

Pillar 3 Disclosures

Provident Financial plc
31 December 2018

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1. Introduction

1.1 Overview

This document presents the consolidated Provident Financial plc Pillar 3 disclosures on capital and risk management at 31 December 2018 in accordance with the requirements of the Capital Requirements Directive and Regulation (CRD) IV. This document should be read in conjunction with the Provident Financial plc Group (the Group) Annual Report and Financial Statements for the year ending 31 December 2018.

The Group comprises three principal trading divisions:

- > Vanquis Bank, which provides credit cards to the non-standard UK consumer credit market and accepts retail deposits;
- > Consumer Credit Division (CCD), which provides home credit and online lending to the non-standard UK consumer credit market; and
- > Moneybarn, which provides non-standard vehicle finance in the UK.

Vanquis Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The PRA sets requirements for Vanquis Bank relating to capital and liquidity adequacy and large exposures.

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 and liquidity adequacy and large exposures.

The FCA regulation of the consumer credit industry commenced on 1 April 2014. Moneybarn and CCD received FCA authorisation in June 2016 and November 2018 respectively.

For the year ending 31 December 2017 the Pillar 3 capital position was presented on a pro forma basis to reflect the expected impact of the rights issue which was launched on an underwritten basis in February 2018 at the time of the announcement of the 2017 full year results. The rights issue successfully completed, with net proceeds of £300m raised, in April 2018 and therefore it continues to be appropriate to show the 2017 comparatives on a pro forma basis incorporating the rights issue proceeds. Further information on the rights issue is set out in the Group's Annual Report and Financial Statements.

1.2 Pillar 3 disclosure policy

The Group's approved Pillar 3 disclosure policy is as follows:

Pillar 3 disclosures will be made on an annual basis using the Group's year-end date of 31 December. The disclosures will be published in line with the publication of the Group's Annual Report and Financial Statements. More frequent disclosures will be made if there is a material change in the nature of the Group's risk profile during any particular year.

These Pillar 3 disclosures will be published on the Group's corporate website www.providentfinancial.com.

There are a number of required Pillar 3 disclosures which are set out separately in the Group's Annual Report and Financial Statements. Such disclosures are referenced as appropriate in this document.

The data contained in the Group's Pillar 3 disclosures is calculated in accordance with CRD IV regulatory capital requirements. These disclosures have been subject to internal verification and have been reviewed by the Board of Provident Financial plc.

These disclosures have not been externally audited and do not constitute any part of the Group's financial statements, however, some of the information within the disclosures also appears in the Annual Report and Financial Statements.

1.3 Basis of Pillar 3 disclosures

The Pillar 3 disclosures have been prepared for the Group as a whole in accordance with the rules laid out in article 13 of the Capital Requirements Regulation (CRR). The results of Provident Financial plc and all subsidiary undertakings have been included in the Pillar 3 disclosures and there are no differences between the basis of consolidation for accounting and prudential purposes.

Article 432 of the CRR states that institutions may omit one or more of the Pillar 3 disclosures if the information is not regarded as material. Information in the disclosures shall be regarded as not material if the Group does not expect that its omission or misstatement would change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. Any disclosures omitted on the grounds of materiality have been identified as such in the body of the document.

Vanquis Bank is authorised and regulated by the PRA and the PRA sets requirements for Vanquis Bank relating to capital and liquidity adequacy on a solo entity basis. Vanquis Bank's ability to pay any dividends or transfer liquidity, and the amount of such payment or transfer, to Provident Financial plc or other Group entities is subject to its compliance with applicable regulatory capital and liquidity requirements. Such regulatory requirements are subject to change. Furthermore, Vanquis Bank has agreed with the PRA pursuant to a voluntary requirement, that it will not, among other things, pay dividends to Provident Financial plc without the PRA's consent. In addition, Vanquis Bank is unable to lend funds to other members of the Group and therefore this restricts its ability to transfer surplus liquid resources.

There are no other current or foreseen material, practical or legal impediments to the prompt transfer of capital or liquid resources between Provident Financial plc and its subsidiary undertakings.

The Group has a contingent liability in respect of the Unfunded Unapproved Retirement Benefits Scheme (UURBS). A floating charge is held over CCD's receivables in respect of the unfunded pension benefit promises made to executive directors and certain members of senior management affected by the reduced annual allowance to pension schemes introduced in 2011 under the UURBS. No loss is expected to arise. Further details are noted in the Annual Report and Financial Statements.

The Group has no securitised assets and as such no further disclosure is included.

1.4 Development in disclosures

The Group's Pillar 3 disclosures have been prepared in light of new regulations and market practice.

This Pillar 3 report presents similar disclosures to those published for the financial year ending 31 December 2017, with the exception of the following development:

- > In January 2018, the EBA published guidelines on uniform disclosures with respect to IFRS 9 'Financial instruments' and the transitional period for mitigating the impact on own funds. IFRS 9 came into force on 1 January 2018 and these guidelines are reflected in section 1.5.

In December 2018, the EBA published guidelines on uniform disclosures with respect to non-performing and forborne exposures. The guidelines are effective from 31 December 2019 and will therefore be reflected in the next annual Pillar 3 disclosures.

1.5 Summary of key capital ratios (verified basis)

IFRS 9 'Financial instruments' was mandatory from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. IFRS 9 significantly changes the recognition of impairment on customer receivables by introducing an expected loss model. Under this approach, impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss arising on default. This differs from the previous incurred loss model under IAS 39 where impairment provisions were only reflected when there was objective evidence of a credit-affecting event, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This has resulted in a one-off adjustment to receivables and reserves on adoption.

The Group has elected to apply the transitional arrangements in respect of the regulatory capital impact of IFRS 9. Under the arrangements the regulatory capital impact of IFRS 9 will be phased in on a transitional basis over five years as follows: 5% from the start of 2018, 15% in 2019, 30% in 2020, 50% in 2021, 75% in 2022 and 100% from the start of 2023.

