. 	<p>Not applicable.</p>



Element	Purpose and link to strategy	Operation including maximum levels	Performance targets and provisions for recovery of sums paid
Share Ownership Requirement (SOR)	To ensure alignment of the long-term interests of executive directors and shareholders.	<p>Executive directors are required to build a holding of 200% of salary in the form of shares in the Company normally within a period of five years from the date of appointment.</p> <p>Executive directors are required to retain half of any shares vesting (net of tax) under the DBP and LTIS until the guideline is met. Unvested shares held under the LTIS are not taken into account.</p> <p>From 2020 this is a contractual requirement together with a new post-employment requirement for executive directors to retain the in-employment SOR of 200% of salary or, if lower, the shareholding position reached at termination for a period of two years. Post-employment this includes shareholdings from share grants from 2020 in the Deferred Bonus Plan (DBP, previously PSP) and the LTIS (net of tax). Shares purchased by the executive directors (including from the all-employee SAYE plan) are not included in the post-employment SOR. The SOR ceases to apply in cases of death. Remuneration Committee discretion can be applied in implementing the SOR post-employment.</p>	Not applicable.

The Committee will operate the incentive schemes within the policy detailed above and in accordance with their respective rules. In relation to the discretions included within the scheme rules, these include, but are not limited to: (i) who participates in the schemes; (ii) testing of the relevant performance targets; (iii) undertaking an annual review of performance targets and weightings; (iv) the determination of the treatment of leavers in line with the scheme rules; (v) adjustments to existing performance targets and/or share awards under the incentive scheme if certain relevant events take place (e.g. a capital restructuring, a material acquisition/divestment, etc.) with any such adjustments to result in the revised targets being no more or less challenging to achieve; and (vi) dealing with a change of control. For the purposes of incentive pay, adjusted PBT is calculated on an adjusted basis prior to inclusion of exceptional items.

Remuneration Committee discretion

In addition to the performance metrics set by the Committee annually for the incentive plans, the Committee will also assess the overall, or underlying, performance of the company and its divisions. In light of this assessment, the Committee may make a downward adjustment, including to zero, to the vesting outcome on all or any of the performance metrics.

The Committee will also assess the Company's and its divisions' performance against the risk metrics, and may make a downward adjustment, including to zero, to the vesting outcome on all or any of the performance metrics, to take account of any material failures of risk management or regulatory compliance in the Company and its divisions.

Additionally, Committee discretion can be applied in implementing the post-employment SOR including in cases of significant financial hardship, material ill health and conflict of interest.

Directors' remuneration policy continued

Illustrations of application of the DRP

Under the Company's DRP, a large proportion of the remuneration received by executive directors depends on performance. The charts below show how total pay for the CEO and CFO varies under three different performance scenarios: minimum, target and maximum.

Minimum: this comprises the fixed elements of pay, being base salary, benefits and pension allowance. Base salary and pension are effective as at 1 January 2019 and the benefits value is an estimate value for the 2019 financial year.

Target: this comprises fixed pay and the target value of 2019 annual bonus (105% of salary for the CEO and 90% of salary for the CFO) and LTIS (100% of salary for CEO and 87.5% for CFO).

Maximum: this comprises fixed pay and the maximum value of 2019 annual bonus (175% of salary for the CEO and 150% of salary for the CFO) and LTIS (200% of salary for CEO and 175% for CFO).

Maximum plus 50% share price growth: includes the effect of a share price growth of the LTIS of 50% between grant and vesting.



Arrangements from prior years

All variable remuneration arrangements previously disclosed in prior years' directors' remuneration reports will remain eligible to vest or become payable on their original terms and vesting dates, subject to any related clawback provisions.

Regulatory changes

The Committee is mindful that regulatory changes in the financial services sector may result in a need to rebalance the executive directors' pay and, accordingly, the Committee retains discretion to adjust the current proportions of fixed and variable pay within the current total remuneration package if new legislation were to impact the executive directors in due course. Should this be the case, the Company would enter into appropriate dialogue with its major shareholders and, depending on the nature of any changes, may be required to seek shareholder approval for a revised remuneration policy.

Policy for new directors

Base salary levels will be set in accordance with the approved remuneration policy, taking into account the experience and calibre of the individual. Benefits will also be provided in line with the approved DRP and relocation expenses/arrangements may be provided if necessary.

The maximum level of variable pay that may be offered on an ongoing basis and the structure of remuneration will be in accordance with the approved DRP. This limit does not include the value of any buyout arrangements.

Any incentive offered above these limits would be contingent on the Company receiving shareholder approval for an amendment to the approved DRP at its next AGM.

Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual and the point in the financial year that they join the Company.

The above policy applies to both an internal promotion to the Board or an external hire.

In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving a previous employer), then the form (cash or shares), timing and expected value, i.e. likelihood of meeting any existing performance criteria, of the remuneration or benefit being forfeited will be taken into account. The Company will not pay any more than necessary and will not pay more than the expected value of the remuneration or benefit being forfeited. The approved DRP will apply to the balance of the remuneration package. The Company will also not make a golden hello payment.

In the case of an internal promotion, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the Board appointment), even if inconsistent with the policy prevailing when the commitment is fulfilled.

On the appointment of a new Chairman or non-executive director, the fees will be set taking into account the experience and calibre of the individual. Where specific cash or share arrangements are delivered to non-executive directors, these will not include share options or other performance-related elements.

Choice of performance metrics

The performance metrics used for the annual bonus scheme and the LTIS have been selected to reflect the key indicators of the Group's financial performance.

After a discussion with shareholders, adjusted PBT is now the sole financial metric used for financial performance, accounting for 60% of annual bonus scorecard weighting and the balance related to non-financial metrics, as set out above.

EPS continues to be considered by the Committee as one of the broadest and most well understood measures of the Group's long-term financial performance and therefore it remains appropriate to maintain the option to use it as a key metric in our long-term incentive plans.

Furthermore, EPS is fully aligned with the Group's objective of continuing to deliver a high dividend yield and thus is aligned with the shareholder base which is weighted towards longer-term income investors.

In 2012, the link to RPI was removed from the performance targets for the LTIS following consideration by the Committee of various factors prevailing at the time. This approach has been retained in relation to awards under the LTIS since 2012. Performance targets will, however, be assessed annually when setting targets for future awards to take account of prevailing rates of inflation.

In addition, relative TSR in relation to a suitable comparator group is used to provide an appropriate external balance to the internal EPS measure used under the LTIS and is consistent with delivering superior returns to shareholders which remains the Group's key, over-arching, long-term objective.

Each year, a number of risk indicators may be used in the areas of risk management, regulatory performance/compliance, risk profile and conduct.

No performance targets are set for options granted under the Company's Save As You Earn Scheme (SAYE) or for awards under the Company's Share Incentive Plan (SIP) as they form part of the all-employee arrangements which are designed to encourage employee share ownership across the Group.

Service contracts and exit policy

The Committee ensures that the contractual terms for the executive directors take due account of best practice.

Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. All service contracts contain provisions for early termination. The contracts of the executive directors are dated 1 February 2018 for the Chief Executive Officer and 3 December 2018 for the Chief Finance Officer. All contracts operate on a rolling basis with 12 months' notice required to be served by either the executive director or the Company.

An executive director's contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. No director has a service contract providing liquidated damages on termination.

In the event of the termination of a service contract, it is the current policy to seek mitigation of loss by the executive director concerned and to aim to ensure that any payment made is the minimum which is commensurate with the Company's legal obligations. Payments in lieu of notice are not pensionable.

In the event of a change of control of the Company, there is no enhancement to contractual terms.

Notice periods are limited to 12 months. If the Company terminates the employment of an executive director without giving the period of notice required under the contract, then the executive director may be entitled to receive up to 12 months' compensation. Compensation is limited to: base salary due for any unexpired notice period; any amount assessed by the Committee as representing the value of contractual benefits and pension which would have been received during the period; and any annual bonus which the executive director might otherwise have been eligible to receive on a pro rata basis, subject to the Committee's assessment of financial and personal performance.

To the extent that an executive director seeks to bring a claim against the Company in relation to the termination of their employment (e.g. for breach of contract or unfair dismissal), the Committee retains the right to make an appropriate payment in settlement of such claims.

In the case of a termination by the Company of the contract of any new executive director who has been appointed where a payment in lieu of notice is made, the Committee would normally seek to limit this to base salary, pension and benefits for up to 12 months. An amount in respect of loss of annual bonus for the period of notice served (pro rata) would only be included in exceptional circumstances and would not apply in circumstances of poor performance. For the avoidance of doubt, in such exceptional circumstances, the director would be eligible to be considered in the normal way for an annual bonus for any period they have served as a director, subject to the normal assessment by the Committee of financial and personal performance.

Any share-based entitlements granted to an executive director under the Company's share incentive schemes will be determined by reference to the relevant scheme rules. In the case of a 'bad leaver' (e.g. resignation) awards will typically lapse and in certain 'good leaver' circumstances (e.g. ill health) awards will remain eligible to vest subject to assessment of the relevant performance target and a pro rata reduction (unless the Committee determines otherwise).

Any buyout arrangements agreed between the Company and the relevant directors would be treated in accordance with the terms agreed on finalisation of the buyout arrangement.

Policy on other appointments

Executive directors are permitted to hold non-executive directorships but may only hold one non-executive directorship in a FTSE 250 company (or unlisted company) – and may retain the fees from their appointment – provided that the Board considers that this will not adversely affect their executive responsibilities.

Copies of directors' service contracts and/or letters of appointment are available from the Company Secretary on request.

Directors' remuneration policy continued

Non-executive directors

Non-executive directors are not employed under service contracts and do not receive compensation for loss of office. They are appointed for fixed terms of three years, renewable for a further three-year term and, in exceptional circumstances, further extended if both parties agree. Any such extension will be subject to annual reappointment by shareholders.

The table below shows details of the terms of appointment for the non-executive directors. All directors will seek reappointment at the forthcoming AGM.

