VANQUIS BANK LIMITED
(Company Number 2558509)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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CONTENTS

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DIRECTORS' REPORT

Vanquis Bank Limited ('the Company') is a wholly-owned subsidiary of Provident Financial Holdings Limited, which is wholly-owned by Provident Financial plc ('PF plc'), the ultimate parent. PF plc, together with its subsidiaries, forms the Provident Financial group ('the Group'). PF plc is a public limited company, listed on the London Stock Exchange.

The following provisions, which the Directors are required to report in the Directors' Report, have been included in the Strategic Report:

- How the Directors have engaged with colleagues, how they have had regard to colleague interests and the effect of that regard, including on the principal decisions taken by the Company in the financial year (page 17); and
- How the Directors have had regard to the need to foster the Company's business relationship with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company in the financial year (pages 15 to 19).

Principal activities

The principal activity of the Company is to provide credit cards and personal unsecured loans to underserved consumers, funded by a combination of retail deposits, share capital and retained reserves. The Company has created a securitisation structure shortly after the year ended 31 December 2020 and this will be used to diversify the Company's sources of funding.

Profit

The income statement for the year is set out on page 54. The profit after tax for the year of £42.6m (2019: £138.6m) has been added to retained earnings. The results have been discussed on page 8.

Dividends

In 2020, an interim dividend of £30.0m was paid (2019: £80.0m). No final dividend for the year ended 31 December 2020 is proposed (2019: £80.0m). On 31 March 2021 an interim dividend was paid amounting to £40m, equating to 32.20 pence per share.

Directors

The Directors of the Company during the year ended 31 December 2020, all of whom were directors for the whole year then ended and to the date of this report, except where stated, were:

R East	Chairman and Independent Non-executive Director
N C Chandler	Managing Director
O White	Finance Director (resigned 14 June 2020)
G Thompson	Finance Director (appointed 5 October 2020)
A F Reczek	Independent Non-executive Director (resigned 21 January 2021)
J Baum	Independent Non-executive Director (appointed 13 January 2021)
M J Le May	Group Non-executive Director
J Connor	Independent Non-executive Director and Senior Independent Director
A Morris	Independent Non-executive Director (appointed 2 March 2020)
N Kapur	Group Non-executive Director (appointed 7 July 2020)

Principal risks and uncertainties and financial risk management

A 'three lines of defence' model is adopted in the Company to help identify, assess, manage and report risks. The 'first line' are departments such as Commercial, Operations and IT; the 'second line' are the Risk and Compliance functions and the 'third line' is the Internal Audit function. The overall internal control and risk management framework is the responsibility of the Board of Directors ('the Board'), which meets at least eight times a year, with certain responsibilities being delegated to the Board Committees: Audit Committee, Nomination Committee, Remuneration Committee and Risk Committee. There are further forums including (but not limited to) the Executive Committee, the Business Review Forum, the Assets and Liabilities Forum, the Financial Control Forum, the

Principal risks and uncertainties and financial risk management (continued)

Product and Pricing Forum, and the Credit Risk Forum. Information on the key risks of the Company are included within the risk disclosures of the Group Annual Report and Financial Statements.

In line with its delegated authority framework, the Board reserves certain matters for itself (including risk and remuneration policies) and delegates authority for other matters to the Managing Director and to its statutory committees who report regularly to the Board.

Towards the end of the year, the Board approves a detailed budget for the year ahead and outlines projections for the current and subsequent four years. An update to the budget is approved mid-year. Actual performance against these budgets is monitored with the assistance of detailed management accounts and which is supplemented with a rolling forecast for the full year. The financial performance of the Company is reviewed as part of the Executive Committee, the Business Review Forum and at a weekly trading meeting comprising, key members of the Executive Committee. The Finance Director also presents a report covering financial performance, a rolling forecast, key prudential measures and other management information to the Board at each Board meeting.

In line with the formal delegation of authorities and regulatory accountabilities, the Chief Risk Officer is ultimately responsible for management and oversight of the Company's enterprise risk management and the Finance Director is ultimately responsible for the financial management and controls of the Company. The Finance Director discharges and informs his decision-making through certain forums such as the Assets and Liabilities Forum, the Financial Control Forum, the Prudential Risk Forum and the Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP).

The Audit Committee is responsible for overseeing the monitoring of the Company's systems and controls, including overseeing the operation of the Company's internal and external audit functions and monitoring its independence, effectiveness and objectivity. This Committee meets at least quarterly and reports directly to the Board and is chaired by an independent Non-executive Director.

Risk management is overseen by the Company's Risk Committee which meets at least every quarter (additional meetings are held for example to approve regulatory documents) and is also chaired by an independent Non-executive Director. It is responsible for ensuring that identified risks are managed to acceptable levels and within the Company's risk appetite. The Risk Committee reports to the Board and provides information to the Audit Committee and the Group Risk Committee. The Company participates in the group-wide risk management framework of Provident Financial plc which is the responsibility of the Group Board. Details of the Group's risk management framework, together with the Group's principal risks and uncertainties, are set out in the annual report of PF plc. This includes the regular production and review of a comprehensive risk register and the management of the Company's risk appetite framework. The Risk Committee is responsible for the monitoring and control of compliance with legal and regulatory requirements. These requirements include those of the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) (including requirements relating to anti money laundering controls, financial conduct, conduct risk and treating customers fairly), and the Office of the Information Commissioner (Data Protection Act 2018 requirements).

During 2020, the Company has placed significant emphasis on advancing the maturity of its Risk Management Frameworks, through a focused Risk Enhancement Programme sponsored by the Managing Director. A core part of this work has been an assessment and strengthening of the Company's first line control environment, involving the development of a Risk Control Self-Assessment methodology and regular testing of controls. This work has been undertaken in close collaboration with the Group Risk function, driving towards a harmonised approach to risk management across the Group. This focus will continue through 2021.

The Board delegates responsibility for overseeing remuneration to the Remuneration Committee which meets at least four times a year and is chaired by an independent Non-executive Director. The Remuneration Committee is responsible for determining rewards for directors and employees and ensuring that the Company is compliant with the requirements of the PRA/FCA Remuneration Code. Until 31 December 2019, the Company was required as part of the code to publish an annual disclosure statement on an individual basis, versions of which up to and including the 31 December 2019 disclosures can be found on the Company's website (www.vanquis.co.uk). Following the application of the CRD V Remuneration Code on the Group on a consolidated basis, the contents of the remuneration disclosure are required to reflect the policy and aggregated remuneration on a consolidated

Principal risks and uncertainties and financial risk management (continued)

Group basis. As a result, from 31 December 2020 the Company's individual disclosures are aggregated into the consolidated Group Pillar 3 disclosures, which can be found on the Group's corporate website (www.providentfinancial.com).

The Nomination Committee reports directly to the Board and is responsible for the processes associated with board structure and executive and board appointments. The Chairman is the Chair of the Board and of the Nomination Committee and is an independent Non-Executive Director. The Committee meets at least twice a year and more frequently if necessary.

Information on the management of specific financial risks including credit, liquidity, interest rate, market, capital, currency and recovery and resolution risks is provided on pages 66 to 69.