The table below sets out the key regulatory capital metrics on an IFRS 9 transitional basis, and on a fully loaded basis (as if IFRS 9 transitional arrangements had not been applied), as at 31 December:

	2018	Reported	Rights Issue	2017 Pro forma
Available capital	£m			£m
Common Equity Tier 1 (CET1)/Tier 1/Total capital	621.9	308.1	300.0	608.1
CET1/Tier 1/Total capital as if IFRS 9 transitional arrangements had not been applied	447.1	n/a	n/a	n/a
Risk-weighted exposures	£m			£m
Total risk-weighted exposures	2,209.2	2,118.0	–	2,118.0
Total risk-weighted exposures as if IFRS 9 transitional arrangements had not been applied	2,160.3	n/a	n/a	n/a
Capital ratios	%			%
CET1/Tier 1/Total capital ratio	28.2%	14.5%	14.2%	28.7%
CET1/Tier 1/Total capital ratio as if IFRS 9 transitional arrangements had not been applied	20.7%	n/a	n/a	n/a
Leverage ratio				
Leverage ratio total exposure measure (£m)	3,063.0	2,841.4	135.0	2,976.4
Leverage ratio (%)	20.3%	10.8%	9.6%	20.4%
Leverage ratio as if IFRS 9 transitional arrangements had not been applied	15.5%	n/a	n/a	n/a

The Group has no tier 1, additional tier 1 or tier 2 capital and as such there is no difference between the CET1 capital ratio, the Tier 1 capital ratio and the Total capital ratio.

All disclosures in the remainder of the document are set out on an IFRS 9 transitional basis consistent with the position reported under the regulatory return process.

1.6 Summary of capital ratios (accrued basis)

The capital ratios set out in section 1.5 and throughout the remainder of the document are calculated on a verified basis with any profits or gains not audited or verified by the external auditors at the balance sheet date deducted from own funds. This is consistent with the disclosures included in the regulatory reporting submissions.

The capital ratios on an accrued basis are set out below and are consistent with the disclosures in the Group's Annual Report and Financial Statements. On an accrued basis, profits or gains are included in own funds as they are recognised in the income statement, less the deduction of a foreseeable dividend on such profits.

	2018	Reported	Rights Issue	2017 Pro forma
Risk weighted exposures (£m)	2,209.2	2,118.0	–	2,118.0
CET1/Tier 1/Total capital ratio (accrued basis)	29.7%	14.5%	14.2%	28.7%
CET1/Tier 1/Total capital ratio as if IFRS 9 transitional arrangements had not been applied (accrued basis)	22.3%	n/a	n/a	n/a
Leverage ratio (accrued basis)	21.5%	10.8%	9.6%	20.4%

The accrued position includes £35.2m of profits net of foreseeable dividends which will be reflected in the position on signing of the financial statements and completion of the audit. At 31 December 2017 there were no profits not audited or verified by the external auditors at the balance sheet date as the group reported a loss. Such losses are recognised immediately for regulatory capital purposes.

	2018 £m	2017 £m
Unverified profits	60.3	–
Accrued dividend on unverified profits	(25.1)	–
Total	35.2	–

2. Regulatory capital framework

2.1 Regulatory capital framework

The BASEL regulatory framework has been implemented in the European Union via the CRD. The latest iteration of CRD, CRD IV, was implemented and adopted by the Group from 1 January 2014.

CRD IV came into force in the European Union on 1 January 2014 and defines a framework of regulatory capital resources and requirements. The rules include disclosure requirements known as 'Pillar 3' which apply to the Group as parent company of Vanquis Bank. The framework consists of three 'pillars', as summarised below:

- > **Pillar 1** is the calculation of minimum regulatory capital requirements that firms are required to hold against risk, the most significant elements for the Group being credit risk and operational risk.
- > **Pillar 2** aims to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. The Group performs an Internal Capital Adequacy Assessment Process (ICAAP) on at least an annual basis to assess whether additional regulatory capital over and above Pillar 1 should be held based on the risks faced by the Group and the risk management processes in place. The amount of any proposed additional capital requirement is also assessed by the PRA during its capital supervisory review and evaluation process (C-SREP), which also aims to ensure that institutions have adequate arrangements, strategies, processes and mechanisms and capital and liquidity to ensure sound management and coverage of their risks.
- > **Pillar 3** complements Pillars 1 and 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk management processes, leverage and remuneration.

2.2 Capital requirements

The following table provides a summary of the capital requirements of the Group and brief details of the calculation method applied by the Group.

Pillar 1				
Requirement	Calculation Method	Description	Requirement	Reference
Credit risk	Standardised approach	The Group applies the standardised method to the entire loan book. The standardised approach applies a standardised set of risk weightings to credit risk exposures. A capital requirement of 8% of risk weighted exposures ('RWEs') is applied.		5.3
Operational risk	Alternative standardised approach (ASA)	As the Group's activities are primarily classified as retail banking, the Group applies the ASA for operational risk capital requirements. A 0.035 multiplier is applied to the historical average gross receivables of the last three year ends. A capital requirement of 12% is applied as per Article 317 of the CRR.		5.4
Market risk	Standardised approach	Subject to a de minimus level, the Group's exposure is calculated in each currency. A capital requirement of 8% of the exposure is applied.	Pillar 1 requirements (as per Article 92 of the CRR): > 4.5% of RWEs met by CET1 capital. > 6.0% of RWEs met by Tier 1 capital. > 8.0% of RWEs met by Total capital.	5.5
Counterparty credit risk	Standardised approach	The Group measures exposure value on counterparty credit risk exposures under the counterparty credit risk (CCR) mark-to-market method as permitted under CRD IV. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contract's potential credit exposure, which is derived by applying a multiple based on the contract's residual maturity to the notional value of the contract.		n/a
Credit valuation adjustment (CVA)	Standardised approach	A CVA is an adjustment to the fair value of a derivative contract reflecting the counterparty credit risk inherent in the contract. Calculated in accordance with CRR Article 384.		n/a