Non-executive director remuneration policy

Element	Purpose and link to strategy	Operation including maximum levels
Fees	To attract and retain a high-calibre Chairman and non-executive directors by offering market-competitive fees which reflect the individual's skills, experience and responsibilities.	<p>The Chairman and non-executive directors receive annual fees (paid in monthly instalments). The fee for the Chairman is set by the Remuneration Committee and the fees for the non-executive directors are approved by the Board.</p> <p>The Chairman is paid an all-inclusive fee for all Board responsibilities. The other non-executive directors receive a basic non-executive director fee, with supplementary fees payable for additional responsibilities, including a fee for chairing a Committee and for membership of the Group Risk, Remuneration, Audit and Customer, Culture and Ethics Committees (but not if performing a Chairman role).</p> <p>The non-executive directors do not participate in any of the Company's incentive arrangements.</p> <p>Relevant expenses and/or benefits may be provided to the non-executive directors.</p> <p>The fee levels are reviewed on a regular basis and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity.</p> <p>Flexibility is retained to go above the current fee levels and/or to provide the fees in a form other than cash (but not as share options or other performance-related incentives) if necessary to appoint a new Chairman or non-executive director of an appropriate calibre.</p>

Terms of appointment of the non-executive directors

Name	Appointment	Date of most recent term	Expected and actual date of expiry
John Straw ¹	1 January 2017	1 January 2017	20 May 2019
Elizabeth Chambers	31 July 2018	31 July 2018	31 July 2021
Paul Hewitt	31 July 2018	31 July 2018	31 July 2021
Angela Knight	31 July 2018	31 July 2018	31 July 2021
Patrick Snowball	21 September 2018	21 September 2018	20 May 2022
Graham Lindsay	1 April 2019	1 April 2019	1 April 2022
Robert East	26 June 2019	26 June 2019	26 June 2022
Andrea Blance	1 March 2017	1 March 2020	1 March 2023

¹ John Straw's term was expected to expire on 31 December 2020 prior to him announcing his intention to step down from the Board on 20 May 2019.

Remuneration payments and payments for loss of office will only be made if consistent with this approved remuneration policy or otherwise approved by an ordinary resolution of shareholders.

Andrea Blance

Chairman of the Remuneration Committee

27 February 2020



Our results

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

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FINANCIAL STATEMENTS

Consolidated income statement

For the year ended 31 December

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

All of the above activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December

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

Earnings per share

For the year ended 31 December

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

Dividends per share

For the year ended 31 December

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

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



Balance sheets

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

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement or statement of other comprehensive income. The retained profit for the financial year reported in the financial statements of the Company was £47.1m (2018: retained loss of £62.2m).

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

Malcolm Le May
Chief Executive Officer

Simon Thomas
Chief Finance Officer

Company Number – 668987

Statements of changes in shareholders' equity

Group	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings (restated) £m	Total £m
At 31 December 2017		30.7	273.0	13.4	34.0	351.1
Prior year adjustment – directly attributable acquisition costs		–	–	–	11.0	11.0
At 1 January 2018		30.7	273.0	13.4	45.0	362.1
Profit for the year (restated)		–	–	–	65.3	65.3
Other comprehensive income/(expense):						
• actuarial movements on retirement benefit asset	19	–	–	–	(21.7)	(21.7)
• fair value movement on investments	16	–	–	2.2	–	2.2
• tax on items taken directly to other comprehensive income	5	–	–	(0.5)	4.1	3.6
• impact of change in UK tax rate	5	–	–	(0.2)	(0.5)	(0.7)
Other comprehensive income/(expense) for the year		–	–	1.5	(18.1)	(16.6)
Total comprehensive income for the year		–	–	1.5	47.2	48.7
Transactions with owners:						
• proceeds from rights issue	26	21.8	–	278.2	–	300.0
• issue of share capital	26	–	0.2	–	–	0.2
• share-based payment charge	27	–	–	1.1	–	1.1
• transfer of share-based payment reserve on vesting of share awards		–	–	(2.1)	2.1	–
At 31 December 2018		52.5	273.2	292.1	94.3	712.1
Impact of adoption of IFRS 16 'Leases'		–	–	–	(5.6)	(5.6)
At 1 January 2019		52.5	273.2	292.1	88.7	706.5
Profit for the year		–	–	–	84.4	84.4
Other comprehensive (income)/expense:						
• actuarial movements on retirement benefit asset	19	–	–	–	(9.7)	(9.7)
• fair value movement on investments	16	–	–	4.5	–	4.5
• tax on items taken directly to other comprehensive income	5	–	–	(1.2)	1.8	0.6
• impact of change in UK tax rate	5	–	–	0.1	(0.2)	(0.1)
Other comprehensive income/(expense) for the year		–	–	3.4	(8.1)	(4.7)
Total comprehensive income for the year		–	–	3.4	76.3	79.7
Transactions with owners:						
• share-based payment charge	27	–	–	1.9	–	1.9
• transfer of share-based payment reserve on vesting of share awards		–	–	(1.5)	1.5	–
• dividends		–	–	–	(47.6)	(47.6)
At 31 December 2019		52.5	273.2	295.9	118.9	740.5

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

The rights issue in April 2018 was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium. The resulting merger reserve of £278.2m is included within other reserves, of which £228.2m is distributable as the capital was retained for the purposes of the Company with the remaining £50.0m not distributable as it was used to inject capital into Vanquis Bank. Other reserves are further analysed in [note 28](#).



Statements of changes in shareholders' equity continued

Company	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2018		30.7	273.0	51.1	88.8	443.6
Loss for the year		—	—	—	(62.2)	(62.2)
Other comprehensive (expense)/income:						
• actuarial movements on retirement benefit asset	19	—	—	—	(21.7)	(21.7)
• tax on items taken directly to other comprehensive income		—	—	—	4.1	4.1
• impact of change in UK tax rate		—	—	—	(0.5)	(0.5)
Other comprehensive expense for the year		—	—	—	(18.1)	(18.1)
Total comprehensive expense for the year		—	—	—	(80.3)	(80.3)
Transactions with owners:						
• proceeds from rights issue	26	21.8	—	278.2	—	300.0
• issue of share capital	26	—	0.2	—	—	0.2
• share-based payment charge	27	—	—	0.4	—	0.4
• transfer of share-based payment reserve on vesting of share awards		—	—	(1.0)	1.0	—
• share-based payment movement in investment in subsidiaries		—	—	(0.4)	—	(0.4)
• transfer of non-distributable reserve following write down of investment in subsidiary	14	—	—	(37.9)	37.9	—
At 31 December 2018		52.5	273.2	290.4	47.4	663.5
Impact of adoption of IFRS 16 'Leases'		—	—	—	(2.9)	(2.9)
At 1 January 2019		52.5	273.2	290.4	44.5	660.6
Profit for the year		—	—	—	47.1	47.1
Other comprehensive (expense)/income:						
• actuarial movements on retirement benefit asset	19	—	—	—	(9.7)	(9.7)
• tax on items taken directly to other comprehensive income		—	—	—	1.8	1.8
• impact of change in UK tax rate		—	—	—	(0.2)	(0.2)
Other comprehensive expense for the year		—	—	—	(8.1)	(8.1)
Total comprehensive income for the year		—	—	—	39.0	39.0
Transactions with owners:						
• share-based payment charge	27	—	—	1.3	—	1.3
• transfer of share-based payment reserve on vesting of share awards		—	—	(1.0)	1.0	—
• share-based payment movement in investment in subsidiaries		—	—	0.1	—	0.1
• dividends		—	—	—	(47.6)	(47.6)
At 31 December 2019		52.5	273.2	290.8	36.9	653.4

Other reserves are further analysed in [note 28](#).

Statements of cash flows

For the year ended 31 December

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

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



General information

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

Basis of preparation

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

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

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

IFRS 16

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

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

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

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

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated amortisation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of future minimum lease payments discounted using the

incremental borrowing rate at 1 January 2019. The incremental borrowing rates applied to individual leases ranged from 2.3% to 3.4%. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The classification of cash flows is affected as under IAS 17 operating lease payments were presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into a principal and interest portion which is presented as operating and financing cash flows respectively.

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

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

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

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

IFRIC 23

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

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

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

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

Basis of preparation continued**(b) Changes in accounting treatment in 2019****Changes in treatment of directly attributable acquisition costs in Vanquis Bank**

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

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

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

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

(i) Revenue recognition on credit impaired receivables

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

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

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

Basis of preparation continued

(b) Changes in accounting treatment in 2019 continued

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

(i) Revenue recognition on credit impaired receivables continued

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

(ii) Disclosure of directly attributable acquisition costs

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

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

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

Basis of consolidation

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

Control is achieved when the Group:

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

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

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

Revenue

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

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

Company revenue includes intra-group transactions and dividends received.

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

Within CCD and Moneybarn, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows. For CCD this reflects estimated cash flows, being contractual payments adjusted for the impact of customers who either repay early, to term or beyond term, but do not trigger the IFRS 9 default arrears stage during the full life of the loan. Directly attributable incremental issue costs are also taken into account in calculating the effective interest rate. Interest income continues to be accrued on impaired receivables using the original effective interest rate applied to the loan's carrying value until revenue equal to the loan's original service charge has been fully recognised.

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

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

Finance costs

Finance costs principally comprise the interest on retail deposits, bank and other borrowings and, for the Company, on intra-group loan arrangements, and are recognised on an effective interest rate basis.

Dividend income

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

Goodwill

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

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

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

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

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

Investments in subsidiaries

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

Leases

The Group and Company as a lessee

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

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

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

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

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

The lease liability is remeasured whenever:

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

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

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

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

The Group and Company as a lessor

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

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

Other intangible assets

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

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

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

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

Other intangible assets are valued at cost less subsequent amortisation and impairment. Amortisation is charged to the income statement as part of administrative and operating costs. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use and its fair value less costs to sell.

Foreign currency translation

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

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

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

Amounts receivable from customers

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

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

Vanquis Bank

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

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

Lifetime losses are recognised when a significant increase in credit risk is evident, either from a missed monthly payment or an increase in credit score.

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

Moneybarn

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

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

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

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

CCD

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

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

Lifetime losses are then recognised using a discounted cash flow model when a significant increase in credit risk is evident from 2 missed weekly payments in the last 12 weeks.

A customer is deemed to have defaulted when the customer would typically no longer be eligible to be re-served with a subsequent loan which is considered to be 5 missed weekly payments in the last 12 weeks. Home credit customers are fully written off from the field following 12 consecutive missed payments and transferred to a central recoveries team.

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

Customers under forbearance

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

Macroeconomic scenarios

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

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

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

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

Property, plant and equipment

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

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

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

The following principal bases are used:

	%	Method
Land	Nil	—
Short leasehold buildings	Over the lease period	Straight line
Equipment (including computer hardware)	10 to 33 1/3	Straight line
Motor vehicles	25	Reducing balance

Property, plant and equipment continued

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

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

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

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

Fair value changes including any impairment losses and foreign exchange gains or losses are recognised directly in equity through other comprehensive income. The amounts accumulated within equity are not reclassified to the income statement at derecognition. The fair value of monetary assets denominated in foreign currency are determined through translation at the spot rate at the balance sheet date.

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

Cash and cash equivalents

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

Intercompany

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

Borrowings

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

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

Dividends paid

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

- final dividend: when approved by the Company's shareholders at the Annual General Meeting; and
- interim dividend: when paid by the Company.

Retirement benefits**Defined benefit pension schemes**

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

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

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

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

Past service costs are recognised immediately in the income statement.

Defined contribution pension schemes

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

Share capital

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

Merger reserve

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

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

The merger reserve is considered to be a distributable reserve.