Employee involvement

The company systematically provides employees with information on matters of concern to them, consulting with them or their representatives regularly, so that their views may be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged as a common awareness amongst all employees of the financial and economic factors affecting the Company and Group plays a major role in maintaining its competitive position. The Company encourages the involvement of employees by means of newsletters, performance updates, regular management team briefings, staff meetings and conferences. The Company also carries out regular employee engagement surveys. Save As You Earn (SAYE) and Buy As You Earn (BAYE) share schemes are operated by the Group to reinforce staff involvement in the Group and to encourage an interest in its progress. These schemes are open to all permanent employees of the Company with more than six months' service.

Equal opportunities

Everyone at the Company is committed to removing all discrimination and encouraging diversity amongst the workforce. The Company's simple and clear aim is to ensure that its workforce will be truly representative of all sections of society where each and every employee feels respected and valued, and to create a company that is committed to promoting equal opportunities in employment.

The Company 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 Company 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 Company including making reasonable adjustments where required. If members of staff become disabled, every effort is made by the Company to ensure their continued employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Social and community matters

The Company's approach to community investment is aligned with the Group's purpose of helping to put people on a path to better everyday life. Community investment activities are delivered through a Group-wide Social Impact Programme. The strategy of this programme is to invest in activities and initiatives which seek to address some of the key factors which, on their own or acting together, can reduce social and/or financial inclusion. This programme delivers community investment activities under the following three workstreams:

- **Customer and vulnerability** – working with charities and specialist partners to provide support which addresses issues such as customer vulnerability, product accessibility and financial difficulties;
- **Education** – supporting children, young people and adults to boost their education, skills and aspirations in order to participate in society and secure a brighter financial future; and

Social and community matters (continued)

- **Community** – supporting Community Foundations and other partners to address the wide range of social inclusion and social mobility issues that are relevant to our customers and the communities where the Group operates. Colleagues are encouraged to engage with the volunteering programme which encourages participation in company-led volunteering, as well as offering one day per year to volunteer for a voluntary organisation of their choice. Matched funding of up to £500 per annum towards colleagues' own fundraising activities is also available.

Health and safety

Health and safety standards and benchmarks have been established and compliance is monitored by the Board.

Climate change

Disclosures are made in the Group's Annual Report and Financial Statements 2020 in respect of the Group's:

- Scope 1 and 2 greenhouse gas emissions in tonnes of carbon dioxide equivalent;
- A relevant intensity ratio (i.e. kilograms of carbon dioxide equivalent per customer); and
- Information on underlying energy use for 2020.

The disclosures are produced in accordance with the UK Government's Streamlined Energy and Carbon Reporting (SECR) policy that has been implemented through the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018. This disclosure covers the greenhouse gas emissions and energy use for the Group and its operating divisions incorporating the Company.

Anti-bribery and corruption

The Group's Corporate Policies reflect the requirements of the Bribery Act 2010 and a corporate hospitality register is maintained using a risk-based approach. Although the risks for the Company arising from the Bribery Act 2010 continue to be assessed as low, all employees are, nevertheless, required to undergo appropriate training and instruction to ensure that there is effective awareness of anti-bribery and corruption policies and procedures. Compliance is regularly monitored by the Risk Committee and is subject to periodic review by the Company's internal audit function.

Key performance indicators

Further disclosure of non-financial Key Performance Indicators (KPI's) can be found in the Strategic Report on pages 8 to 11 and the Group's Annual Report and Financial Statements 2020.

Indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Future developments

Details of future developments can be found in the Strategic Report on pages 12 to 14.

Events after the balance sheet date

Details of significant events since the balance sheet date are contained in note 30 to the financial statements.

Auditor information

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP as auditors will be proposed at the forthcoming PF plc Annual General Meeting.

Approved by the Board and signed on its behalf by:

N C Chandler
Managing Director
7 May 2021

STRATEGIC REPORT

Review of business

The Company is a leading specialist in the large and established credit cards market and is developing its loans proposition. It has a strong capital base and has access to liquid funds through the resilient retail deposits markets. The Company has begun to diversify its funding sources through establishment of a securitisation structure shortly after the year end.

Covid-19

The Covid-19 pandemic has had a significant impact on the Company in 2020. At the outbreak of the pandemic, the Company successfully moved 80% of contact centre and 100% of head office colleagues to remote working by mid-April with minimal impact on customer service levels. Customer support was maintained through dialler technology and increased use of SMS communications and those customers in financial difficulty were provided support either through: (i) payment holidays in line with FCA measures; (ii) the payment freeze option within the Repayment Option Plan (ROP) product; and (iii) the Company's other forbearance measures. Alongside this, in early April, to reduce risk in the uncertain economic environment, underwriting standards were significantly tightened to reduce new credit card bookings to 25%, curtail all new loans business and suspend the credit line increase (CLI) programme. Discretionary spending was also curtailed. As a result of Covid-19, customers reduced card utilisation and repaid borrowings. These factors significantly reduced balances and income in 2020.

Financial performance

An analysis of the Company's income statement and KPIs for 2020 and 2019 is set out below:

For the year ended 31 December	**2020** **£m**	2019 £m	Variance %
Income	**489.2**	590.4	(17.1)
Finance costs	**(35.5)**	(34.4)	(3.2)
Net income	**453.7**	556.0	(18.4)
Impairment	**(239.9)**	(198.9)	(20.6)
Net operating income	**213.8**	357.1	(40.1)
Costs (before exceptional items)	**(171.4)**	(179.5)	4.5
Profit before tax and exceptional items	**42.4**	177.6	(76.1)
Exceptional items	**8.3**	12.4	(33.1)
Profit before tax	**50.7**	190.0	(73.3)
Tax charge	**(8.1)**	(51.4)	84.2
Profit after tax	**42.6**	138.6	(69.3)
KPIs			
New customer bookings ('000)	**248**	369	(32.8)
Customer numbers ('000)	**1,667**	1,720	(3.1)
Receivables (£m)	**1,094.3**	1,461.5	(25.1)
Average receivables (£m)	**1,233.9**	1,459.9	(15.5)
Income yield[1] (%)	**39.6**	40.4	(0.8)
Impairment rate[2] (%)	**19.4**	13.6	(5.8)
Net operating margin[3] (%)	**17.3**	24.5	(7.2)
Cost income ratio[4] (%)	**35.0**	30.4	(4.6)
Return on equity[5] (%)	**11.1**	35.7	(24.6)

[1] *Income divided by average receivables for the year ended 31 December.*
[2] *Impairment divided by average receivables for the year ended 31 December.*
[3] *Net operating income divided by average receivables for the year ended 31 December.*
[4] *Costs (before exceptional items) divided by income for the year ended 31 December.*
[5] *Profit before exceptional items after tax divided by average equity for the year ended 31 December.*

Review of business (continued)

As a result of Covid-19, the Company's profit before tax and exceptional items reduced by 76.1% to £42.4m in 2020 (2019: £177.6m). The reduction in profits reflects:

- A significant reduction in receivables due to: (i) reduced customer spending during lockdown; and (ii) reduction in lending appetite given the uncertain environment; and
- A significant impact on impairment due to FCA payment holidays and a forecast deterioration in unemployment.