Pillar 2				
Requirement	Calculation Method	Description	Requirement	Reference
Pillar 2a	Calculated by the PRA based on the ICAAP submission and expressed as a percentage of RWEs.	Set as a percentage of RWEs, which may also include a fixed add-on.	The PRA prescribed Total Capital Requirement (TCR) multiple at 31 December 2018 is 20.65% of risk weighted exposures plus a fixed £28m monetary add-on in respect of pension risk (Pillar 1 + 2a).	n/a
Pillar 2b – the PRA buffer	Calculated by the PRA based on the ICAAP submission and expressed as a percentage of RWEs.	The PRA buffer, in combination with the CRD IV combined buffer is held to ensure the Group can withstand an adverse market stress. The PRA buffer needs to be fully met with CET1 capital by 2019.	The PRA buffer is set by the PRA and is currently set at 0% for the Group.	6
Pillar 2b – the Capital conservation buffer (CCoB)	Expressed as a percentage of RWEs.	The capital conservation buffer and countercyclical buffer are part of the CRD IV combined buffer. They are held in combination with the PRA buffer to ensure the Group can withstand an adverse market stress. The combination of the PRA buffer and the CRD IV combined buffer replaced the Capital Planning Buffer (CPB) effective from 1 January 2016.	Introduced 1 January 2016, initially set at 0.625%, 1.25% from 1 January 2017, 1.875% from 1 January 2018, and rose to 2.5% on 1 January 2019.	6
Pillar 2b – the Countercyclical buffer (CCyB)	Expressed as a percentage of RWEs.	All to be met by CET1 capital.	Set by the Financial Policy Committee (FPC), currently set at 1% for UK exposures and 0% for Republic of Ireland and US exposures.	6

Additional buffers provided for by CRD IV do not apply to the Group.

2.3 Capital resources

Type of capital	Description	Further information
Common Equity Tier 1 (CET1)	Comprises ordinary share capital, share premium and allowable reserves including retained earnings, after required regulatory adjustments.	<p>Details of the main features of the ordinary share capital of Provident Financial plc are provided in appendix 3.</p> <p>The template in appendix 1 sets out the composition of the Group's regulatory capital resources as at 31 December 2018.</p> <p>Quantitative disclosures can be found in section 4.</p>

The Group's own funds were comprised entirely of CET1 capital in 2018 and 2017.

3. Risk management

A comprehensive overview of the Group's risk management objectives, policies, and governance arrangements are set out in the governance section of Provident Financial plc's Annual Report and Financial Statements.

Replication of this disclosure has not been included in this document. The Group's Annual Report and Financial Statements are published on the Group's corporate website www.providentfinancial.com.

4. Capital management and resources

4.1 Capital management and controls

The Group uses a number of key performance indicators to assess progress against each of its strategic objectives, including both financial and non-financial measures. The maintenance of a secure funding and capital structure is a key Group performance indicator.

The Group prudently manages regulatory capital to ensure that it is always maintained at a sufficient level in excess of the PRA prescribed TCR and capital buffers.

The key controls in achieving this objective are:

- > Monitoring the level of regulatory capital against the TCR and capital buffers on a monthly basis as part of the Group's management accounts;
- > Producing a monthly rolling forecast, projecting regulatory capital and the TCR and capital buffers for the remainder of the current financial year;
- > Forecasting regulatory capital for the following five years and comparing to the Group's projected TCR and capital buffers over the same period as part of the budget and budget update processes;
- > Assessing the impact that strategic projects could have upon regulatory capital;
- > Submitting regulatory capital reports to the PRA periodically; and
- > Assessing the appropriateness of the TCR and capital buffers as part of the Group's ICAAP (see 4.2), including stress and scenario testing, and reporting to the PRA if it is no longer considered to be appropriate.

4.2 ICAAP

In accordance with the regulations, the Group is required to conduct an ICAAP on an annual basis or more frequently if there is a material change in the nature, trading status or risk profile of the Group. The ICAAP allows the Board to assess whether the Group's risk management objective is being met.

The key output of the ICAAP is a document which:

- > Provides a background to the Group including the Group structure, strategy, key management and the internal control framework and risk management processes;
- > Calculates the minimum capital required under Pillar 1 of the regulations for the Group;
- > Identifies the various additional risks facing the Group not included in Pillar 1 and considers the required level of additional capital to be held against those risks (Pillar 2a);
- > Considers the level of additional capital to be held in the PRA buffer and other CRD IV buffers (Pillar 2b);
- > Calculates the overall regulatory capital requirement of the Group as a result of Pillar 1 and Pillar 2a and 2b; and
- > Performs stress testing on the Group's budget projections to ensure that both the Group's calculated regulatory capital requirement and the TCR and buffers are sufficient even under extreme scenarios.

The ICAAP is embedded into the Group's risk management framework. Within the monthly management accounts, the Group's and Vanquis Bank's regulatory capital resources are compared to the existing TCR and buffers. Management accounts are distributed to the executive directors and senior members of the management team on a monthly basis and are distributed to the Board for each Board meeting.

All material elements of the internal assessment of capital requirements, which are summarised in the ICAAP, are revisited periodically through the year.

Risk registers are frequently reviewed and maintained by the divisions. In addition the key divisional risks are reviewed by the Group Risk Committee on a quarterly basis. Any material movement in any of the key risks would be highlighted in this review and would trigger a revision of the internal assessment of capital requirements and, if appropriate, the ICAAP.

The ICAAP, including the modelling and methodology, is periodically subject to review by the Group internal audit function and external advisors.

4.3 Capital resources

The Group's own funds are comprised entirely of CET1 capital. The template in appendix 1 sets out the composition of the Group's reported regulatory capital resources as at 31 December 2018.

At 31 December 2018 the regulatory capital position incorporates the IFRS 9 transitional arrangements which transition the impact of IFRS 9 into regulatory capital over a five year period. The impact of the transitional arrangements on own funds, capital ratios and the leverage ratio is set out in section 1.5. At 31 December 2017 there were no transitional provisions which impacted the calculation of own funds.