Share-based payments Equity-settled schemes

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

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

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

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

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

Cash-settled schemes

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Provisions

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

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

Contingent liabilities

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

Exceptional items

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting assumptions:

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

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

Key sources of estimation uncertainty:

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

Sensitivity analysis of the Group's main assumptions are set out in [note 15](#).

Retirement benefit asset (Group and Company: £78.0m (2018: £83.9m))

Key sources of estimation uncertainty:

- The valuation of the retirement benefit asset is dependent upon a series of assumptions, the key assumptions being mortality rates and the discount rate applied to liabilities. The most significant assumption which could lead to material adjustment is a change in mortality rates.
- Mortality estimates are based on standard mortality tables, adjusted where appropriate to reflect the Group's own expected experience. Discount rates are based on the market yields of high-quality corporate bonds which have terms closely linked with the estimated term of the retirement benefit obligation.

Sensitivity analysis of the Group's main assumptions is set out in [note 19](#).

Provisions for customer redress (Group: £14.5m (2018: £53.2m))

Critical accounting assumptions:

Provisions for customer redress are established based on the following conditions being present: (i) a present obligation (legal or constructive) has arisen as a result of a past event; (ii) payment is probable (more likely than not); and (iii) the amount can be estimated reliably. A contingent liability is disclosed if the present obligation is not probable or the amount cannot be estimated reliably, or if there is a possible obligation dependent on a future event occurring.

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

Current provisions established are in respect of future claims which may arise in Vanquis Bank as a result of ongoing ROP claims outside the settlement agreement reached with the FCA. Judgement is applied to determine the quantum of such liabilities, particularly those relating to future claims volumes, including making assumptions regarding the number of future complaints that may be received and the extent to which they may be upheld, average redress payments and related administrative costs. Past experience is used as a predictor of future expectations with management applying overlays where necessary depending on the nature and circumstances of any restitution programme. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required.

Key sources of estimation uncertainty:

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

Sensitivity of the Group's main assumptions are set out in [note 25](#).

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

Critical accounting assumptions:

- The Company reviews its carrying value of subsidiary investments at each balance sheet date. The carrying value is compared to the higher of the net assets at the balance sheet date or cash flow forecasts.
- Where cash flow forecasts are used, IAS 33 requires the future value in use to be assessed over the useful remaining life of the asset. A terminal growth rate is applied to cash flows from Board-approved budgets which project out for a minimum of four years from the balance sheet date. These are then discounted back to a net present value based on a credit risk-adjusted discount rate.

- Any difference between the carrying value of the investments and either the net assets or cash flow forecasts are booked as an impairment charge in the income statement. The impairment provision is subsequently released when the assets increase or the cash flow forecasts support a higher valuation.

Key sources of estimation uncertainty:

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

Sensitivity of the Company's main assumptions is set out in [note 14](#).



Financial risk management

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

Further details of the Group's risk management framework are described on [pages 42 to 53](#).

(a) Credit risk

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

(i) Amounts receivable from customers

The Group's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2019 is the carrying value of amounts receivable from customers of £2,212.6m (2018: £2,204.0m).

Vanquis Bank

The Risk Committee is responsible for setting the credit policy. The CRO is responsible for ensuring that the approach to lending is within sound risk and financial parameters and that key metrics are reviewed to ensure compliance with policy. The CRO discharges and informs this decision making through the Credit Committee. The Credit Committee meets quarterly, or more frequently if required.

A customer's risk profile and credit line is evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on historical payment patterns of customers are used to assess the applicant's potential default risk and their ability to manage a specific credit line. For new customers, the scorecards incorporate data from the applicant, such as income/expenditure and employment, and data from external credit bureaux. Initial credit limits are low, typically as low as £250. For existing customers, the scorecards also incorporate data on actual payment performance and product utilisation and take data from an external credit bureau each month to refresh customers' payment performance position with other lenders. Credit lines can go up as well as down according to this point in time risk assessment.

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

Moneybarn

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

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

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

CCD

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

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

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

Financial risk management continued

(i) Amounts receivable from customers continued

CCD continued

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

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

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

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

(ii) Bank and government counterparties

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

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

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

(b) Liquidity risk

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

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

The Group's Funding and Liquidity Policy is designed to ensure that the Group is able to continue to fund the growth of the business. The Group therefore maintains headroom on its

committed borrowing facilities to fund growth within CCD and Moneybarn and contractual maturities on its bank, private placement and bond funding for at least the following 12 months. As at 31 December 2019, the Group's committed borrowing facilities including retail deposits had a weighted average period to maturity of 2.2 years (2018: 2.3 years) and the headroom on these committed facilities amounted to £69.1m.

Vanquis Bank is a PRA-regulated institution and is fully funded via retail deposits. It is required to maintain a liquid assets buffer, and other liquid resources, based upon daily stress tests, in order to ensure that it has sufficient liquid resources to fulfil its operational plans and meet its financial obligations as they fall due. It also maintains an operational buffer over such requirements in line with the Bank's risk appetite. As at 31 December 2019, the liquid assets buffer, including other liquid resources and the operational buffer, held by Vanquis Bank amounted to £321.9m (2018: £420.6m), comprising £321.9m (2018: £384.9m) held within cash and cash equivalents and £nil (2018: £35.7m) held as an investment.

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

The Group and Vanquis Bank developed systems and controls to monitor and forecast the LCR and have been submitting regulatory reports on the ratio since 1 January 2014. The Group's LCR at 31 December 2019 amounted to 224% (2018: 688%). Both the Group and Vanquis Bank continue to meet the LCR requirements.

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

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

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

Financial risk management continued

Financial liabilities

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

Financial assets

2019 – Group	Repayable on demand £m	<1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Trade and other receivables	—	33.3	—	—	—	33.3
Total	—	33.3	—	—	—	33.3

Financial liabilities

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

Financial assets

2018 – Group	Repayable on demand £m	<1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Trade and other receivables	—	29.8	—	—	—	29.8
Total	—	29.8	—	—	—	29.8

(c) Interest rate risk

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

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

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

A 2% movement in the interest rate applied to borrowings during 2019 and 2018 would not have had a material impact on the Group's profit before taxation or equity as the Group's interest rate risk was substantially hedged given that the Group's receivables can be repriced over a relatively short timeframe.

(d) Foreign exchange rate risk

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

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

As at 31 December 2019, a 2% movement in the sterling to euro exchange rate would have led to a £0.7m (2018: £0.8m) movement in customer receivables with an opposite movement of £0.7m (2018: £0.8m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been a minimal impact on reported profits and equity.

Financial risk management continued**(d) Foreign exchange rate risk continued**

As at 31 December 2019, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.5m (2018: £0.2m) movement in the investment held at fair value through other comprehensive income and a £0.5m impact on equity.

(e) Market risk

Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities.

The Group's corporate policies do not permit it to undertake position taking or trading books of this type and therefore it does not do so.

(f) Brexit

The economic outlook post Brexit remains uncertain and has led to a significant amount of instability in the UK economy and capital markets, albeit unemployment levels have remained stable and there has not been any significant impact on the Group's businesses to date.

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

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

The Group has current committed facilities to fund growth and contractual maturities until mid-2022, when the current syndicated bank facility is due to mature, assuming ongoing access to retail deposits to fully fund Vanquis Bank. No effect is anticipated on Vanquis Bank's ability to access retail deposits, although it maintains a minimum operational buffer over its liquid requirements stipulated by the PRA to withstand any short-term disruption. In line with the Group's Treasury Policy, the Group is in discussions with its lending banks with a view to refinancing the current syndicated revolving bank facility 12 months in advance of its maturity. The Group's lending banks are predominantly UK based, have supported the Group for many years and have broader relationships through ancillary business such as transactional banking. In the event of a prolonged period of market disruption and the closure of debt capital markets, then the Group has the ability to manage receivables growth and/or dividend flows.

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

Capital risk management

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

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

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

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

The impact from the adoption of IFRS 9 on 1 January 2018 on the Group's net assets amounted to £184.0m and is being phased into regulatory capital on a transitional basis over five years as follows: 5% taken at the start of 2018 (£9m), 15% taken on 1 January 2019 (£18m), 30% taken on 1 January 2020 (£28m), 50% to be taken in 2021 (£37m), 75% to be taken in 2022 (£46m) and 100% to be taken at the start of 2023 (£46m). The impact of the IFRS 9 transitional arrangements on CET1 as at 31 December 2019 was £156m. For illustrative purposes, after adjusting for the impact on risk weighted assets, the CET1 ratio at 31 December 2019 would reduce from 30.7% to 24.1% if the IFRS 9 transitional arrangements did not apply. The Group's future capital generation, together with the minimum dividend cover of at least 1.4 times as the home credit business recovers and moves into profitability, will be managed to absorb the transitional impact of IFRS 9.

Capital risk management continued

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

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

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

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

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

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 Group ExCo, whose primary responsibility is to support the Chief Executive Officer in managing the Group's day-to-day operations and analyse trading performance. The Group's segments comprise Vanquis Bank, Moneybarn, CCD and Central which are those segments reported in the Group's management accounts used by the Group ExCo as the primary means for analysing trading performance. The Group ExCo assesses profit performance using profit before tax measured on a basis consistent with the disclosure in the Group financial statements.

Group	Revenue		Profit/(loss) before taxation	
	2019 £m	2018 (restated) £m	2019 £m	2018 (restated) £m
Vanquis Bank	580.9	644.9	173.5	190.9
Moneybarn	122.0	104.3	30.9	28.1
CCD	295.4	342.2	(20.8)	(38.7)
Central costs	—	—	(21.0)	(20.2)
Total Group before amortisation of acquisition intangibles and exceptional items	998.3	1,091.4	162.6	160.1
Amortisation of acquisition intangibles (note 11)	—	—	(7.5)	(7.5)
Exceptional items	—	—	(26.3)	(55.3)
Total Group	998.3	1,091.4	128.8	97.3

Acquisition intangibles represent the fair value of the broker relationships of £75.0m which arose on the acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. The amortisation charge in 2019 amounted to £7.5m (2018: £7.5m).

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

	2019 £m	2018 £m
Bid defence costs associated with NSF's unsolicited offer for the Group	23.8	—
Restructuring costs, primarily in respect of the ongoing turnaround of CCD	19.3	29.9
Release of provisions in respect of ROP refund programme (see note 25)	(14.2)	—
Release of provisions in respect of Moneybarn FCA investigation (see note 25)	(2.6)	—
Premium and fees on redemption of senior bond (see note 3)	—	18.5
Pension charges in respect of GMP equalisation (see note 19)	—	6.9
Total exceptional items	26.3	55.3

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

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

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

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



1 Segment reporting continued

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

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

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

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

2 Revenue

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

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

All fee income earned relates to Vanquis Bank and Moneybarn.