New customer bookings of 248,000 were 32.8% lower than 2019 (2019: 369,000) reflecting tightened underwriting standards in response to Covid-19. The new customer bookings were reduced by 75% during the second quarter of 2020 and although volumes resumed in the second half of the year, booking activity remained restricted to approximately 50% of pre-Covid-19 levels as risk appetite remained cautious given the economic backdrop. Accordingly, customer numbers ended 2020 at 1,667,000, 3.1% lower than last year (2019: 1,720,000) with lower bookings offset by lower charge off volumes as a result of introduction of payment holidays and furlough support. Approximately, 100,000 inactive customer accounts were closed in the early part of 2021 following notification in November that their account would be closed if there was no activity within 60 days.

Amounts receivable from customers ended 2020 at £1,094.3m, 25.1% lower than 2019 (2019: £1,461.5m). The reduction in receivables reflects lower new customer bookings, suspension of the CLI programme as part of the response to Covid-19 and lower spending. On a year-on-year basis, customer spending was approximately 40% lower in April, 35% lower in May and 20% lower in June. The CLI programme recommenced in July and the progressive improvement in customer spending continued in the third quarter with the gap to prior year narrowing to 10% by November. However, following the introduction of Tier 3 and Tier 4 local lockdowns and the second national lockdown, customer spending was down by 20% year-on-year in December. The weak levels of customer spending continued in early 2021 with year-on-year spending levels down approximately 25% in January and February during the third UK lockdown. The reductions in spending levels experienced by the Company are consistent with recent Bank of England and UK Finance industry data. The impact of reduced spending resulted in account utilisation levels reducing from 60% at the start of the year to 53% at the end of the year, notwithstanding c.£130m of credit line decreases (c.115,000 customers) actioned through November and December to reduce contingent risk.

Income has shown a 17.1% reduction to £489.2m in 2020 (2019: £590.4m) compared with the 25.1% reduction in net receivables. The income yield (income divided by average receivables) has moderated from 40.4% in 2019 to 39.6% in 2020. This reflects a year-on-year reduction in ROP income of approximately £13m following the cessation of sales activity in April 2016. In addition, there has been some further moderation in the non-interest yield from: (i) a reduction in the cash advance fees as a result of the ban on the use of credit cards for gambling transactions; and (ii) a reduction in default and over limit fees due to changes to the basis of charging as well as due to introduction of payment holidays. Income in 2020 includes £1.7m of interest receivable (2019: £nil) from an intercompany loan of £70m provided to PF plc in August 2020. The loan has a 2-year term and accrues interest at 6.25%.

Funding costs of £35.5m have increased by 3.2% during 2020 (2019: £34.4m), notwithstanding: (i) the 15% reduction in average receivables; and (ii) the low interest rate environment which has reduced the blended cost of retail deposits from 2.3% in 2019 to 2.0% in 2020 (the average rate on new deposits raised in the year was 1.7% compared with 2.5% in 2019). The higher funding cost reflects the significant liquidity raised at the onset of Covid-19 and the excess liquidity of c.£650m over Individual Liquidity Requirements carried through the last three quarters of the year which increased funding costs by c.£5m.

Impairment charges increased by 20.6% to £239.9m in 2020 (2019: £198.9m). The increase in impairment in 2020 reflects: (i) the impact of Covid-19; (ii) the deterioration in the macroeconomic outlook; (iii) a provision for customers entering into the FCA's definition of persistent debt, which came into effect from October 2020; and (iv) the exit performance of customers who had taken a payment holiday.

Review of business (continued)

The macro-economic assumptions used in the preparation of the 2020 year end compared with 2019 are set out below:

	2020		2019	
	Unemployment peak	Weighting	Unemployment peak	Weighting
Base	7.9%	50%	4.1%	60%
Upside	6.2%	10%	4.0%	20%
Downside	10.1%	35%	5.3%	20%
Severe	12.7%	5%	6.5%	-%

The overall impairment provision coverage ratio (impairment provision divided by gross receivables) has increased from 23.2% in 2019 to 30.2% in 2020. As a result, the impairment rate has increased from 13.6% in 2019 to 19.4% in 2020.

The lower income yield and a higher impairment rate combined to equate to a reduction in the net operating margin from 24.5% in 2019 to 17.3% in 2020.

Costs (excluding exceptional items) have shown a 4.5% reduction to £171.4m in 2020 (2019: £179.5m) reflecting the ongoing cost efficiency programme, together with cessation of all discretionary spend in response to Covid-19 and lower acquisition costs from lower customer bookings during the year. The cost income ratio has increased from 30.4% in 2019 to 35.0% in 2020 due to the reduction in income as a result of the 15% reduction in average receivables.

Exceptional items

Following completion of the ROP refund programme in 2019 and a re-evaluation of the forward flow of claims that may arise in respect of ROP, £8.3m (2019: £14.2m) of the provisions originally established in 2017 have been released as an exceptional credit in 2020. The remaining provision at 31 December 2020 amounts to £2.6m (2019: £11.6m) and reflects management's revised expectation of future claims that may arise in respect of ROP complaints more generally together with sundry costs of dealing with those claims.

Tax

The effective tax rate for the financial year on the profit before tax and exceptional items was 13.9% (2019: 25.8%). The tax rate reflects the impact of the bank corporation tax surcharge of 8% which came into force on 1 January 2016 and applies to profits in excess of £25m. The effective rate reflects the beneficial impact of: (i) measuring deferred tax assets at 27% (2019: 25%) following the cancellation by Finance Act 2020 of the reduction in the mainstream corporation tax rate from 19% to 17% for 2020; and (ii) a £2.0m tax credit representing the benefit of £11m of capital losses provided by PF plc, in respect of the gain made on the sale of approximately 50% of the Company's holding in Visa Inc shares following a partial conversion event, for which no consideration has been paid – this has been recognised in the income statement as such losses would typically be accounted for in the income statement (as opposed to OCI).

The tax charge in respect of the exceptional credit in 2020 amounts to £2.2m (2019: £5.5m) which represents tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £8.3m exceptional release of provisions established in 2017 following the completion of the ROP refund programme in 2019 and the re-evaluation of the forward flow of claims that may arise in respect of ROP complaints more generally (2019: £12.4m).

As a result, the overall statutory effective tax rate after exceptional items was 16.0% (2019: 27.0%).

Review of business (continued)

Return on Equity (ROE)

The ROE has reduced from 35.7% in 2019 to 11.1% in 2020 reflecting the significant reduction in profit, partly offset by the reduction in equity following the payment of £110m of dividends (2019: £139.8m) to PF plc in 2020.

Balance sheet

The Company has a robust balance sheet and a strong funding and liquidity position.

At the end of 2020, the Company had regulatory capital headroom of £156.1m (2019: £102.2m) over its Overall Capital Requirement (OCR), of 25.2% (2019: 24.9%).

The Company’s liquid assets buffer amounted to £833.3m at the end of 2020, up significantly from £321.9m at the end of 2019 following the additional liquidity raised at the onset of the Covid-19 pandemic. This provided liquidity headroom of approximately £691.9m (2019: £138.2m) over its Individual Liquidity Requirement (ILR). Retail deposits amounted to £1,683.2m (2019: £1,345.2m) at the end of 2020.