The Group's shareholder's equity is adjusted in order to arrive at a Group regulatory capital figure. The adjustments include deduction of the Group's pension asset, intangible assets, goodwill and fair value of derivative financial instruments, all net of deferred tax. In addition, any profits and gains not audited or verified by the external auditors at the balance sheet date are deducted from retained earnings and a foreseeable dividend is accrued on any audited or verified profits based on the Group's dividend policy.

The Group's retained earnings and other reserves included in the audited financial statements have been reconciled to the Group's regulatory capital at 31 December below:

	Note	2018 £m	Reported £m	Rights Issue £m	2017 Pro forma £m
Shareholders' equity per the financial statements:					
Share capital		52.5	30.7	-	30.7
Share premium		273.2	273.0	-	273.0
Retained earnings and other reserves		370.4	231.4	300.0	531.4
Shareholders' equity per the financial statements		696.1	535.1	300.0	835.1
CET1 adjustments:					
Deduction of unaudited and unverified profits and gains	1	(60.3)	-	-	-
Deduction of foreseeable dividends on verified profits	2	-	-	-	-
Defined benefit pension assets (net of deferred tax)	3	(69.6)	(84.9)	-	(84.9)
Goodwill	4	(71.2)	(71.2)	-	(71.2)
Intangible assets (net of deferred tax)	5	(47.9)	(70.9)	-	(70.9)
IFRS 9 transitional adjustment	6	174.8	-	-	-
CET1 capital (verified basis)		621.9	308.1	300.0	608.1
Total regulatory capital (verified basis)		621.9	308.1	300.0	608.1

Notes:

- For the year ending 31 December 2018, in accordance with the regulations set out in CRR, the profits and movements in other comprehensive income (OCI) of the Group for the full financial year have not been included within regulatory capital since they were not verified or audited by the external auditors as at 31 December 2018. At 31 December 2017 there were no profits not audited or verified by the external auditors at the balance sheet date.
- Under CRD IV, the Group is required to deduct accrued dividends from own funds when they are 'foreseeable' rather than when they are declared. For the year ending 31 December 2018, the foreseeable dividend is nil as there are no profits audited or verified by the auditors at the balance sheet date. For the year ending 31 December 2017 the foreseeable dividend is nil following the decision to withdraw the interim dividend in August 2017 and no final dividend paid in respect of 2017.
- The defined benefit pension asset, net of deferred tax, is required to be deducted from own funds in order to calculate CET1 capital.
- Goodwill principally reflects the surplus of consideration over identifiable net assets acquired and identifiable intangible assets following the acquisition of Moneybarn on 20 August 2014. This is required to be deducted from CET1 capital.
- Intangible assets comprise the fair value of the broker relationships arising on acquisition of Moneybarn on 20 August 2014, and capitalised software and software development costs. These are required to be deducted from CET1 capital.
- The regulatory capital impact of IFRS 9 is to be phased in on a transitional basis over five years. In 2018, 5% of the impact is reflected in own funds. IFRS 9 came into force on 1 January 2018, as such in 2017 there was no impact.

4.4 Main features of own funds instruments

The Group's CET1 capital consists of the Group's equity share capital and reserves after adjusting for the amounts set out in section 4.3 above. The equity share capital consists of ordinary shares and the main features of the ordinary shares are set out in appendix 3.

4.5 Leverage ratio

The leverage ratio is a monitoring tool which aims to facilitate an assessment of the risk of excessive leverage in an institution. The ratio is calculated as CET1 capital divided by on and off-balance sheet exposures in accordance with the provisions set out in CRR article 429.

PRA policy statement PS21/17 issued in October 2017 raised the minimum leverage ratio requirement from 3% to 3.25% with immediate effect.

The leverage ratio, as at 31 December, for the Group is as follows:

	2018 £m	Reported £m	Rights Issue £m	2017 Pro forma £m
Total assets per audited financial statements	2,921.2	2,965.9	135.0	3,100.9
IFRS 9 transitional adjustment	174.8	-	-	-
Off balance sheet items ¹	114.9	96.9	-	96.9
Other regulatory adjustments ²	40.8	5.6	-	5.6
Items deducted from own funds	(188.7)	(227.0)	-	(227.0)
Leverage ratio exposure	3,063.0	2,841.4	135.0	2,976.4
Tier 1 capital	621.9	308.1	300.0	608.1
Leverage ratio (verified basis)	20.3%	10.8%	9.6%	20.4%

1 The exposure of off balance sheet items relates to undrawn credit card lines in Vanquis Bank.

2 Other regulatory adjustments consist of other balance sheet assets that are required to be added to the exposure under CRD IV.

Excessive leverage is managed through the Group's secure funding and capital structure. The Group has a stated maximum gearing ratio (calculated in accordance with the Group's banking covenants) of 3.5 times which is aligned with the Group's growth targets and dividend distribution policy.

As explained in section 4.3, the capital ratios set out above are calculated on a verified basis with any profits or gains not audited or verified by the external auditors at the balance sheet date deducted from own funds. This is consistent with the disclosures included in the regulatory reporting submissions.

5. Capital requirement

5.1 Total capital requirement (TCR)

Following publication of PRA policy statement CP12/17 in December 2017, the Group is required to disclose the PRA prescribed TCR at the highest level of consolidation in the UK.

The minimum amount of regulatory capital held by the Group represents the higher of the PRA imposed requirement of 23.5% of total RWEs plus a fixed £28m monetary add-on in respect of pension risk at 31 December 2018 (2017: 15.1% of total RWEs plus a fixed £28m monetary add-on in respect of pension risk), being the TCR requirements together with the CRD IV stipulated buffers, and the respective internal assessments of minimum regulatory capital requirements based upon an assessment of risks facing the Group. A breakdown of the PRA imposed minimum requirement, including CRD IV buffers, is as follows:

31 December 2018	% of RWEs	Fixed monetary add-on for pension risk
Pillar 1	8.000	
Pillar 2a	12.650	£28.0m
Pillar 2b:		
– Countercyclical buffer*	0.987	
– Capital conservation buffer	1.875	
Total expected PRA minimum requirement	23.512	+£28.0m

* Calculated as a weighted average relative to the Group's geographic exposures. Currently set at 1% for UK exposures and 0% for ROI and US exposures. The ROI rate is to increase to 1% from July 2019, no further increases have been announced for the UK and US rates.