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

3 Finance costs

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

Interest cover continues to be one of the Group's banking covenants. It is calculated as profit before tax and exceptional items, interest and amortisation divided by finance costs, and has a minimum requirement of 2.0 times. Interest cover, prior to exceptional items, in 2019 was 3.4 times compared with 3.2 times in 2018. The increase in this measure reflects the higher profit in the year following the continued turnaround of the home credit business in the year.

4 Profit before taxation

	Group	
	2019 £m	2018 (restated) £m
Profit before taxation is stated after charging/(crediting):		
Amortisation of other intangible assets:		
• computer software (note 11)	8.9	11.7
• acquisition intangibles (note 11)	7.5	7.5
Depreciation of property, plant and equipment (note 12)	7.0	9.1
Loss on disposal of property, plant and equipment (note 12)	2.2	—
Depreciation of right of use assets (note 13)	17.6	—
Lease liability finance costs (note 3)	2.3	—
Short-term lease costs	0.9	—
Impairment of amounts receivable from customers (note 15)	336.9	396.8
Employment costs (prior to exceptional redundancy costs and curtailment credit) (note 9(b))	215.9	234.4
Exceptional items:		
Exceptional bid defence costs associated with NSF's unsolicited offer for the Group	23.8	—
Exceptional release of provisions (note 25)	(16.8)	—
Exceptional curtailment credit (note 19(a))	(0.5)	(0.6)
Exceptional redundancy cost, primarily in respect of CCD (note 9(b))	14.8	4.8
Exceptional intangible impairment charge (note 11)	1.9	12.8
Exceptional property, plant and equipment impairment charge (note 12)	—	1.0
Exceptional restructuring costs, primarily in respect of CCD	3.1	11.9
Premium and fees on redemption of senior bond (note 22(e))	—	18.5
Pension charges in respect of GMP equalisation (note 19(a))	—	6.9

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

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

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

5 Tax charge

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

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

5 Tax charge continued

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

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

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

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015, changes were also enacted reducing the mainstream corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. In 2016, a further change was enacted, which further reduced the mainstream corporation tax rate from 18% to 17% with effect from 1 April 2020. Deferred tax balances at 31 December 2019 have been measured at 17% (2018: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rate of 25% (2018: 25%) to the extent that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 1 April 2020). In 2019, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.0% (2018: 19.0%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates for the year of 27.0% (2018: 27.0%). A tax credit of £0.3m (2018 (restated): charge of £0.5m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.1m (2018: charge of £0.7m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.

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

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

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

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

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

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

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

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

5 Tax charge continued

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

The adverse impact of the bank corporation tax surcharge amounts to £13.9m (2018 (restated): £13.7m) and represents tax at the bank corporation tax surcharge rate of 8% on Vanquis Bank's taxable profits in excess of £25m where taxable profits are calculated after adding back bank compensation payments, the 10% deemed taxable receipt, the FCA fine and other add-backs.

6 Earnings per share

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

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

- (i) For share awards outstanding under performance-related share incentive schemes such as the Performance Share Plan (PSP) and the Long Term Incentive Scheme (LTIS), the number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if: (i) the end of the reporting period is assumed to be the end of the schemes' performance period; and (ii) the performance targets have been met as at that date.
- (ii) For share options outstanding under non-performance-related schemes such as the Save As You Earn scheme (SAYE), a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of share options outstanding, with the difference being the dilutive potential ordinary shares. The Group also presents an adjusted EPS, prior to the amortisation of acquisition intangibles and exceptional items.

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

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

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

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

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

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



7 Dividends

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

The directors are recommending a final dividend in respect of the financial year ended 31 December 2019 of 16.0p per share (2018: 10.0p) which will amount to an estimated dividend payment of £40.5m (2018: £25.1m). If approved by the shareholders at the Annual General Meeting on 7 May 2020, this dividend will be paid on 22 May 2020 to shareholders who are on the register of members at 3 April 2020. This dividend is not reflected in the balance sheet as at 31 December 2019 as it is subject to shareholder approval.

8 Directors' remuneration

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

	Group and Company	
	2019 £m	2018 £m
Short-term employee benefits	3.7	2.1
Share-based payment charge	0.9	0.2
Total directors' remuneration	4.6	2.3

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

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

9 Employee information

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

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

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

9 Employee information continued
(b) Employment costs

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

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

10 Goodwill

	Group	
	2019 £m	2018 £m
Cost		
At 1 January and 31 December	73.3	73.3
Accumulated impairment		
At 1 January and 31 December	2.1	2.1
Net book value at 1 January and 31 December	71.2	71.2

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. The net book value of goodwill relates wholly to the acquisition of Moneybarn in 2014. The recoverable amount is determined from a value in use calculation. The key assumptions used in the value in use calculation relate to the discount rates and growth rates adopted. Management adopts pre-tax discount rates which reflect the time value of money and the risks specific to the Moneybarn business. The cash flow forecasts are based on the most recent financial budgets approved by the Group Board for the next five years and extrapolates cash flows for the following five years using a terminal growth rate of 2% (2018: 2%). The rate used to discount the forecast cash flows is 11% (2018: 11%); this represents the Company's risk adjusted cost of capital. No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented.

11 Other intangible assets

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

11 Other intangible assets continued

Acquisition intangibles represents the fair value of the broker relationships arising on acquisition of Moneybarn in August 2014. The intangible asset was calculated based on the discounted cash flows associated with Moneybarn's core broker relationships and is being amortised over an estimated useful life of 10 years. Additions to computer software in the year of £7.4m (2018: £7.6m) comprise £1.3m (2018: £2.5m) of internally generated assets and £6.1m (2018: £5.1m) of externally purchased software.

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

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

12 Property, plant and equipment

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

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

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

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

12 Property, plant and equipment continued

Company	Freehold land and buildings £m	Leasehold land and buildings £m	Equipment and vehicles £m	Total £m
Cost				
At 1 January 2019	3.4	0.2	14.3	17.9
Additions	—	—	0.1	0.1
Disposals	(3.4)	—	(2.0)	(5.4)
At 31 December 2019	—	0.2	12.4	12.6
Accumulated depreciation				
At 1 January 2019	3.3	0.1	10.0	13.4
Charged to the income statement	—	—	1.4	1.4
Disposals	(3.3)	—	(1.6)	(4.9)
At 31 December 2019	—	0.1	9.8	9.9
Net book value at 31 December 2019	—	0.1	2.6	2.7
Net book value at 1 January 2019	0.1	0.1	4.3	4.5

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

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

13 Right of use assets

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

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



14 Investment in subsidiaries

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

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

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

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

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

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

Company	Activity	Country of incorporation	Class of capital	% holding	
Vanquis Bank	Vanquis Bank Limited	Financial services	England	Ordinary	100
Moneybarn	Duncton Group Limited	Financial services	England	Ordinary	100
	Moneybarn Group Limited	Financial services	England	Ordinary	100*
	Moneybarn No. 1 Limited	Financial services	England	Ordinary	100*
CCD	Provident Financial Management Services Limited	Management services	England	Ordinary	100
	Provident Personal Credit Limited	Financial services	England	Ordinary	100*

* Shares held by wholly owned intermediate companies.

The above companies operate principally in their country of incorporation.

15 Amounts receivable from customers

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

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

- Stage 1 – accounts at initial recognition. The expected loss is based on a 12-month PD, based on historical experience, and revenue is recognised on the gross receivable before impairment provision.
- Stage 2 – accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historical experience, and revenue is recognised on the gross receivable before impairment provision.
- Stage 3 – accounts which have defaulted. The expected loss is based on a lifetime PD, based on historical experience. Revenue is recognised on the net receivable after impairment provision.

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

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

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

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

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

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

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



15 Amounts receivable from customers continued

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

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

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

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

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

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

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

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

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

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

15 Amounts receivable from customers continued

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

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

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

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

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

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

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

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

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

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



15 Amounts receivable from customers continued

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

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

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

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

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

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

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

15 Amounts receivable from customers continued

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

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

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

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

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

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

The average period to maturity of the amounts receivable from customers within CCD is 6 months (2018: 6 months) and within Moneybarn is 39 months (2018: 39 months). Within Vanquis Bank, there is no fixed term for repayment of credit card loans other than a general requirement for customers to make a monthly minimum repayment towards their outstanding balance. For the majority of customers, this is currently the greater of 3% of the amount owed plus any fees and interest charges in the month and £10.

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

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

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

16 Investments

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

(a) Government gilts

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

(b) Visa shares

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



16 Investments continued

(b) Visa shares continued

The fair value of the preferred stock in Visa Inc. held by Vanquis Bank as at 31 December 2019 of £16.6m (2018: £12.1m) is held at fair value through the OCI. The increase in the fair value of the investment during the year of £4.5m (2018: £2.2m) in respect of the movement in the Visa Inc. share price and the movement in foreign exchange rates has been recognised in the statement of comprehensive income.

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

17 Financial instruments

(a) Classification and measurement

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

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

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

Group	2018 (restated)			
	Investment held at fair value through OCI £m	Amortised cost £m	Non-financial assets/liabilities £m	Total £m
Assets				
Investments	47.8	—	—	47.8
Cash and cash equivalents	—	387.9	—	387.9
Amounts receivable from customers	—	2,204.0	—	2,204.0
Trade and other receivables	1.3	10.0	18.5	29.8
Deferred tax asset	—	—	33.0	33.0
Retirement benefit asset	—	—	83.9	83.9
Property, plant and equipment	—	—	24.6	24.6
Goodwill	—	—	71.2	71.2
Other intangible assets	—	—	55.0	55.0
Total assets	49.1	2,601.9	286.2	2,937.2
Liabilities				
Retail deposits	—	(1,431.7)	—	(1,431.7)
Bank and other borrowings	—	(623.8)	—	(623.8)
Trade and other payables	—	(91.8)	—	(91.8)
Current tax liabilities	—	—	(24.6)	(24.6)
Provisions	—	—	(53.2)	(53.2)
Total liabilities	—	(2,147.3)	(77.8)	(2,225.1)

17 Financial instruments continued

(a) Classification and measurement continued

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

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

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

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

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

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

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

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

Level 2 fair value measurements are those derived from inputs other than quoted market prices included in Level 1 that are observable for the asset or liability either directly or indirectly.



17 Financial instruments continued

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

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

The following table sets out their movement during the year:

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

The illiquidity adjustment has been estimated at around 6% and the expected future litigation costs have been estimated around 15% of the Visa Inc. share price. These assumptions are consistent with 2018.

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

	Group	
	2019 £m	2018 £m
Illiquidity +/-1%	0.2	0.2
Future litigation costs +/-1%	0.2	0.2

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

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

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

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

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

17 Financial instruments continued

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

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

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

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

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

18 Trade and other receivables

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

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

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

19 Retirement benefit asset

(a) Pension schemes – defined benefit

The retirement benefit asset reflects the difference between the present value of the Group’s obligation to current and past employees to provide a defined benefit pension and the fair value of assets held to meet that obligation. As at 31 December 2019, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded.