In January 2021, the Company entered into a securitisation structure over £453m of receivables. The Company will initially retain the bonds and utilise the notes as collateral which will be placed with the Bank of England (BoE) to support borrowings against the Sterling Monetary Framework (SMF) facilities. These include the Discount Window Facility (DWF), Liquidity Support Operations (ILTRO), and the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). This structure will offer three primary liquidity and funding benefits to the Company: (i) diversification of funding; (ii) access to BoE facilities; and (iii) creation of contingent liquidity. The Company expects to raise approximately £150m of funding through pledging the bonds as collateral based on rating agency results, the expected BoE haircut and maintaining encumbrance levels below 30%.

Customer proposition

The Company continued to place significant focus on providing additional support to customers in financial difficulty through either: (i) payment holidays in line with FCA guidance (to over 100,000 customers); (ii) payment freezes as part of the ROP product; and (iii) a number of other forbearance measures.

The Company also continued to focus on enhancing its customer proposition, which included:

- Entering a partnership with Payit in 2020, enabling users to make simple and secure payments to their credit card balance without the use of a debit card. Payments are made through the Vanquis Bank app, which has over 1 million users, and can be made from major UK banks. It provides an instant update to available credit and provides an updated balance by the next working day.
- A partnership with LOQBOX, announced recently, which offers a way for customers to improve their credit score. If a customer applies to the Company for a credit card and is declined, the Company will refer them to LOQBOX. After signing up, LOQBOX will help customers decide how much they can save in a year (from £20 to £200 per month) and a 0% loan is locked away for the same amount in LOQBOX. After the 12-month period finishes, the money saved is released back to the customer’s bank account and the loan is repaid. The improvement in the customer’s credit rating will allow the Company to offer them a credit card.

Outlook

The Company remained profitable in 2020 and has strong capital and liquidity positions. It remains focused on enhancing its customer and digital propositions as well as broadening its range of products, including launching an unsecured loans product into the open market in 2021.

Future developments

Purpose and strategic statements

The Company has a clear purpose that is aligned with the purpose of the Provident Financial Group and all of its divisions. The Company and Group purpose is '*to help put people on a path to a better everyday life*'.

In support of this purpose, the Company has also set out its ambition and its vision. The Company's ambition is '*to be THE customer champion in the sector by 2023*'. The Company's vision is '*Better banking for everyday people. A digital first bank providing a range of tailored financial products for consumers whose needs are not well met by the high street banks*.'

The purpose, ambition and vision set the context for the Company's strategy.

Market opportunity

Today, the Company has a leading position in the credit cards market for customers who are not well served by mainstream banks. The Company also offers unsecured personal loans to its existing customers and will launch its offering into the open market in 2021. These product categories are large and established and enable the Company to meet distinct customer borrowing needs.

(1) Credit card market

Market characteristics

- The credit card market is large and stable, although the market did reduce slightly in 2020 driven by lower consumer spending due to Covid-19.
- Competition in the market remains stable with key competitors including Capital One, NewDay own-brand cards and the Barclaycard Forward card.
- There have been a few new entrants in recent years (Level, 118118 Money and Zopa), although these providers are yet to reach significant scale.
- The Company is the only non-prime specialist, covering the broadest range of risk categories in the market.

Market appeal

- Credit cards have high cultural adoption and acceptance in the UK, meaning a substantial and established domestic market.
- There is an ongoing customer relationship as credit cards have everyday utility as a means of transacting.

Covid-19 impact

- During 2020, credit card users have typically reduced their balances. This has been driven by lower levels of spending during Covid-19 restrictions.
- The Company believes that the importance of credit cards will re-build in the coming years as the economy recovers. In addition, the acceleration of online shopping through 2020 coupled with the additional protections inherent in credit card purchases could further grow the credit card market in future years.

(2) Personal loans market

Market characteristics

- The market is of a substantial size (>£1bn) and growing.
- Providers operate at a range of price points (c.15–100% APR) enabling consumers with a broad range of risk profiles to access unsecured loans.

Future developments (continued)

- There have been a number of new nearer prime entrants (e.g. Lendable and Chetwood Financial) in recent years.

Market appeal

- High cultural adoption and acceptance in the UK.
- Offering personal loans provides the opportunity to leverage core skills in loans and allows the Company to meet more of its existing customer needs with a large opportunity in the open market.
- In addition, the Group has strong access to funding, low cost of funds and considerable capital strength versus competitors in this market providing an opportunity for the Company to meet a greater level of the demand in the market.

Covid-19 impact

- In 2020, supply in the market reduced significantly as lenders quickly adjusted to changing macro conditions and reduced new lending.
- Through 2021, the Company expects the market to normalise and lending to return towards 2019 levels as the economy stabilises.

<u>Strategy</u>

The Company's strategy has been set to enable the business to deliver on its purpose and achieve its ambition and vision and comprises four core strategic pillars; *Grow, Digitise, Cost* and *Culture*:

Grow

The grow pillar focuses on evolving the Company's product proposition to meet a broader set of customers' needs.

The Company currently offers unsecured personal loans to selected credit card customers. In 2021, the Company will broaden its proposition and begin offering personal loans in the open market.

In 2020, the Company soft launched its white label partnership with thimbl. As this partnership is embedded, the Company's white label capabilities will continue to evolve, potentially leading to further partnership opportunities in the future.

The final strategic initiative within the grow pillar is the development of a proposition tailored for the self-employed. Initially this is likely to be a line of credit, but there is potential to broaden this proposition into a self-employed ecosystem in the future, for example through offering unsecured loans or secured vehicle finance.

Digitise

The continuing development of digital capability is an essential driver in delivering good customer outcomes and maintaining the returns of the Company in the context of a moderating income yield. Through the digitise pillar, the Company will evolve its customer offering providing customers more choice, including launching virtual wallet capabilities (through Apple Pay and Google Pay) and rebuilding and relaunching an enhanced mobile app (with greater in-app functionality, providing customers more options for interacting with the Company).

Cost

The Company continually challenges its cost base, efficiency and effectiveness to ensure it remains competitive in the market. In addition, the Company is focussed on optimising its funding structure to minimise the cost of funding. Both activities are expected to continue into 2021 to continue realising benefits and efficiencies.

Future developments (continued)

Culture

Within the culture pillar, the Company is prioritising the safe return to the office of colleagues in 2021. Recognising the value and benefits of remote working, the aim is to provide a blend of office and home working for colleagues where possible. Additional initiatives within this pillar include working more synergistically with other parts of the Group and ensuring positive customer outcomes through an effective control environment and through the development of additional data sources such as open banking.

Financial targets and goals

The Company's medium-term target is to deliver an ROE in excess of 15% per annum. This is supplemented by a number of financial metrics, including receivables growth of 10% on a compound annual basis, as well as a target cost income of 30%. Additional goals targeted as part of the Company's strategy include - good customer outcomes (net promoter score of top quartile for financial services providers and >70% of customers making their recommended payment), meeting more of its customers borrowing needs (>10% customers with two or more products), digital adoption (mobile app engagement >85%) and colleague engagement (>70% of colleagues are proud to work for the Company).