The Group continually monitors and assesses the internal assessment of minimum regulatory capital requirements.

5.2 Pillar 1 minimum requirement

The Pillar 1 requirements against which the Group holds capital as set out in section 4 are detailed below:

	Risk weighted exposure £m	2018 Pillar 1 minimum £m	Risk weighted exposure £m	2017 Pillar 1 minimum £m
Credit risk	2,023.9	161.9	1,946.7	155.7
Operational risk	171.3	13.7	161.4	12.9
Market risk	14.0	1.1	9.9	0.8
Other risks	-	-	-	-
	2,209.2	176.7	2,118.0	169.4

The calculations for the following risks are included in the Pillar 1 requirements calculation for 'other risks' but the value of the requirement rounds to zero:

- > **Counterparty credit risk** – The Group measures exposure value on counterparty credit risk exposures under the CCR mark-to-market method as permitted under CRD IV. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contract's potential credit exposure, which is derived by applying a multiple based on the contract's residual maturity to the notional value of the contract. The Group uses derivative financial instruments to hedge the interest rate risk and foreign exchange rate risk on its borrowings and overseas profits. The Group does not enter into speculative transactions or positions.
- > **CVA risk** – CVA represents the market value of counterparty credit risk and is calculated for all Group derivatives. The Group uses derivative financial instruments to hedge the interest rate risk and foreign exchange rate risk on its borrowings and overseas profits. The Group does not enter into speculative transactions or positions.

These risks are not material and therefore no further analysis or discussion has been disclosed.

The Group is required to include information on its exposure to market risk and interest rate risk and as such this information is set out in sections 5.5 and 5.6.

5.3 Credit risk

An analysis of the Pillar 1 minimum capital requirements and risk weighted exposures by business division as at 31 December is as follows:

	Total reported assets £m	Risk weighted exposure £m	2018 Pillar 1 minimum £m	Total assets £m	Risk weighted exposure £m	2017 Pillar 1 minimum £m
Customer receivables:						
Vanquis Bank	1,473.8	1,241.9	99.4	1,554.7	1,187.8	95.0
CCD	292.5	266.7	21.3	390.6	319.4	25.6
Moneybarn	396.6	393.1	31.4	364.1	316.9	25.3
Total customer receivables	2,162.9	1,901.7	152.1	2,309.4	1,824.1	145.9
Other assets	758.3	122.2	9.8	656.5	122.6	9.8
Total	2,921.2	2,023.9	161.9	2,965.9	1,946.7	155.7

An analysis of the Pillar 1 minimum capital requirements and risk weighted exposures by exposure class as at 31 December is as follows:

	Risk weighted exposure £m	2018 Pillar 1 minimum £m	Risk weighted exposure £m	2017 Pillar 1 minimum £m
Retail exposures – not past due	1,573.5	125.8	1,544.7	123.6
Retail exposures – past due	328.2	26.3	279.4	22.3
Institutions	1.9	0.1	23.0	1.9
Equities	12.1	1.0	9.9	0.8
Other exposures	108.2	8.7	89.7	7.1
	2,023.9	161.9	1,946.7	155.7

The retail exposures constitute the Group customer receivables and further disclosure on the retail exposures is set out in 5.3.1 to 5.3.3 below.

External credit assessment institutions (ECAIs) are used to calculate the Pillar 1 minimum capital requirements for exposures to institutions. The Group relies principally on two ECAIs – Moody's and Fitch Ratings.

Further disclosure on the equity exposure has been set out in section 5.7.

The exposures to corporates, institutions and other exposures are not deemed material for further disclosure.

5.3.1 Method for determining specific credit risk adjustments – accounting policy for customer receivables

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

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

Vanquis Bank

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

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

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

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

CCD

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

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

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

A customer is deemed to have defaulted when the customer would typically no longer be eligible to be re-served with a subsequent loan which is considered to be five missed weekly payments in the last 12 weeks. For certain loans the presumption of 30 days in respect of the definition of significant increase in credit risk and 90 days for the definition of default has been rebutted. This is supported by historical data which supports payment recency as a better indicator of the degree of impairment than overall days past due.

Moneybarn

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

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

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

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

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

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

5.3.2 Analysis of credit risk exposures on customer receivables

The Group's maximum exposure to credit risk on customer receivables is the carrying value of customer receivables recorded in the Group's balance sheet.

All customer receivables are classed as retail exposures. Vanquis Bank exposures are revolving retail exposures.

Exposures analysed by business division are as follows:

	2018 IFRS 9 £m	2017 IAS 39 £m
Vanquis Bank	1,473.8	1,554.7
CCD	292.5	390.6
Moneybarn	396.6	364.1
Total reported amounts receivable from customers	2,162.9	2,309.4

The average exposure in the year ended 31 December 2018 was £2,094.4m (2017: £2,291.7m).

Exposures analysed by geographical area are as follows:

	2018 IFRS 9 £m	2017 IAS 39 £m
United Kingdom	2,124.0	2,263.0
Republic of Ireland	38.9	46.4
Total reported amounts receivable from customers	2,162.9	2,309.4

Republic of Ireland exposures relate to loans issued by the home credit business.

The following table shows the residual maturity of exposures by business on a contractual basis:

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

5.3.3 Credit quality of customer receivables

Under IFRS 9 all credit issued is recognised within stage 1 on origination. A customer will then move to stage 2 when there has been a significant increase in credit risk either through a missed payment or an adverse change in behavioural score. Revenue recognition will be recognised on the gross receivable in stage 1 and 2 and on the 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:

- > Stage 1 – Accounts at initial recognition. The expected loss is based on a 12-month PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.
- > Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The expected loss is based on a lifetime PD, based on historic experience, and revenue is recognised on the gross receivable before impairment provision.
- > Stage 3 – Accounts which have missed a payment and are in arrears. Provisions are based on expected losses based on historic cash flows. Revenue is recognised on the net receivable after impairment provision. This stage is effectively the current IAS 39 treatment for impairment.