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

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

The scheme is a UK registered pension scheme under UK legislation. The scheme is governed by a Trust Deed and Rules, with trustees responsible for the operation and the governance of the scheme. The trustees work closely with the Group on funding and investment strategy decisions. The most recent actuarial valuation of the scheme was carried out as at 1 June 2018 by a qualified independent actuary. The valuation used for the purposes of IAS 19 ‘Employee Benefits’ has been based on the results of the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet.

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

19 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

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

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

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

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

As part of a de-risking strategy agreed between the Company and the pension trustees to hedge the inflation and interest rate risks associated with the liabilities of the pension scheme, a substantial amount of more volatile growth funds (equities) were reinvested in liability protection assets (fixed interest and index-linked gilts) in January 2015. This position is reviewed periodically by the trustee who consult the Company as part of this process.

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

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

19 Retirement benefit asset continued
(a) Pension schemes – defined benefit continued

The amounts recognised in the income statement were as follows:

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

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

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

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

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

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

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

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

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

The liabilities of the scheme are based on the current value of expected benefit payments over the next 90 years. The weighted average duration of the scheme liabilities is approximately 18 years (2018: 17 years).



19 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

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

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

The pension increase assumption shown above applies to pensions increasing in payment each year in line with RPI up to 5%.

Pensions accrued prior to 2000 are substantially subject to fixed 5% increases each year. In deferment increases prior to retirement are linked to CPI.

The mortality assumptions are based on the self-administered pension scheme (SAPS) series 2 tables (2018: SAPS series 1 tables), with multipliers of 96% (2018: 96%) and 101% (2018: 101%) respectively for males and females. The 4% downwards (2018: 4% downwards) adjustment to mortality rates for males and a 1% upwards (2018: 1% upwards) adjustment for females reflect higher life expectancies for males and lower life expectancies for females within the scheme compared to average pension schemes, which was concluded following a study of the scheme's membership. Future improvements in mortality are based on the Continuous Mortality Investigation (CMI) 2018 model with a long-term improvement trend of 1.25% per annum. Under these mortality assumptions, the life expectancies of members are as follows:

Group and Company	Male		Female	
	2019 years	2018 years	2019 years	2018 years
Current pensioner aged 65	21.8	22.2	23.3	23.8
Current member aged 45 from age 65	23.1	23.6	24.8	25.3

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

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

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

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

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

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

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

19 Retirement benefit asset continued

(a) Pension schemes – defined benefit continued

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

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

(b) Pension schemes – defined contribution

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

The Group also operates a separate pension scheme for auto-enrolment into which the Company and subsidiaries contribute a proportion of qualifying earnings of the member of 1%. The assets of the scheme are held separately from those of the Group or the Company. The pension charge in the consolidated income statement represents contributions paid by the Group in respect of these plans and amounted to £10.3m for the year ended 31 December 2019 (2018: £9.3m). Contributions made by the Company amounted to £0.5m (2018: £0.4m). £nil contributions were payable to the fund at the year end (2018: £0.6m).

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

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

20 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences or timing difference between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of the Group's pension asset, deductions for employee share awards which are recognised differently for tax purposes, property, plant and equipment which is depreciated on a different basis for tax purposes, certain cost provisions for which tax deductions are only available when the costs are paid, investments which are taxed only on disposal, the opening balance sheet adjustments to restate the IAS 39 balance sheet onto an IFRS 9 basis for which tax deductions are available over 10 years, the opening balance sheet adjustment in respect of the change of accounting treatment of deferred acquisition costs which is taxable over 10 years and the opening balance sheet adjustment in respect of the adoption of IFRS 16 which is deductible over the average period of the relevant leases. The deferred tax liability recognised on the acquisition of Moneybarn relates primarily to the intangible asset in respect of Moneybarn's broker relationships which will be amortised in future periods but for which tax deductions will not be available.

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

Deferred tax at 31 December 2019 has been measured at 17% (2018: 17%) and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rates of 25% (2018: 25%) on the basis that the temporary differences on which deferred tax has been calculated are expected to reverse after 1 April 2020 (2018: 1 April 2020). The exception to this is the opening balance sheet adjustment to restate the IAS 39 balance sheet to an IFRS 9 basis where deferred tax has been measured at the mainstream UK corporation tax rate and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rate, at which the amount will be tax deductible over the next 10 years. In 2019, movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19.0% (2018: 19%), and, in the case of Vanquis Bank, at the combined mainstream UK corporation tax and bank corporation tax surcharge rate for the year of 27.0% (2018: 27%). A tax credit of £0.3m (2018 (restated): tax charge of £0.5m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.1m (2018 (restated): credit of £0.7m) has been taken directly to other comprehensive income in respect of items reflected directly in other comprehensive income.



20 Deferred tax continued

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

Asset/(liability)	Group		Company	
	2019 £m	2018 (restated) £m	2019 £m	2018 £m
At 1 January as previously reported	33.0	33.8	(13.3)	(15.9)
Charge on prior year adjustment in respect of directly attributable acquisition costs	—	(3.7)	—	—
Credit on adjustment arising on transition to IFRS 16	1.5	—	0.6	—
At 1 January restated	34.5	30.1	(12.7)	(15.9)
(Charge)/credit to the income statement	(10.3)	0.5	(0.6)	(1.1)
Credit on other comprehensive income prior to impact of change in UK tax rate	0.6	3.6	1.8	4.1
Impact of change in UK tax rate:				
• credit/(charge) to the income statement	0.3	(0.5)	0.1	0.1
• charge to other comprehensive income	(0.1)	(0.7)	(0.2)	(0.5)
At 31 December	25.0	33.0	(11.6)	(13.3)

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

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

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

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

20 Deferred tax continued

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

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

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

21 Cash and cash equivalents

Cash and cash equivalents includes cash at bank and held in short-term deposits, floats held by CEMs within CCD and Vanquis Bank's liquid assets buffer, including other liquid resources, held in accordance with the PRA's liquidity regime and an operational buffer. The PRA requires regulated entities to maintain a liquid assets buffer to ensure they have available funds to help protect against unforeseen circumstances.

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

In addition to cash and cash equivalents, the Group had £2.8m of bank overdrafts at 31 December 2019 (2018: £7.0m) and the Company had £0.8m of bank overdrafts (2018: £4.2m), both of which are disclosed within bank and other borrowings (see [note 22](#)).

Vanquis Bank's total liquid assets buffer, held in accordance with the PRA's liquidity regime together with an additional operational buffer, amounted to £321.9m (2018: £420.6m). This includes £321.9m (2018: £384.9m) held in cash and cash equivalents and £nil (2018: £35.7m) held in a combination of UK Government gilts. As at 31 December 2019, £138.2m (2018: £106.5m) of the buffer was available to finance Vanquis Bank's day-to-day operations.

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

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Sterling	353.6	387.7	17.4	1.0
Euro	—	0.2	—	—
Total cash and cash equivalents	353.6	387.9	17.4	1.0

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

22 Borrowings

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

(a) Facilities and borrowings

Borrowings principally comprise retail deposits issued by Vanquis Bank (see note 22(b)), syndicated bank facility, together with overdrafts and uncommitted loans which are repayable on demand, senior public bonds (see note 22(e)), loan notes privately placed with UK institutions (see note 22(f)) and retail bonds (see note 22(g)). As at 31 December 2019, borrowings under these facilities amounted to £1,963.5m (2018: £2,055.5m).

(b) Retail deposits

Vanquis Bank is a PRA-regulated bank and is now fully funded through retail deposits. As at 31 December 2019, £1,345.2m (2018: £1,431.7m) of fixed-rate, fixed-term retail deposits of one, two, three, four and five years had been taken. The deposits in issue at 31 December 2019 have been issued at rates of between 1.0% and 2.7%.

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

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

(c) Maturity profile borrowings

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

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

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

22 Borrowings continued

(c) Maturity profile borrowings continued

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

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

(d) Interest rate and currency profile of borrowings

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

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

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

(e) Senior public bonds

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

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

22 Borrowings continued

(f) Private placement loan notes

On 13 January 2011, the Company entered into a committed £100.0m facility agreement with the Prudential/M&G Investments UK Companies Financing Fund to provide a ten-year term loan which amortises between years five and ten. The first two repayments of £10.0m were repaid in 2016 and 2017 and the third instalment of £15.0m was paid in 2018. A fourth instalment of £15.0m was paid on 31 January 2019 and the fifth instalment of £25.0m was paid in line with its contractual maturity on 31 January 2020. The remaining instalment of £25.0m was repaid early on 14 February 2020.

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

(g) Retail bonds

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

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

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

(h) Undrawn committed borrowing facilities

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

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

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

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

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

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

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

22 Borrowings continued

(i) Weighted average interest rates and periods to maturity

The weighted average interest rate and the weighted average period to maturity of the Group and the Company's fixed-rate borrowings is as follows:

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

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

(j) Fair values

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

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

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

23 Trade and other payables

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

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

24 Lease liabilities

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

A maturity analysis of the lease liabilities is shown below:

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

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

25 Provisions

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

Vanquis Bank

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

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

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

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

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

25 Provisions continued
Moneybarn

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

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

26 Share capital

Group and Company		2019 Issued and fully paid	2018 Issued and fully paid
Ordinary shares of 20 ¼p each	– £m	52.5	52.5
	– number (m)	253.4	253.3

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

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

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

The shares issued pursuant to the exercise/vesting of options and awards comprised 94,296 ordinary shares (2018: 52,192) with a nominal value of £19,545 (2018: £10,818) and an aggregate consideration of £0.1m (2018: £0.1m).

Provident Financial plc sponsors the Provident Financial plc 2007 Employee Benefit Trust (EBT) which is a discretionary trust established for the benefit of the employees of the Group. The Company has appointed SG Kleinwort Hambros Trust Company (CI) Limited to act as trustee of the EBT. The trustee has waived the right to receive dividends on the shares it holds. As at 31 December 2019, the EBT held 2,853,722 (2018: 2,853,722) shares in the Company with a cost of £4.5m (2018: £4.5m) and a market value of £13.0m (2018: £16.4m). The shares have been acquired by the EBT to meet obligations under the Provident Financial Long Term Incentive Scheme 2006 and the 2013 Performance Share Plan.

27 Share-based payments

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

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

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

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



27 Share-based payments continued

(a) Equity-settled schemes

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

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

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

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

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

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

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

27 Share-based payments continued
(a) Equity-settled schemes continued

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

Share awards outstanding under the LTIS scheme at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 1.7 years (2018: 1.9 years). Share options outstanding under the SAYE schemes at 31 December 2019 had exercise prices ranging from 323p to 1,760p (2018: 483p to 1,760p) and a weighted average remaining contractual life of 2.8 years (2018: 2.6 years). Share awards outstanding under the PSP schemes at 31 December 2019 had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 1.1 years (2018: 0.7 years).