Statement regarding section 172 Companies Act 2006

The Company's purpose, as part of the Group, is predicated on its customers and is underpinned by a number of strategic drivers and behaviours. These aim to deliver an appropriate balance between the needs of key stakeholders: customers, colleagues, shareholder, regulators, communities, suppliers and the environment, in order to ensure that the Company is successful and sustainable for all stakeholders. The Company's stakeholders are individuals or groups who have an interest in, or are affected by, the activities of our business. The Company seeks to engage with key stakeholders regularly to ensure that it is aware of their views and concerns with regard to a wide range of issues and the Company does this in a number of ways, as detailed on pages 15 to 19. By balancing the interests of stakeholders, lending responsibly, contributing to wider society and ensuring the appropriate corporate governance arrangements are in place, the Company can maintain a reputation for high standards of business conduct. How the Company has generated and preserved value over the long term can be found in the Directors Report and the review of business, along with how the Company maintains a reputation for high standards of business conduct, equal opportunities, environmental management, social and community matters, health and safety and anti bribery and corruption. The Company's governance arrangements and how it applies and complies with the 2018 UK Corporate Governance Code can be found on pages 23 to 41.

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
Our customers We engage with our customers to determine whether we are delivering our business activities in accordance with our purpose and ensuring that we deliver good outcomes for them throughout their journey with us.	• Utilising a wide variety of customer engagement methods including engagement surveys, third party research, and complaints monitoring and forums. • Helping customers move out of persistent debt. • Developing a customer centric approach and monitoring performance against delivery of the customer centric commitments. • Performing a comprehensive review of the customer proposition. • Deep dive Board session on the Customer Outcome Framework. • Monitoring performance against good customer outcomes. • Considering the customer experience, customer contact strategy and customer journeys. • Establishing a Complaints Forum and reviewing the output from the forum, complaints analysis and defining complaints strategies that deliver fair customer outcomes. • Designing and implementing policies that protect customers and their information. • Responding to changing customer needs as a result of the Covid-19 pandemic such as payment holiday and technology improvements.	• Financial inclusion and well-being. • Responsible lending. • Understanding our customers. • Our current products, possible future products and digital integration of the customer journey. • Customer outcomes, satisfaction, care, service and complaints. • Customer affordability, vulnerability and persistent debt. • Safeguarding our customers personal data. • Clear and transparent customer communications. • Policy suite includes, but is not limited to Anti Money Laundering (AML), Data Protection and Record Retention, Vulnerable Customer and Financial Promotions.	• Adapting the business model to reflect a better understanding of customer needs. • Outcomes Framework developed, customer outcome goals defined and metrics monitored. • No credit line decreases applied as a result of Covid-19. • SMS and dialler technology allowed customer contact levels to be maintained. • Payment holidays introduced. • Customer centric approach to forbearance options and individual discussions with customers. • Provision of standard forbearance options including ROP. • Identifying customers in persistent debt and evolved position adopted following consultation with the FCA. • Developed and implemented further customer contact strategies that support customers. • Customer centric outcomes included in the budget and financial plan. • Customer centricity incorporated into organisation design principles. • Board call listening implemented. • Work to refine and digitise, where beneficial, customer journeys. • Management and Board oversight of customer complaints operations, outcomes and strategy.

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
			• Referral of customers, where they meet the criteria, to financial education and debt support charities, such as IncomeMax.
Our shareholder The Company is a wholly owned subsidiary of PF plc, and as such it is of paramount importance that the Group is kept updated on the Company's progress in delivering the Group's shared purpose, budget, strategy, governance and culture. Direct and regular engagement with our shareholder ensures that the Company has a clear understanding of its role as part of the Group.	• Adapting the business model to take into account the Group-wide purpose and 'Blueprint'. • The Group Chief Executive Office (CEO) and the Company Managing Director objectives are aligned • The Managing Director, Finance Director, Chair and Committee Chairs have regular meetings with their opposite numbers at PF plc. • The Chair is a member of the Group Board. • The Group CEO and Group Chief Financial Officer (CFO) are members of the Company Board. • Financial reporting, strategy and common accounting principles are in place. • The budget and financial plan are developed as part of the wider Group process. • Dividend payments. • Oversee risk harmonisation programme and associated action plan. • Aligned corporate governance structures including Delegated Authorities Manual. • Participation in Group underwriting review.	• Strategy and long-term value creation. • Culture. • Financial and operational performance. • Risk management. • Corporate governance arrangements and alignment. • Corporate responsibility.	• Business model aligned with regulatory expectations. • Business model aligned with the Group's purpose • Executive scorecard aligned with Group objectives. • Company aligned with overarching Group-wide vision and purpose. • Dividend approval. • Group approved budget and operational plan. • Adopted 2018 Corporate Governance Code. • Tightened underwriting standards in April 2020.

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
Our colleagues 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.	• Group-wide colleague survey was carried out during the year, together with Covid-19 specific surveys and the Banking Standards Board (BSB) survey. • Work force panel consultation to establish Covid-19 secure working environment and practices. • Designated group Non-executive Director plays the lead role in Board engagement with employees, understanding and representing employee interests across the group. • The Group's inclusion programme was launched via a dedicated roll-out programme during the year to focus on inclusion. • A colleague communication strategy was adapted to account for the Covid-19 pandemic and delivers frequent, multi-channel communication. • Group recognition platform, 'Better Everyday' continues to foster a culture where we say 'thank you' or 'well done' to colleagues who demonstrate our Blueprint behaviours. • Board reviewed and approved the Board Diversity Policy. • Externally led development for Executive Team focussed on teamwork, leadership development and mentoring. • Independent whistleblowing line is available for colleagues to raise concerns. • Board oversight of policies that protect employees, their rights and their personal data.	• Culture, purpose and behaviours. • Financial and operational performance. • Reward and recognition. • Employee engagement. • Leadership performance and succession. • Development, training and career opportunities. • Diversity and Inclusion. • Health and safety. • Colleague wellbeing at work.	• Review of colleague survey results and action plans including BSB survey and action plan. • Oversight of our health and safety approach, including the impact on colleagues. • Review of the whistleblowing process and output. • Purchase of 500 laptops to enable 100% head office working from home and 80% of contact centre colleagues working from home. • Oversight of diversity data and progress of diversity initiatives and approval of company board diversity policies in line with Group programme. • Board and executive management agreed a 20% pay reduction for a three-month period during Covid-19.