The impairment charge to the income statement in respect of customer receivables analysed by business division is as follows:

	2018 IFRS 9 £m	2017 IAS 39 £m
Vanquis Bank	241.6	186.6
Exceptional release of impairment provision as part of balance reduction	–	(14.7)
Total Vanquis Bank	241.6	171.9
CCD	120.8	293.5
Moneybarn	48.0	31.1
Exceptional release of impairment provision as part of balance reduction	–	(20.4)
Total Moneybarn	48.0	10.7
Total Group	410.4	476.1

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

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

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

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

Under IAS 39 within CCD, impairments were deducted directly from amounts receivable from customers without the use of an allowance account.

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

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

5.4 Operational risk

Consistent with the approach adopted in previous years, the Group has elected to use the alternative standardised approach (ASA) for measuring operational risk. The ASA is an approach which is tailored specifically to firms whose primary business lines involve retail banking and/or commercial banking and can only be adopted provided certain criteria are met. Management are satisfied that they can adopt the ASA in accordance with CRR article 319 and 320 as follows:

- > The Group has a well-documented assessment and management system for operational risk with clear responsibilities assigned for this system. In addition, the Group is able to identify exposures to operational risk, has systems of reporting operational risk matters to senior management and has procedures in place for taking appropriate action. These systems of control are comprehensive and proportionate to the nature, scale and complexity of the firm's activities;
- > The operations of the Group are wholly focused in retail banking as defined within CRR, 100% of all revenue activities are derived from this activity;
- > The Group issues credit to non-standard customers and there is a higher probability of default; and
- > Management has concluded that the ASA provides an appropriate basis for calculating the own funds requirement for operational risk.

5.5 Market risk

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 has operations in the Republic of Ireland and therefore has an element of foreign currency market risk. 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.

The exposure at 31 December 2018 noted in section 5.2 in relation to market risk principally relates to amounts receivable from VISA Inc., details of which are noted below, together with the net asset position of CCD's branch in the Republic of Ireland.

On 21 June 2016, Visa Inc. confirmed the acquisition of Visa Europe Limited to create a single global payments business under the Visa brand. Vanquis Bank, a wholly owned subsidiary of Provident Financial plc, was a member and shareholder of Visa Europe and in exchange for its one redeemable ordinary share (previously held at par of €10), Vanquis Bank received upfront consideration in the form of cash, deferred consideration in the form of cash and preferred stock on completion of the transaction. Vanquis Bank's interest in Visa Europe Limited has been valued at fair value which reflects the expected deferred cash proceeds and a number of factors and uncertainties relating to the preferred stock. The preferred stock will convert at a point in the future to ordinary shares in Visa Inc.

The Group has applied the guidance set out in articles 351 and 352 of the CRR. The total reported original exposure of foreign currency market risk at 31 December 2018 of £14.0m (2017: £9.9m) exceeded the threshold set out in CRR and accordingly £1.1m of Pillar 1 capital allocation was recognised (2017: £0.8m).

5.6 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 continually monitored and is formally reported to the Group Treasury Committee under a Board-approved interest rate hedging policy on a quarterly basis or more frequently as deemed appropriate.

The Group measures its interest rate exposure by quantifying the impact of an immediate and sustained movement of 200bp in LIBOR rates upon its forecast profit before taxation.

In calculating this exposure, the Group assumes that it will re-price products for new lending. It is possible for Vanquis Bank to re-price its receivables within two months and for CCD and Moneybarn loans to be issued at re-priced levels within one month. Given the short duration of the receivables book, on average the Group would be able to re-price its receivables on average within eight months to mitigate the impact upon forecast borrowing costs. The level of fixed and floating-rate receivables and borrowings beyond the next eight months are forecast to be matched, resulting in a neutral interest rate position.

The level of downside risk resulting from exposure to interest rates calculated on the basis set out above as at 31 December is as follows:

	2018 £m	2017 £m
Sterling	1.0	2.9
Euro	0.2	0.3
Total	1.2	3.2

5.7 Non-trading book exposures in equities

At 31 December 2018, the Group had equity investments in the non-trading book of £12.1m (2017: £9.9m), relating to the acquisition of Visa Europe Ltd by Visa Inc, as noted in section 5.5.

As the proposed transaction was announced on 2 November 2015, the item was revalued at 31 December 2015. Subsequent to recognition, there has been no impairment of Available for Sale (AFS) equities.

Details of the accounting policy for AFS equity investments and the valuation of financial instruments can be found in the Group's Annual Report and Financial Statements.

6. Capital buffers

There are a number of capital buffers to be met with CET1 capital, in addition to the Group's own funds requirement set through Pillar 1 and Pillar 2a.

From 1 January 2016, new buffers were introduced under CRD IV and changes were made to the Group's TCR to allow for this. These changes converted the existing TCR, expressed as a percentage of the Pillar 1 requirement, to a percentage of RWEs but may also include a fixed add-on. At the same time, the existing capital buffer (which was expressed as an absolute amount) was retired and a PRA buffer was set as a percentage of RWEs.

The buffers which apply to the Group at 31 December 2018 are as follows:

> **Capital Conservation Buffer** ('CCoB'), which at 1 January 2016 was set at 0.625% of RWE, rising to 1.25% at 1 January 2017, 1.875% at 1 January 2018 and 2.5% at 1 January 2019.

> **Countercyclical Buffer** ('CCyB'). The Group's institution specific CCyB requirement at 31 December 2018 was £21.8m (2017: £nil). The Group's institutional specific CCyB is a weighted average of those CCyBs set by the regulators in the jurisdictions in which the Group has a credit exposure, namely the United Kingdom, the Republic of Ireland, and the US. The regulators in the relevant jurisdictions can set the rate between 0% and 2.5%.