Company	PSP		LTIS		SAYE	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January 2019	143,142	—	613,630	—	123,998	5.34
Awarded/granted	69,307	—	752,522	—	146,987	3.23
Lapsed	(33,939)	—	(106,720)	—	(108,368)	5.29
Exercised	(31,734)	—	—	—	—	—
Outstanding at 31 December 2019	146,776	—	1,259,432	—	162,617	3.45
Exercisable at 31 December 2019	—	—	—	—	774	17.60

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

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

(b) Cash-settled schemes

During 2018, cash awards were granted under the PFEP to eligible employees that require the Group and Company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The credit to the income statement in 2019 was £0.6m for the Group (2018: £3.9m) and £nil for the Company (2018: £nil). The Group has a liability of £1.1m as at 31 December 2019 (2018: £1.7m) and £nil for the Company (2018: £nil).



28 Other reserves

Group	Merger reserve £m	Profit retained by subsidiary £m	Capital redemption reserve £m	Share-based payment reserve £m	Fair value reserve £m	Total other reserves £m
At 1 January 2018	—	0.8	3.6	7.3	1.7	13.4
Other comprehensive income/(expense):						
• fair value movements in investments (note 16)	—	—	—	—	2.2	2.2
• tax on items taken directly to other comprehensive income (note 5)	—	—	—	—	(0.5)	(0.5)
• impact of change in UK tax rate	—	—	—	—	(0.2)	(0.2)
Other comprehensive income for the year	—	—	—	—	1.5	1.5
Transactions with owners:						
• proceeds from rights issue (note 26)	278.2	—	—	—	—	278.2
• share-based payment charge (note 27)	—	—	—	1.1	—	1.1
• transfer of share-based payment reserve on vesting of share awards	—	—	—	(2.1)	—	(2.1)
At 31 December 2018	278.2	0.8	3.6	6.3	3.2	292.1
At 1 January 2019	278.2	0.8	3.6	6.3	3.2	292.1
Other comprehensive income/(expense):						
• fair value movements in investments (note 16)	—	—	—	—	4.5	4.5
• tax on items taken directly to other comprehensive income (note 5)	—	—	—	—	(1.2)	(1.2)
• impact of change in UK tax rate	—	—	—	—	0.1	0.1
Other comprehensive income for the year	—	—	—	—	3.4	3.4
Transactions with owners:						
• share-based payment charge (note 27)	—	—	—	1.9	—	1.9
• transfer of share-based payment reserve on vesting of share awards	—	—	—	(1.5)	—	(1.5)
At 31 December 2019	278.2	0.8	3.6	6.7	6.6	295.9

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

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

The fair value reserve reflects the fair value movements in the investments held at fair value through other comprehensive income, net of deferred tax (see note 16).

28 Other reserves continued

Company	Non-distributable reserve £m	Merger reserve £m	Capital redemption reserve £m	Share-based payment reserve £m	Total other reserves £m
At 1 January 2018	37.9	2.3	3.6	7.3	51.1
Transactions with owners:					
• proceeds from rights issue (note 26)	—	278.2	—	—	278.2
• share-based payment charge (note 27)	—	—	—	0.4	0.4
• transfer of share-based payment reserve on vesting of share awards	—	—	—	(1.0)	(1.0)
• share-based payment movement in investment in subsidiaries	—	—	—	(0.4)	(0.4)
• transfer of non-distributable reserve following write down of investment in subsidiaries (note 14)	(37.9)	—	—	—	(37.9)
At 31 December 2018	—	280.5	3.6	6.3	290.4
At 1 January 2019	—	280.5	3.6	6.3	290.4
Transactions with owners:					
• share-based payment charge (note 27)	—	—	—	1.3	1.3
• transfer of share-based payment reserve on vesting of share awards	—	—	—	(1.0)	(1.0)
• share-based payment movement in investment in subsidiaries	—	—	—	0.1	0.1
At 31 December 2019	—	280.5	3.6	6.7	290.8

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

Following the significant losses incurred in CCD during 2017, a full review was undertaken of the Company's investment in PFMSL and the intercompany loans of £438m and £200m provided to PFMSL and PPC respectively. As a result of this review, the Company released PFMSL and PPC from their obligations under the intercompany loans and impairment charges of £644.8m were taken to the Company's income statement in 2017. £571.3m of the non-distributable reserve was transferred to retained earnings to offset these impairment charges (see note 14). The remaining £73.5m of impairment charges was not matched with a transfer from the non-distributable reserve as this amount represented the Company's original cost of investment in PPC. During 2018 a further £62.2m was recognised as impairment in PPC, of which £37.9m was reflected against the non-distributable reserve and £24.3m against retained earnings.

The rights issue was undertaken through a cash box structure which allowed merger relief to be applied to the issue of shares rather than recording share premium and thereby creating distributable reserves for the Company where capital is not injected in Vanquis Bank. The net proceeds of the rights issue of £300m was recorded as an increase in share capital and the creation of a merger reserve. £50m of the capital raised was injected into Vanquis Bank with the remaining £250m retained in the Company.

For the purposes of declaring dividends distributable reserves include: (i) retained earnings, adjusted to reflect the unrealised gain on the retirement benefit asset; (ii) share-based payment reserve, net of deferred tax and the IFRIC 11 adjustment; (iii) merger reserve; and (iv) treasury share reserve. The distributable reserves do not include distributable reserves held within subsidiary companies.

29 Related party transactions

The Company recharges the pension scheme referred to in note 19 with a proportion of the costs of administration and professional fees incurred by the Company. The total amount recharged during the year was £0.5m (2018: £0.5m) and the amount payable to the pension scheme at 31 December 2019 was £nil (2018: £nil).

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

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

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

29 Related party transactions continued

In 2016, Vanquis Bank and the PRA agreed a voluntary requirement for Vanquis Bank not to pay dividends to, or enter into certain transactions outside the normal course of business with, the Provident Financial Group without the PRA's consent. The voluntary requirement remains in place. With the consent of the PRA, Vanquis Bank approved and paid a £59.8m dividend in March 2019 and approved and paid a dividend of £80.0m in September 2019. Subsequent to the year end, a further dividend of £80.0m was approved and paid in February 2020.

There are no transactions with directors other than those disclosed in the Directors' Remuneration Report.

30 Contingent liabilities

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

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

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

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

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

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

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

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

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

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

(c) Other legal actions and regulatory matters

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

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

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

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

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

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

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

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



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

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

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

32 Post balance sheet events

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

33 Details of subsidiary undertakings

The subsidiary undertakings of the Group at 31 December 2019 are shown below. The Company is the parent or ultimate parent of all subsidiaries and they are all 100% owned by the Group. All companies are incorporated within the UK with the exception of Erringham Holdings Limited which is incorporated in Jersey.

Company name	Company number	Company name	Company number
Registered at 1 Godwin Street, Bradford BD1 2SU:		Registered at Athena House, Bedford Road, Petersfield, Hampshire GU32 3LJ:	
Vanquis Bank Limited	2558509	Moneybarn No.1 Limited*	4496573
Provident Financial Management Services Limited	328933	Duncton Group Limited	6308608
Provident Personal Credit Limited*	146091	Moneybarn Group Limited*	4525773
Greenwood Personal Credit Limited*	125150	Moneybarn Limited*	2766324
N&N Simple Financial Solution Limited	3803565	Moneybarn No. 4 Limited*	8582214
Cheque Exchange Limited*	2927947	Registered at Suite 2/04 King James VI Business Centre, Friarton Road, Perth, Scotland PH2 8DY:	
Provident Investments Limited	4541509	First Tower LP (1) Limited	SC122077
Direct Auto Finance Insurance Services Limited	3834656	First Tower LP (2) Limited	SC125164
Direct Auto Finance Limited	3412137	First Tower LP (3) Limited	SC129388
Direct Auto Financial Services Limited	3444409	First Tower LP (4) Limited	SC118423
Provfin Limited*	1879771	First Tower LP (5) Limited	SC127062
Provident Limited	575965	First Tower LP (6) Limited	SC127489
Provident Print Limited	2211204	First Tower LP (7) Limited	SC127807
Provident Yes Car Credit Limited	4253314	First Tower LP (8) Limited	SC118257
Yes Car Credit (Holdings) Limited	194214	First Tower LP (9) Limited	SC118428
Yes Car Credit Limited	3459042	First Tower LP (10) Limited	SC118426
Aquis Cards Limited	7036307	First Tower LP (11) Limited	SC122181
Ellaf Limited	1858423	First Tower LP (12) Limited	SC129378
Envoyhead Limited	1910002	Lawson Fisher Limited	SC004758
HT Greenwood Limited*	954387	Registered at 13 Castle Street, St. Helier, Jersey, Channel Islands JE4 5UT:	
Peoples Motor Finance Limited	1078365	Erringham Holdings Limited	39894
Policyline Limited	1294141		
Provfin Investments Limited	953919		
Provident Family Finance Limited	912244		
Provident Financial Group Limited	642504		
Provident Financial Trustees (Performance Share Plan) Limited	4625062		
Provident Home Shopping Limited	543498		
The Provident Clothing and Supply Company Limited	509371		

* Companies whose immediate parent is not Provident Financial plc.

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Provident Financial plc (the Company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Company balance sheets;
- the consolidated and Company statements of changes in equity;
- the consolidated and Company cash flow statements;

- the statement of accounting policies; and
- the related notes 1 to 33.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Provision for impairment losses against loans and receivables in the Vanquis Bank, Home Credit Division and Moneybarn. • Provision for Repayment Option Plan forward flow (ROP) in Vanquis Bank. • Revenue recognition in Vanquis Bank and Home Credit Division. • Valuation of the defined benefit scheme. • Carrying value of the parent company's investment in the Consumer Credit Division (CCD). <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
Materiality	<p>The materiality that we used for the Group financial statements was £8.1m which was determined on the basis of 5% of the profit before tax and exceptional items.</p>
Scoping	<p>As in the prior year, our Group audit scope focused on all of the principal trading subsidiaries within the Group's three reportable segments which account for 100% of the Group's profit before tax.</p>
Significant changes in our approach	<p>There were changes in the key audit matters identified, as discussed further in the key audit matters section below.</p> <p>In 2017 and 2018 we determined materiality based on a three-year average profit before tax and exceptional items benchmark due to the fact that the Group had made losses in 2017. We have revised our benchmark from the prior year to reflect the fact that the Group's profitability is now more stable and the Group's recovery is largely complete. We therefore consider it appropriate to return to a measure based on current year profit before tax and exceptional items.</p> <p>Additionally, we have increased our benchmark for materiality from 4.5% on three-year average profit before tax and exceptional items, to 5%, of profit before tax and exceptional items, for the current year.</p>

Conclusions relating to going concern, principal risks and viability statement

<p>Going concern</p>	<p>We have reviewed the directors' statement in the statement of accounting policies in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.</p> <p>We considered as part of our risk assessment the nature of the Company, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.</p> <p>We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.</p>	<p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>
<p>Principal risks and viability statement</p>	<p>Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:</p> <ul style="list-style-type: none"> the disclosures on pages 42 to 53 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated; the directors' confirmation on page 144 that they have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; or the directors' explanation on page 64 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. <p>We are also required to report whether the directors' statement relating to the prospects of the Company required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.</p>	<p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>

Key audit matters

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

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

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

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

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

Key audit matters continued

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

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

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

Key audit matter description

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

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

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

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

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

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

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

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

Within the **Home Credit Division** receivables are valued using collections curves to estimate the expected future losses on cohorts of loans exhibiting similar risk characteristics including the customer's internal credit score, the number of missed payments in the previous 12 weeks, and whether the customer has previously had a Provident home credit loan. Management therefore performs a curve test in order to quantify and recognise the associated provision shortfall.