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
Our communities 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.	• Participation in the Group Social Impact Programme that delivers community investment in a number of areas. • The Company attend and participate in the Group Customer, Culture and Ethics (CCE) Committee at which Group-wide community matters are discussed and overseen by the Group Board Committee.	• Community contributions and charitable giving. • Volunteering. • Matched employee fundraising. • Customer vulnerability. • Adaptations in light of the Covid-19 pandemic.	• Group volunteering policy. • Group Board oversight of community matters and the approach to external engagement regarding the Company's purpose and role in society. • Matched employee charitable fundraising. • Agreed to honour commitments made to fund existing charity of community partners. • The Social Impact Fund constituted a foundation in Scotland and provided 800 printed information packs for the first Virtual Numeracy Day, in keeping with the Group's purpose.
Our regulators 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.	• Adapting the business model to account for changes in regulation. • Board members and executive management engage proactively with regulators via regular face to face and telephone meetings. • Regulatory risk reporting, including horizon scanning, is carried out and reported to the Risk Committee and Board. • Regulatory engagement and correspondence is reported to and discussed by the Board. • Regulatory dialogue and engagement regarding current products, potential products, customer outcomes and digitisation. • Risk identification programme and associated action plans. • Appropriate Risk Office structure and resource levels reviewed. • Remuneration Committee review of objectives for Significant Management Function (SMF) holder's and Material Risk Takers's (MRT). • PRA PSM Letter and action plan discussed by the Board. • ILAAP, ICAAP and Recovery and Resolution Plan (RRP) approved by the Risk Committee of the Board.	• Customer vulnerability and persistent debt. • Our products, our potential products and digitisation. • Governance framework. • ROP. • Regulatory capital and wind down plan. • Customer proposition improvements. • Complaints . • Senior Management & Certification Regime embedding and ongoing compliance. • Culture.	• Removal from the FCA watchlist during 2020. • Lifting of the voluntary requirements (VREQ) by the PRA during 2020. • The views of regulators and the regulatory environment informed the business model updates and amendments to our product offering. • Oversight and monitoring of regulatory matters, including approval of regulatory submissions. • Executive management, SMF and MRT appointments made. • Risk Office remit expanded to include first line assurance. • Compliance with the Remuneration Code. • The dividend policy reflects the Board's risk appetite of maintaining sufficient regulatory capital headroom.

Statement regarding section 172 Companies Act 2006 (continued)

Our stakeholder and why we engage with them	**How?** (How management and/or directors engaged with and considered our stakeholders)	**What?** (What were the key topics of engagement and consideration)	**Key outcomes and actions** (What were the impact of the engagement and/or consideration?)
Our suppliers 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 mitigates risk in our supply chain.	• There is an established due diligence process to manage supply chain-based risks and comply with the Company's policy. • The Company is a signatory to the Prompt Payment Code and we publish our Payment Practices Reporting at Companies House. • The Board reviewed the effectiveness of the Company's anti-bribery and corruption processes and controls. • Second line review of the supplier relationship management (SRM) framework and outsourcing framework. • Dedicated Outsourcing Forum with formal Terms of Reference and dedicated executive SMF's. • Automated Coupa P2P system.	• Prompt payment. • Data protection. • Supplier on-boarding process. • Supplier performance. • Delegated authorities. • Anti-bribery and corruption. • Modern Slavery. • Conduct, behaviour and performance. • EBA Outsourcing Guidelines – SRM Framework. • Coupa P2P digitisation.	• Signatories of the Prompt Payment Code. • Compliance with EBA Outsourcing Guidelines. • Digital P2P system (Coupa). • Enhanced Supplier Management Framework and on-boarding processes to incorporate Affiliates. • In-depth review of the supplier relationship with Newcastle Strategic Solutions Limited (NSSL) who host the retail deposits platform for the Company.
Our environment To minimising our environmental impact, in particular to reducing the greenhouse gas emissions associated with our business activities, thereby lessening our contribution to issues such as climate change.	• The Company utilise and contribute to the Group's Environmental Management System (EMS). • The Company attend and participate in the Group CCE Committee at which Group-wide environmental matters are discussed and overseen by the Group Board Committee. • Participation in the Group submission to the Carbon Disclosure Project. • Execution of activities to support achievement of ISO 14001.	• Climate change. • Greenhouse gas emissions.	• Group wide reduced emissions targets resulting in a reduction in the Groups scope 1 and 2 emissions. • Group submission to the Carbon Disclosure Project. • Achievement of ISO 14001. • Continued offset of the Group's operational carbon footprint. • Group commitment to the six long-term ESG objectives.

Statement regarding section 172 Companies Act 2006 (continued)

The Board took into account its duties under s.172 of the Companies Act 2006 in making the following principal decisions:

<u>Securitisation project</u>

As part of the Company's funding strategy, the Board approved a project to commence the securitisation of a portion of the credit card portfolio. The Company plans to issue secured notes, which will be initially 100% retained by the Company and not sold publicly. The notes have been rated as AAA by three rating agencies. Execution of the project will deliver a number of funding and liquidity benefits to the Company, in support of its long-term sustainability, including: diversification of funding; access to Bank of England facilities; and the creation of contingent funding. Providing low cost, long term funding and diversifying sources of funding supports the Company to deliver its budget and strategy and meet its liabilities.

Following approval by the Board to proceed with the transaction, there has been regular engagement with key stakeholders, including the Company's shareholder and regulators, to agree the appropriate parameters for the transaction. For example, the level of assets as a proportion of total assets pledged as security, or 'encumbrance' has been set at a conservative level to protect retail depositors (and other lenders if applicable). The Company's encumbrance level has been discussed with the PRA and supports the Company's commitment to continue to strengthen its regulatory relationships based on regular and open dialogue.

The transaction framework and documentation has been established and reviewed by individuals and third parties with the necessary skills and experience including the Company's General Counsel, external legal counsel and legal counsel for the arranger. The Board have had the opportunity to hear from, and ask questions of, all key parties who had been instrumental in developing the transaction documentation.

In determining to approve the transaction to proceed, the Board considered a broad number of factors including:

Benefits

- Diversification of funding.
- Access to Bank of England facilities.
- Creation of contingent funding.

Risks

- Transaction risk.
- Market risk.
- Risk appetite.
- Retail depositor risk.

Financial

- Shareholder and market context.
- Funding and liquidity.
- Cost efficiency.

With due regard of their statutory and fiduciary duties to the Company, the Board Directors of the Company approved the transaction to proceed. Delivery and performance will be monitored throughout 2021.

Statement regarding section 172 Companies Act 2006 (continued)

Responding to Covid-19

Under the leadership of the Board, the Company adapted swiftly and effectively to the early stages of the Covid-19 pandemic. The Company has continued to adapt, as has been necessary to the demands of the crisis as it has evolved. Listed below are some of the key Covid-19 related matters discussed and debated by the Board during the year. They demonstrate how the Board has integrated stakeholder considerations, and its duties under S.172 of the Companies Act 2006, into its deliberations and decision making.

Colleagues

The Board discussed and agreed a proposal for the Board directors and senior management to take a 20% reduction in fees/salary for an initial three-month period given the challenges facing customers and colleagues. Colleagues were advised to work from home from 23 March 2020 and the Board received updates on the technology provided to make this possible, including approving the purchase and IT build of 500 laptops. 100% of head office colleagues and 80% of contact centre colleagues are working remotely.

Management's enhanced communication tools and increased use of social media was overseen by the Board. The Board challenged and supported management in their approach to colleague and regulator engagement with regards the requirements for offices to remain open and ensuring they operated within applicable guidelines. Government guidance introduced a requirement to consult with elected representatives on a Covid-19 related workplace risk assessment, and colleague representatives were therefore elected to Colleague Forums, and their terms of reference were updated to meet this requirement. The Board has received updates on colleagues' return to office strategy, including health and safety, planning and internal communications.