The UK CCyB is controlled by the FPC, and increased to 1% of RWE from 1 November 2018. The UK CCyB rates are reviewed on a quarterly basis. The Republic of Ireland CCyB is currently set at 0% and will increase to 1% of RWE from 5 July 2019. The US CCyB rate is currently 0%.

> **PRA Buffer**, set for firms on an individual basis. The PRA and FPC have indicated their expectation that the PRA buffer will decrease in line with increases in the CCoB and CCyB. The PRA buffer is currently set at 0% for the Group.

Additional buffers provided for by CRD IV do not apply to the Group.

7. Liquidity

7.1 Liquidity risk

Liquidity risk is the risk that the Group will have insufficient liquid resources to meet current and future financial commitments as they fall due.

A key objective of the Group in relation to liquidity risk is to ensure that, at all times, the Group is able to fund its forecast peak borrowing requirement in the following 12-month period plus an adequate buffer.

The Group's treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding. Further qualitative information on the Group's management of liquidity risk is contained in the Annual Report and Financial Statements 2018.

The Group's liquidity position is managed in accordance with the Group and Vanquis Bank's treasury policies and Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP is undertaken by Vanquis Bank on an individual and consolidated basis and is reviewed by the Boards of the Group and Vanquis Bank at least once annually.

The total liquid resources required to be held is calculated in line with the Overall Liquidity Adequacy Rule (OLAR) as set out in the ILAAP undertaken by Vanquis Bank. Liquid resources must be maintained based upon daily stress tests linked to the three key liquidity risks of Vanquis Bank, namely retail deposit maturities, undrawn credit card lines and operating cash flows. This results in a dynamic liquid resources requirement. Vanquis Bank holds its liquid assets buffer, including other liquid resources, in a combination of a Bank of England Reserves Account and UK government gilts.

Vanquis Bank is unable to lend funds to other members of the Group and therefore this restricts its ability to transfer surplus liquid resources.

7.2 Liquidity ratios

The Liquidity Coverage Ratio (LCR) aims to improve the resilience of banks to liquidity risks over a 30-day period. The Net Stable Funding Ratio (NSFR) aims to ensure that banks have an acceptable amount of stable funding to support their assets over a one-year period of extended stress. The Group, by virtue of Provident Financial plc being the parent company of Vanquis Bank, is subject to the PRA liquidity provisions that came into force on 1 October 2015.

7.2.1 Liquidity Coverage Ratio (LCR)

The Group's LCR at 31 December 2018 was 688% (2017: 189%). The PRA's mandated minimum requirement increased to 100% on 1 January 2018.

The figures presented represent the average of the 12 months preceding the quarter end stated:

2018	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Liquidity buffer (£m)	255.8	338.6	400.0	453.6
Net cash outflows (£m)	113.7	119.6	113.3	106.7
LCR (%)	248	320	409	490
2017	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Liquidity buffer (£m)	174.3	179.1	201.2	213.3
Net cash outflows (£m)	74.9	74.3	81.5	92.8
LCR (%)	239	253	260	242

7.2.2 Net Stable Funding Ratio (NSFR)

An observation period for the NSFR, prior to implementation, commenced on 1 January 2013. On 23 November 2016, the European Commission published proposals to amend CRR and CRD including a binding Pillar 1 NSFR. The proposals are yet to be finalised and the binding minimum will apply two years from the date of entry into force of the proposed regulations.

8. Asset encumbrance

Asset encumbrance is the process by which assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

The Group has no encumbered assets, has no collateral received or pledged, and has no debt securities in issue.

Under article 443 of the CRR, additional disclosure on unencumbered and encumbered assets is required. As such, the relevant disclosure for the Group is set out below, based on the median of the four quarters of each year:

	Non-encumbered assets	
	Carrying amount £m	Fair value £m
2018		
Equity instruments	11.9	n/a
Debt securities	36.0	36.0
– Of which issued by general governments	36.0	36.0
Other assets	2,909.4	n/a
Total assets	2,957.3	n/a
	Non-encumbered assets	
	Carrying amount £m	Fair value £m
2017		
Equity instruments	9.3	n/a
Debt securities	30.5	30.5
– Of which issued by general governments	30.5	30.5
Other assets	2,877.3	n/a
Total assets	2,917.1	n/a

9. Remuneration policies and practices

The Group is required to prepare Remuneration Code Pillar 3 disclosures in addition to the regulatory capital disclosures. These disclosures are the subject of a separate, stand-alone document and are published on the Vanquis Bank website, www.vanquisbank.co.uk, on an annual basis.

PRA supervisory statement SS 8/13 'Remuneration Standards: the application of proportionality' (updated June 2015) categorises the Group and Vanquis Bank within proportionality level 3 as a firm with total assets of less than £5 billion, reducing the level of disclosures required by Part 8. This supervisory statement also sets out the PRA view that the requirement for remuneration disclosures applies only to CRR firms directly.

Information on the remuneration of the directors of the Group is contained in the Directors' remuneration report presented in the Annual Report and Financial Statements 2018.

APPENDIX 1 – Own funds disclosures

Presented in accordance with Annex IV from the Commission Implementing Regulation (EU) No 1423/2013 and based on reported own funds at 31 December 2018.