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

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

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

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

Key audit matters continued

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

How the scope of our audit responded to the key audit matter

Controls procedures

Within **Vanquis Bank** we obtained an understanding of relevant controls relating to calibration of the expected credit loss models and the identification, valuation and recording of impairment provisions.

Within the **Home Credit Division** we obtained an understanding and tested the operating effectiveness of relevant controls relating to calibration of the expected credit loss models and the identification, valuation and recording of impairment provisions. This included using our IT specialists to test the data flow of loans made and collections received from source systems to the automated IFRS 9 model scripts to test their completeness and accuracy.

Within **Moneybarn** we obtained an understanding of the relevant controls relating to calibration of the expected credit loss models and the identification, valuation and recording of impairment provisions.

Substantive procedures

Across each of the three divisions we obtained an understanding of the IFRS 9 methodology and models. We evaluated whether the methodology applied by management is compliant with requirements of IFRS 9. This included considerations related to the appropriateness of portfolio segmentation into homogeneous cohorts. In performing these procedures we further considered whether there were any indications of bias in the methodology applied by management or in the estimation of the amount and timing of expected future cash flows. We also challenged whether the potential impact of economic uncertainty surrounding the UK has been appropriately incorporated into expected credit loss calculations.

We tested completeness of post-model adjustments by understanding the deficiencies in model methodologies and in the data used in the models and evaluating whether a material post-model adjustment is required to address them.

Within **Vanquis Bank** we obtained an understanding of the IFRS 9 methodology and models with a focus on including PD and LGD. We evaluated whether the methodology applied by management is compliant with the requirements of IFRS 9. In performing these procedures we further considered whether there were any indications of bias in the methodology applied by the management.

For each material change to the models introduced by management in 2019 we understood and challenged the rationale and substantively tested how management has implemented them. We evaluated whether the changes are compliant with the financial reporting requirements and lead to a more accurate ECL estimate.

We evaluated the methodology and the mechanics of the models with assistance of Deloitte credit modelling specialists. As part of this, we evaluated the methodology for identification of significant increase in credit risk and how it was implemented in the mechanics of the models.

We obtained, evaluated and tested the model performance monitoring reports produced by management which compare observed default data to parameters predicted by the models.

We tested the data used in the models including historical data used to generate expected future cash flows, the current portfolio data and the macroeconomic forecast data which is sourced by the Company from a third-party provider. This included considerations related to whether the macroeconomic forecasts are reflective of risks associated with Brexit.

Within the **Home Credit Division** we utilised our data specialists to independently reperform the expected credit loss calculation for the entire population of loans using the fixed 2016 collections curves. We tested management's calculation of the provision shortfall on loans which are performing below 2016 levels.

We engaged our data specialists to test the completeness and accuracy of the data used in the provision shortfall calculations, and we reviewed and challenged the underlying methodology.

Within **Moneybarn** we obtained an understanding of the IFRS 9 methodology and models (including PD and LGD). We evaluated whether the methodology applied by management is compliant with the requirements of IFRS 9. In performing these procedures we further considered whether there were any indications of bias in the methodology applied by the Company and used market reports to challenge management on the modelling approach adopted for the LGD assumptions specifically.

We tested the data used in the models including historical data used to generate expected future cash flows, the current portfolio data and the macroeconomic forecast data. In addition we engaged internal data specialists to evaluate the SQL scripts used for PD and LGD data extraction via a script translation, as well as a re-performance, using the previously verified data used in the models.

We challenged whether there was any evidence to suggest that historical collections data would not appropriately estimate future performance by considering changes in the composition and credit risk profile of the loan book, using internal management information. In addition we performed back testing on a sample of used car sales to validate model expectations versus recent actual experience.

Key audit matters continued

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

Key observations

Based on our substantive testing in Vanquis Bank we found that:

- the methodology used is compliant with the requirements of IFRS 9;
- the provision model calculations were found to be executed as intended and in compliance with the methodology; and
- the data used in the models were found to be appropriate.

As a result, we concluded that the provision for expected credit losses is appropriate.

We found the Home Credit Division and Moneybarn provision calculated by management to be appropriate.

The provision models across the Group were found to be working as intended and the methodologies used are compliant with the requirements of IFRS 9.

Provision for Repayment Option Plan forward flow (Vanquis Bank) 

Key audit matter description

On 27 February 2018, the Company reached a settlement with the Financial Conduct Authority (FCA) in respect of the FCA's investigation into the ROP product sold by the bank. The customer redress programme started in 2018 and was completed in early 2019.

Whilst the proactive redress programme has been completed, Vanquis Bank continues to receive customer complaints in relation to ROP, which are considered on a case by case basis. Correspondingly, significant management judgement is required to assess the level of provision in relation to the redress expected to be paid on such complaints.

The ROP provision is an area of management judgement where there is a risk of fraud due to the ability of management to introduce inappropriate bias to judgements made in the estimation process.

The accounting policies in relation to the valuation of the provision and key sources of estimation uncertainty associated with the provision are discussed on [page 182](#). As disclosed in [note 25](#) on [page 217](#) and the Strategic Report, the total provision remaining at 31 December 2019 amounts to £11.7m (2018: £45.7m).

How the scope of our audit responded to the key audit matter

In order to understand whether key assumptions in estimation of the provision remain appropriate we obtained and reviewed the correspondence between the Company and the regulator in relation to ROP.

We have reviewed and tested the accuracy of the calculations supporting the valuation of the provision recognised by management. We have evaluated whether the underlying assumptions are reasonable and supportable. We have tested the data used in the calculations by agreeing to supporting evidence. Additionally we substantively tested the amount of refunds that have been paid out during 2019.

We further independently developed a reasonable range for the provision based on alternative forecasts of future complaints to evaluate Vanquis Bank's estimate.

We evaluated whether the provision disclosures contained within [note 25](#) were appropriate and in accordance with the requirements of IAS 37.

Key observations

The valuation of the ROP forward flow provision was found to be appropriate.

The disclosures are in line with the requirements of IAS 37.

Key audit matters continued

Revenue recognition (Vanquis Bank and Home Credit Division)	
Key audit matter description	<p>The Group's revenue is £998.3m (restated 2018: £1,091.4m) and further detail in respect of the accounting policies and revenue recognised is set out in the accounting policies on pages 176 and 177 and note 2 of the financial statements.</p> <p>Within Vanquis Bank we concluded that manual adjustments posted to revenue pose a significant risk of material misstatement.</p> <p>These manual adjustments are necessary to ensure revenue is recognised in compliance with IFRS 9, which requires that interest should be accrued using the original effective interest rate applied to the net carrying value of the asset for credit impaired assets and to the gross carrying value of assets that are not in default. The loan administration system accrues revenue on a gross contractually billed basis, and therefore a manual adjustment is necessary for such assets.</p> <p>During 2019 management introduced an additional manual adjustment to revenue related to deferred certain customer acquisition costs. Respective costs incurred are capitalised and amortised over the life of the credit card. Vanquis Bank has voluntarily changed the respective accounting policy and the 2018 comparative information in the financial statements was restated in line with the requirements of IAS 8, which resulted in a £6.6m increase in 2018 profit before tax.</p> <p>Further information on the change in the accounting policy and the corresponding impact is disclosed on pages 176 and 177 and note 2 of the financial statements.</p> <p>The recognition of revenue in Home Credit Division is calculated using models based on SQL scripts. The calculation of interest revenue is heavily dependent on the completeness and accuracy of the flow of data from the Customer Experience Managers' (CEMs') applications in the field, through to the core IFRS 9 models.</p>
How the scope of our audit responded to the key audit matter	<p>Controls procedures</p> <p>We obtained an understanding of the controls over the manual adjustments to revenue recognised by management within Vanquis Bank.</p> <p>We engaged our IT specialists to test the completeness and accuracy of data flows across relevant system interfaces from the CEMs' field applications into the core business databases within the Home Credit Division.</p> <p>We obtained an understanding and tested the operating effectiveness of management's reconciliation controls over the completeness and accuracy of the flow of data through to the core IFRS 9 models.</p> <p>Substantive procedures</p> <p>Within Vanquis Bank, we assessed the methodology used to calculate the manual adjustments to interest income against the IFRS 9 requirements. With the involvement of our data specialists we reviewed the programming code used to perform the EIR calculation and evaluate whether it is performed in line with the methodology.</p> <p>We assessed the revised accounting policy on the accounting treatment of customer acquisition costs for compliance with IFRS 9. We substantively tested the calculations of the impact on the 2019 and 2018 financial statements.</p> <p>We assessed the results of our procedures for any indications of fraud or management bias.</p> <p>Within the Home Credit Division, we have assessed the revenue recognition policy against IFRS 9 requirements. We have challenged the appropriateness of the effective interest rates used to calculate revenue and reperformed the EIR calculations for a sample of products.</p> <p>We utilised internal data specialists to create an independent IFRS 9 revenue model and recalculated the weekly revenue for a sample of customers.</p>
Key observations	<p>Within Vanquis Bank we concluded that the revenue recognised is appropriate based on the substantive testing performed.</p> <p>Within the Home Credit Division we found the models to be working as intended and the underlying assumptions to be reasonable. From the evidence we obtained, the underlying data used was found to be complete and accurate.</p> <p>The revised accounting policy on customer acquisition costs was found to be appropriate. The disclosures of the change in accounting policy and the restatement are in line with the requirements of IAS 8.</p>

Key audit matters continued

Valuation of the defined benefit scheme 	
Key audit matter description	<p>Under IAS 19, the value of the defined benefit pension scheme is recognised on the Group's balance sheet, reflecting an actuarial valuation of the assets and liabilities of the scheme at the balance sheet date. We identified the key risk of material misstatement as the valuation of the pension obligation of £764.6m (2018: £704.4m). This valuation involves judgements in relation to inflation, discount and mortality rates. The most critical element identified was the discount rate assumption as set out in the sensitivity analysis in note 19.</p> <p>Further detail in respect of these assumptions is set out in the accounting policies on page 180, page 182 and note 19 of the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the review of management's assumptions used in the valuation of the defined benefit scheme.</p> <p>We used internal actuarial specialists to assist us in evaluating the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation. This involved benchmarking management's assumptions against those used by a range of organisations as at 31 December 2019 and considering the consistency of those judgements compared to the prior year.</p>
Key observations	<p>All assumptions, including the discount rate adopted by management, are within what we considered to be an acceptable range.</p>