Customers

The Board has monitored management's customer facing processes, including those for enhanced forbearance and in relation to payment holidays, and has been in receipt of frequent collections performance updates. The Board oversaw the introduction of SMS and dialler technology allowing customer contact levels to be maintained. No credit line decreases have been applied as a result of Covid-19. Updates to operational processes have been supported by both the Group Internal Audit and risk functions, who completed reviews of proposed processes and controls and presented findings to the Board.

Funding and liquidity

Illustrative of the Company's continued constructive relationship with our regulators the Company has been removed from the FCA watch list and released from the VREQ conditions (which restricted capital distributions and loans to the Parent or other group companies). The Board received frequent capital and liquidity updates from management, including management actions to optimise the position in preparedness for Covid-19 related headwinds, especially in relation to undrawn credit card balances within company. The Board monitored regulatory capital requirements, overseeing the increase in the Company's liquid asset buffer to over £800m at its peak. The Board also closely monitored reductions in lending volumes, collections performance, payment holiday volumes via regular Managing Director reporting, constructively challenging management on mitigating actions as appropriate.

Statement regarding section 172 Companies Act 2006 (continued)

Intra-company loan

As part of the Group's funding strategy, the Board considered a proposal to provide a loan of £70m to its parent company PF plc. The money would be used by PF plc to repurchase £100m of its senior bonds, which were due to mature in 2023. The transaction would generate a profit for the Group on redemption and realise significant interest cost savings in 2021. In considering the proposal the Board took into account the following:

- The commercial and strategic benefits of the transaction for the Company;
- That the Company had sufficient regulatory capital and liquidity to undertake the transaction;
- That suitable legal protections were in place for the Company;
- The financial strength of PF plc and that suitable stress-testing of the Group's ability to repay the loan had been performed; and
- The risks to the Company including credit risk and regulatory risk.

Shareholder

The Board recognises the role the Company plays in delivering the Group's purpose, budget and strategy. The Company is a major subsidiary and the only bank within the Group. After addressing any conflicts of interest appropriately, the Board considered the benefits of the transaction to its shareholder which were both financial and strategic, including:

- To strengthen and diversify the non-banking group funding providing more customers with a path to a better everyday life;
- To reduce Group funding costs; and
- To support the position of the Group more broadly in the market.

Regulators

The Board is committed to continue to strengthen the Company's relationships with its regulators. To this end the Board made its support for the transaction conditional on the following:

- That formal confirmation had been received from the PRA that the company had been released from the VREQ conditions;
- That the transaction take place following receipt of the C-SREP letter from the PRA with no issues therein; and
- That the PRA and FCA had confirmed no objection to the transaction.

Furthermore, the Board requested a risk assessment of the loan to be performed by the Risk Office which had provided assurance that the scale and terms of the transaction had been positioned suitably and was within the Company's risk appetite. The Board sought independent legal advice to satisfy itself that the appropriate terms and legal protections for the Company were within the loan agreements.

With due regard of their statutory and fiduciary duties to the Company, having sought independent legal advice and providing certain regulatory conditions had been met, the Board approved the intra-group loan to PFG to proceed. The loan was subsequently provided to PFG in August 2020.

Statement of corporate governance arrangements

The Company believes that the highest standards of corporate governance are vital to the Company's performance and business integrity. As a wholly owned subsidiary of PF plc which is listed on the London Stock Exchange, the Company has practices and processes in place which support sound governance throughout its operations. PF plc is required under the Financial Conduct Authority's Listing Rules to state in its own Report and Accounts how it has applied the Principles of the Financial Reporting Council's 2018 UK Corporate Governance Code ('the Code') and to confirm, on a 'comply or explain' basis, the extent to which it has complied with the Provisions of the Code throughout the financial year ended 31 December 2020. Details of PF plc's application and compliance with the Code are available in the Group Annual Report and Financial Statements at www.providentfinancial.com. As a substantial bank within the Group, the Company itself also chose to apply the Code both in respect of the financial year ended 31 December 2020 and going forward. This reflects the Company's desire to implement best practice governance in a way that aligns the Company's activities as closely as possible with that of its parent company and is appropriate and proportionate to the Company's status as a private wholly owned subsidiary. The Code is available at www.frc.org.uk.

Complying with the 2018 UK Corporate Governance Code

The table below sets out how the Company has applied the Principles of the Code. The Company complied with all the Provisions of the Code throughout 2020, except for those set out in the further table on pages 38 to 41.

Board leadership and company purpose

A. *A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.*

The Board is comprised of skilled individuals from a wide range of backgrounds. The appropriate balance of skills, experience and independent and objective judgement enables the Board to operate effectively and to maintain sound governance arrangements to support the delivery of the Company's strategy. The Board's leadership role is enhanced through the inclusion on the Board of Robert East as independent Non-executive Chairman and Janet Connor, Jonathan Baum and Alison Morris as Independent Non-executive Directors, who bring their externally gained expertise and challenge to Board deliberations. Jonathan Baum and Alison Morris were appointed during the year. The Group CEO and CFO are also directors on the Board, bringing further expertise, skills and experience in the Company's sector and providing knowledge, challenge and insight drawn from across the Group, including a Company shareholder perspective.

The Group's diversity policy, which has been adopted by the Board both for itself and the wider Company, further supports Board effectiveness in delivering long-term sustainable success. For all Board appointments, a documented Company Board appointment process is in place, which is fully aligned with the wider Group policy and emphasises the importance of diversity and culture in the Board appointment process. All Board appointments are made on merit, following consideration and recommendation by the Nomination Committee. On an annual basis, the Nomination Committee reviews and considers the Board composition together with Board and senior management succession planning. On appointment, each individual director receives a tailored induction, with subsequent ongoing training as part of an agreed annual Board training plan. The Board further receives 'deep dive' sessions on key forthcoming regulatory and legislative developments as they arise.

An annual Board effectiveness evaluation process is also conducted, covering the Board, its Committees, the Chairman and each individual director. As part of this process, the standing Board skills matrix is reviewed to assess overall Board competence. The resulting output and action plans from the evaluation process are then reviewed and implemented by the Board, including their incorporation into the Board and individual director training plans.

Statement of corporate governance arrangements (continued)

The Company has an appropriate governance framework in place, including a Schedule of Matters Reserved for the Board, the documentation of each of the roles of the Chairman, Managing Director and Senior Independent Director, together with written Terms of Reference for each of the Board Committees. The Company's governance framework, approved by the Board, also entails a written Board Governance Manual, a Company-specific Delegated Authorities Manual and a SMF responsibilities map, all of which ensure clarity of roles, responsibilities and accountabilities.

The Board discharges its duties and responsibilities through a mix of scheduled and ad hoc meetings during the year. These include the approval of the Company's budget process, regular reviews of the Company's financial performance and critical business matters, and the setting and reviewing of the Company's strategy at a dedicated planning conference.

The Board sets the Company's strategy, in coordination with and within the parameters of the Group's strategy. In so doing, it also considers the Company's cultural 'Blueprint' and its key stakeholders, such as its shareholder, customers, colleagues and regulators.