		2018 £m	2017 £m	(B) Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 Capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts	325.7	303.7	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Ordinary share capital	325.7	303.7	EBA list 26 (3)
	of which: Instrument type 2	-	-	EBA list 26 (3)
	of which: Instrument type 3	-	-	EBA list 26 (3)
2	Retained earnings	192.7	194.7	26 (1)(c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	292.1	36.7	26 (1)
3a	Funds for general banking risk	-	-	26 (1)(f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	-	486 (2)
	Public sector capital injections grandfathered until 1 January 2018	-	-	483 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	-	84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	810.5	535.1	
Common Equity Tier 1 Capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(119.0)	(142.1)	36 (1)(b), 37
9	Empty Set in the EU	-	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-	36 (1)(c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	-	33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	36 (1)(d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	33 (b)
15	Defined-benefit pension fund assets (negative amount)	(69.6)	(84.9)	36 (1)(e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-	36 (1)(f), 42, 472 (8)
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	36 (1)(g), 44, 472 (9)
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	36 (1)(h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	36 (1)(i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79

APPENDIX 1 – Own funds disclosures *continued*

		2018 £m	2017 £m	(B) Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 Capital: regulatory adjustments <i>continued</i>				
20	Empty Set in the EU	-	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative sector)	-	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	-	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	-	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty Set in the EU	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	-	-	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-	36(1) (j)
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(188.6)	(227.0)	
29	Common Equity Tier 1 (CET1) capital	621.9	308.1	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-	-	51, 51
31	of which: classified as equity under applicable accounting standards	-	-	
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	-	-	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	-	-	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	-	

APPENDIX 1 – Own funds disclosures *continued*

		2018 £m	2017 £m	(B) Regulation (EU) No 575/2013 Article Reference
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-	52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	56 (b), 58, 475 (3)
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount about the 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (c), 59, 60, 79, 475 (4)
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (d), 59, 79, 475 (4)
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-	
44	Additional Tier 1 (AT1) capital	-	-	
45	Tier 1 capital (T1 = CET1 + AT1)	-	-	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	-	-	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out	-	-	486 (4)
50	Credit risk adjustments	-	-	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	-	-	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-	63 (b) (1), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount about the 10% threshold and net of eligible short positions) (negative amount)	-	-	66 (c), 69, 70, 79, 477 (4)
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	66 (d), 69, 79, 477 (4)
57	Total regulatory adjustments to Tier 2 (T2) capital	-	-	
58	Tier 2 (T2) capital	-	-	
59	Total capital (TC = T1 + T2)	621.9	308.1	
60	Total risk weighted assets	2,209.2	2,118.0	

APPENDIX 1 – Own funds disclosures *continued*

		2018	2017	(B) Regulation (EU) No 575/2013 Article Reference
		£m	£m	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	28.2%	14.5%	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	28.2%	14.5%	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	28.2%	14.5%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirements in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	–	–	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	–	–	
66	of which: countercyclical buffer requirement	–	–	
67	of which: systemic risk buffer requirement	–	–	
67a	of which: Global Systemically Important Institution (G-SII) or other Systemically Important Institution (O-SII) buffer	–	–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	28.2%	14.5%	CRD 128
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	–	–	36 (1) (ii), 45, 48, 470, 472 (11)
75	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	–	–	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	–	–	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	–	–	62
78	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	–	–	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	–	–	62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements	–	–	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	–	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	–	–	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	–	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	–	–	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	–	484 (5), 486 (4) & (5)

APPENDIX 2 – Leverage ratio disclosures

Presented in accordance with Annex I of the Commission Implementing Regulation (EU) 2016/200 and based on the reported leverage ratio position at 31 December 2018.

Reference date 31 December 2018
Entity name Provident Financial plc
Level of application Consolidated

		Applicable Amount	
		2018	2017
		£m	£m
Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures			
1	Total assets as per published financial statements	2,921.2	2,965.9
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	–	–
4	Adjustments for derivative financial instruments	–	–
5	Adjustments for securities financing transactions "SFTs"	–	–
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	114.9	96.9
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	–	–
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	114.9	96.9
7	Other adjustments	26.9	(221.4)
8	Total leverage ratio exposure	3,063.0	2,841.4

		CRR leverage ratio exposures	
		2018	2017
		£m	£m
Table LRCom: Leverage ratio common disclosure			
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,136.7	2,971.5
2	(Asset amounts deducted in determining Tier 1 capital)	(188.6)	(227.0)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,948.1	2,744.5
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	–	–
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	–	–
EU-5a	Exposure determined under Original Exposure Method	–	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–	–
8	(Exempted CCP leg of client-cleared trade exposures)	–	–
9	Adjusted effective notional amount of written credit derivatives	–	–
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
11	Total derivative exposures (sum of lines 4 to 10)	–	–

APPENDIX 2 – Leverage ratio disclosures *continued*

		CRR leverage ratio exposures	
		2018	2017
		£m	£m
Table LRCom: Leverage ratio common disclosure <i>continued</i>			
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	1,148.9	969.2
18	(Adjustments for conversion to credit equivalent amounts)	(1,034.0)	(872.3)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	114.9	96.9
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
Capital and total exposures			
20	Tier 1 capital	621.9	308.1
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	3,063.0	2,841.4
Leverage ratio			
22	Leverage ratio	20.3%	10.8%
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-	-

		CRR leverage ratio exposures	
		2018	2017
		£m	£m
Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)			
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3,136.7	2,971.5
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	3,136.7	2,971.5
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	434.4	268.9
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-	-
EU-7	Institutions	9.4	41.7
EU-8	Secured by mortgages of immovable properties	-	-
EU-9	Retail exposures	2,098.0	2,059.7
EU-10	Corporate	-	-
EU-11	Exposures in default	291.0	249.7
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	303.9	351.5

APPENDIX 3 – Main features of the ordinary shares of Provident Financial plc

Based on reported ordinary shares at 31 December 2018

1	Issuer	Provident Financial plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law(s) of the instrument	English Law
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£325.7m of ordinary share capital and share premium
9	Nominal amount of instrument (Currency in million)	£52.5m
9a	Issue price	n/a
9b	Redemption price	n/a
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	n/a
15	Optional call date, contingent call dates and redemption amount	n/a
16	Subsequent call dates, if applicable	n/a
17	Fixed or floating dividend/coupon	n/a
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	n/a
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Write-down features	No
31	If write-down, write-down trigger(s)	n/a
32	If write-down, full or partial	n/a
33	If write-down, permanent or temporary	n/a
34	If temporary write-down, description of write-up mechanism	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n/a
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	n/a

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