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

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£8.1m (2018: £8.6m)	£6.5m (2018: £5.4m)
Basis for determining materiality	5% of profit before tax and exceptional items (2018: 4.5% profit before tax and exceptional items averaged over the previous three years).	5% of profit before tax and exceptional items (2018: 0.75% of net assets).
Rationale for the benchmark applied	<p>Profit-based measures are the financial measures most relevant to users of the financial statements. We considered the most relevant basis for materiality to be the profits earned from continuing business operations and have therefore excluded the exceptional items as identified by management in note 1 to the financial statements.</p> <p>In 2017 and 2018 we calculated materiality based on a three-year average profit before tax and exceptional items benchmark due to the fact the Group made losses in 2017. We have revised our benchmark from the prior year to reflect the fact that the Group's profitability is now more stable and the Group's recovery is largely complete. We therefore consider it appropriate to return to a measure based on current year profit before tax and exceptional items.</p> <p>Additionally, we have increased our benchmark for materiality from 4.5% on three-year average profit before tax and exceptional items to 5% of profit before tax and exceptional items. This is due to the reduced risk in the current year in comparison to the prior year owing to the recapitalisation through syndicated financing and reduced uncertainty surrounding the conduct provisions and HCD performance.</p>	<p>Profit-based measures are the financial measures most relevant to users of the financial statements. We considered the most relevant basis for materiality to be the profits earned from continuing business operations and have therefore excluded the exceptional items as identified by management in note 1 to the financial statements.</p> <p>In the prior year materiality was calculated as 0.75% of net assets due to the entity making a loss. In the current year we have returned to a profit-based measure as this remains the financial measure most relevant to the users of the financial statements.</p>



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

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2m (2018: £0.2m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Other information

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

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

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

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

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

- **Fair, balanced and understandable** – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

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

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;

Extent to which the audit was considered capable of detecting irregularities, including fraud continued Identifying and assessing potential risks related to irregularities continued

- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: provisions for impairment losses against loans and receivables, forward flow ROP provision, defined benefit obligation provision and revenue recognition; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension legislation and tax legislation. In addition, compliance with the requirements of the Financial Conduct Authority and Prudential Regulation Authority were fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

In light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the directors on 29 June 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eight years, covering the years ending 31 December 2012 to 31 December 2019.

Consistency of the Audit Report with the additional report to the Audit Committee

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Perkins (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

27 February 2020



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

APM	Method of calculation	Relevance		
Adjusted profit before tax	A reconciliation of adjusted profit before tax to statutory profit before tax is shown below:			
		Year ended 31 December		
		2019	2018 (restated) ¹	Change
		£m	£m	%
Adjusted profit/(loss) before tax:				
- Vanquis Bank		173.5	190.9	(9.1)
- Moneybarn		30.9	28.1	10.0
- CCD		(20.8)	(38.7)	46.3
- Central costs		(21.0)	(20.2)	(4.0)
Adjusted profit before tax		162.6	160.1	1.6
Amortisation of acquisition intangibles		(7.5)	(7.5)	—
Exceptional items		(26.3)	(55.3)	52.4
Statutory profit before tax		128.8	97.3	32.4

Adjusted profit before tax is stated before: £7.5m (2018: £7.5m) of amortisation in respect of acquisition intangibles established as part of the acquisition of Moneybarn in August 2014 and exceptional items. Exceptional items in 2019 represent net exceptional charges of £26.3m (2018: exceptional charges of £55.3m) comprising: (i) £23.8m (2018: £nil) of defence costs associated with Non-Standard Finance plc's (NSF's) unsolicited offer for the Group; (ii) £19.3m (2018: £29.9m) of restructuring costs, primarily in respect of the ongoing turnaround of the home credit business in CCD following the migration to the employed operating model in July 2017; (iii) a credit of £14.2m (2018: £nil) in Vanquis Bank in respect of the release of provisions established in 2017 following completion of the refund programme in respect of ROP and a re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally; and (iv) a credit of £2.6m (2018: £nil) in Moneybarn in respect of the release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options. Exceptional costs in 2018 also included £18.5m in respect of the refinancing of the senior bonds maturing in October 2019 and £6.9m of non-cash pension charges in respect of the equalisation of Guaranteed Minimum Pensions following the High Court judgement against Lloyds Bank PLC and others in October 2018.

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

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

APM	Method of calculation	Relevance
Adjusted basic earnings per share (EPS)	Profit after tax, excluding the amortisation of acquisition intangibles and exceptional items, divided by the weighted average number of shares in issue.	This is used to assess the Group's operational performance from continuing operations per ordinary share. It removes the effect of amortisation of acquisition intangibles and exceptional items.
Average receivables	Average of month-end receivables for the 12 months ended 31 December.	This is used to smooth the seasonality of receivables across the divisions in calculating performance KPIs.
Dividend cover	Adjusted basic earnings per share divided by dividend per share.	This shows the rate that the Company is paying its dividends out of earnings. The dividend policy will reflect the Board's risk appetite of maintaining a regulatory capital headroom in excess of £50m and the remaining transitional impact of IFRS 9.
Cost income ratio	Costs, comprising administrative and other operating costs, as a percentage of revenue for the 12 months ended 31 December.	This ratio is a measure of the efficiency of the Group's cost base.
Return on assets (ROA)	Adjusted profit before interest after tax as a percentage of average receivables.	This measures the return a company generates from its assets prior to the impact of funding strategy for each division.
Return on equity (ROE)	Adjusted profit after tax as a percentage of average equity. Equity is stated after deducting the Group's pension asset, net of deferred tax, and the fair value of derivative financial instruments.	ROE shows the return being generated from the shareholders' equity retained in the business.
Customer satisfaction	The percentage of customers surveyed who are satisfied (or more than satisfied) with the service they have been provided.	
Common equity tier 1 (CET1) ratio	The ratio of the Group's regulatory capital to the Group's risk-weighted assets measured in accordance with CRD IV.	
Funding headroom	Committed bank and debt facilities less borrowings on those facilities.	This represents the difference between the total amount of committed contractual debt facilities provided by banks, bond holders and other lenders and the amount of funds drawn on those facilities.



Information for Shareholders

Financial calendar

Dividend announced	27 February 2020
Ex-dividend date for ordinary shares	2 April 2020
Record date for the dividend	3 April 2020
Annual General Meeting	7 May 2020
Payment date for the dividend	22 May 2020

Share price

The Company's shares are listed on the London Stock Exchange under share code 'PFG.L'. The share price is quoted daily in a number of national newspapers and is available on the Group's website at www.providentfinancial.com.

Tax on dividends

The following information is intended to provide general guidance to individuals who are tax resident in the UK. It does not constitute professional advice. Shareholders who are in any doubt as to their personal tax position should seek their own professional advice, as should shareholders who are not resident in the UK.

For UK resident individuals, the tax treatment of dividends depends on whether the dividends are received before or after 5 April 2016.

Dividends received on or before 5 April 2016

A UK tax resident individual shareholder who receives a dividend prior to 5 April 2016 will be subject to tax on the dividend as follows:

- The cash dividend you receive (the amount paid into your bank account) is grossed up for a notional 10% tax credit so that you are taxed on a gross dividend of 10/9ths of the cash dividend you receive.
- The gross dividend is then taxed as follows:
 - 10% for basic rate taxpayers;
 - 32.5% for higher-rate taxpayers; and
 - 37.5% for additional rate taxpayers.
- You can then deduct the notional 10% tax credit.
- The overall result, after deducting the notional tax credit, is that you will have suffered an effective rate of tax on the cash dividend you receive of:
 - 0% for basic rate taxpayers;
 - 25% for higher-rate taxpayers; and
 - 30.56% for additional rate taxpayers.

Dividends received on or after 6 April 2016

For dividends received after 6 April 2016 the notional tax credit is abolished.

Instead, a UK tax resident individual shareholder will be taxed on the total cash dividends you receive (the amount paid into your bank account) above the new £5,000 annual tax-free dividend allowance at the following rates:

- 7.5% for basic rate taxpayers;
- 32.5% for higher-rate taxpayers; and
- 38.1% for additional rate taxpayers.

The dividend allowance means that you can receive certain amounts of dividends tax free no matter what other non-dividend income you have in the tax year. The dividend allowance for the tax years from 2015/16 to 2016/17 was £5,000. This allowance has reduced to £2,000 in the 2018/19 tax year.



Registrar

The Company's registrar is:

Link Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300 (from within the UK)

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +44 (0)20 371 664 0300 (from outside the UK)

Link Signal Hub

Link Asset Services offers a share portal service which enables registered shareholders to manage their Provident Financial plc shareholdings quickly and easily online. Once registered for this service, you will have access to your personal shareholding and a range of services including: setting up or amending dividend bank mandates, proxy voting and amending personal details. For further information visit www.linksignalhub.com.

Link Dividend Reinvestment Plan

Link Asset Services offers a Dividend Reinvestment Plan whereby shareholders can acquire further shares in the Company by using their cash dividends to buy additional shares. For further information contact Link Asset Services:

Telephone: 0371 664 0381 (from within the UK)

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Telephone: +371 664 0381 (from outside the UK)

Special requirements

A PDF version of the full Annual Report and financial statements is available on our website.

Advisors

Independent auditor

Deloitte LLP
4 Brindley Place
Birmingham
B1 2HZ

Company advisors and stockbrokers

J.P. Morgan Cazenove
25 Bank Street
London
E14 5JP

Barclays

1 Churchill Place
Canary Wharf
London
E14 5HP

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Herbert Smith Freehills LLP

Exchange House
Primrose Street
London
EC2A 2EG

Addleshaw Goddard LLP

Milton Gate
60 Chiswell Street
London
EC1Y 4AG

TLT LLP

1 Redcliff Street
Bristol
BS1 6TP

Company details

Registered office and contact details:

Provident Financial plc
No. 1 Godwin Street
Bradford
West Yorkshire
England
BD1 2SU

Telephone:
+44 (0)1274 351 351

Fax:
+44 (0)1274 730 606

Website:
www.providentfinancial.com

Company number

668987



Provident Financial Group plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Symbol Matt Plus, an FSC® certified material. This document was printed by CPI Group using its environmental print technology, which minimises the impact of printing on the environment. Vegetable-based inks have been used and 99% of dry waste is diverted from landfill. The printer is a CarbonNeutral® company. Both the printer and the paper mill are registered to ISO 14001.

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Provident Financial plc

No. 1 Godwin Street
Bradford
BD1 2SU
United Kingdom

+44 (0)1274 351351

www.providentfinancial.com

Company number 668987



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