The Board has adopted the Group's purpose and culture ('Blueprint') for the Company. Blueprint is customer centric and also articulates the Group and Company's wider societal role. For further details about this process, please see Principle B immediately below this section. The embedding of the Group's strategic 'Blueprint' behaviours into the Company's day to day operations forms a key part of the Company's ongoing performance development and review process for both directors and colleagues throughout the year. The Company's Remuneration Committee has ensured that all Company remuneration arrangements are fully aligned to the requirement for colleagues to exhibit those strategic 'Blueprint' behaviours. Additionally, development plans of Board-approved SMF responsibilities throughout the Company are administered by the Company's Compliance team and overseen by the Board.

With a view to ensuring the long-term sustainable success of the business, the Board, in conjunction with the Risk Committee, sets the Company's risk appetite to determine the level of risk that it is prepared to take to achieve the Company's strategy, and establishes and oversees the Company's risk management framework. The Risk Committee, on behalf of the Board, also identifies and seeks to manage the principal and emerging risks faced by the Company. A risk overlay is also applied to the Company's remuneration arrangements to ensure that they are aligned with the long-term success of the business.

Whilst always seeking to generate value for the Company's sole shareholder and parent company, the Board at all times remains extremely mindful of the impact and contribution of the Company's operations on the wider society in which it operates. Indeed, the requirements of section 172 of the Companies Act 2006 (s.172) that the Directors have regard to wider factors in relation to the Company's operations, is built into the Company's Board paper templates and used to inform the Board's decision making. Board members also received s.172 refresher training as part of the wider Board training referred to above. As stated previously, please refer to the Company's specific s.172 Statement on page 14 for further details concerning the key matters considered by the Board during 2020.

The Company also sponsors, via the Group Social Impact Programme, various projects for the benefit of the communities it serves. Company employees also undertake volunteering activities under the Group Volunteering Policy and programme. The Board has also put in place internal policies and practices to ensure that the business acts at all times with the utmost integrity towards its colleagues, customers and the wider community. In this regard, the outputs of all Group colleague surveys, as well as those undertaken by the Banking Standards Board, are thoroughly reviewed and acted upon by the Board. Similarly, a Good Customer Outcomes Framework is in place for all the Company's dealings with its customers and the feedback results received through that channel are again reviewed regularly by the Board. PF plc has a dedicated Non-executive Director Colleague Champion for the Group to ensure Board engagement with the workforce. The Colleague Champion role extends to the Company and, in their Colleague Champion capacity, they attend the workforce panels (also known as Colleague Forums) and provide valuable employee feedback to the Board.

Statement of corporate governance arrangements (continued)

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The Board agrees and sets the Company's purpose, culture, values which are shared with the wider Group. The Vanquis Planning Conference (VPC) takes place annually, and considers progress made against the Company's strategy, together with updates regarding the micro and macro environments in which the Company operates. Any proposed changes in strategy are shared with the executive and progress against the strategy tracked within Board meetings. The Company operates as part of the wider Group and therefore the Board ensures that the Company strategy is aligned with that of the Group. The Board believes that the Company's and the Group's overall strategic 'Blueprint' purpose, to support the Company's customers on their paths to financial stability and a better everyday life, positions the business well for sustainable and long-term success. The 'Blueprint', including its strategic priorities, was put in place in 2019 and has continued to shape and inform the Company's strategy and how it operates, proving relevant for the present phase of the Company's business and in the rapidly evolving external environment of the Covid-19 pandemic. The values captured by the 'Blueprint' and the inherent and aligned behaviours, promote a culture in which colleagues are empowered and motivated to make a real difference to customers, the Company and the wider community in which the Company operates. Those same values and behaviours seek to also make for a stimulating and supportive working environment for colleagues.

The Board oversees the alignment of the Company's purpose, values and strategy in a number of ways. To provide insight into the operational culture of the business, customer metrics are reviewed by the Board at each scheduled Board meeting and, also on an ongoing basis, the Vanquis Colleague Forum considers and provides feedback to the Board regarding the embedding of the 'Blueprint' values and behaviours within the day-to-day operations of the business. The Board also receives regular reports about customer complaints, which assist it in identifying where the operational values and behaviour in any part of the business may not be aligning with those of the 'Blueprint'. This reporting also includes deep dives into individual parts of the business where any related operational issues are identified. In this context, the Board also routinely provides feedback to management via the Company's customer call listening programme, thereby identifying any operational issues before they become problematic for customers or the business. The Chairman is a member of the Group CCE Committee which considers key performance indicators regarding the Group's culture and customers via 'Blueprint' and 'Customer' dashboards.

As part of facilitating healthy colleague engagement and the embedding of our culture, the Board thoroughly reviews and considers the results of the Group Colleague survey and the Banking Standards Board surveys that take place during the year, and the actions plans that are designed to address issues raised. The Company seeks to keep colleagues fully updated of strategic and cultural issues through regular internal communications by the Managing Director, Finance Director and other senior management, as well as the Group CEO, such as periodic 'town hall' gatherings. In compliance with the Code, the Group has established workforce panels across the Group, including for the Company, and appointed a designated Non-executive director Colleague Champion. The Board regularly reviews and considers feedback from the Colleague Forum and from the valuable sessions held throughout the year with the PF plc Non-executive Director Colleague Champion, who attends some of the workforce panel meetings to engage with colleagues and provide an essential feedback loop. The Board also receives regular reports on colleague whistleblowing matters from the General Counsel & Company Secretary and there is also regular Health and Safety Reporting at Board meetings. Inclusion and Diversity is a key part of the Company's culture and the Board has received updates on progress on Group diversity initiatives which the Company participates in, which included: 'Women in leadership: a 'Time to be yourself' Inclusion and Diversity campaign; and the launch of a formal series of communities around several protected characteristics, each sponsored by a senior executive and inviting colleagues to be a part of them.

The Money Laundering Regulations Officer also reports regularly at the Risk Committee on anti-money laundering, anti-fraud and anti-bribery and corruption matters, with any significant findings being reported up to the Board by the Committee Chairman. The Board and Committees structures and composition ensure that there is sufficient and robust ongoing challenge of management and that management is held to account on its executive responsibilities, The Risk Committee also measures conduct outputs against appetite and a Risk Adjustment Framework for remuneration has been established and is now embedded and operational within the business, overseen by the Remuneration Committee.

Statement of corporate governance arrangements (continued)

To further strengthen oversight of business integrity, the Audit Committee receives regular reports from the Internal Audit Function on the outcomes of internal audits, including issues to be addressed and progress in addressing such issues. There are also enhanced processes in place at the Audit Committee year-end and half year to discuss management judgements in relation to the Company's year- end and half year-end financial reporting.

The Remuneration Committee also ensures that the Company's remuneration policy and framework are independently audited and remain compliant with all regulatory requirements. The annual performance and development review objectives of the Executive Directors are fully aligned with the Company's 'Blueprint' strategy and values, to ensure that management act with integrity, lead the business by example and promote the requisite culture. See reporting on Principles P, Q and R for more information on remuneration.

Additionally, the overall performance and effectiveness of the Board, including how it oversees culture, and of each individual director was evaluated under the 2020 formal Board evaluation process. Board sessions comprising only Non-executive Directors also take place during the year, to ensure optimum objectivity of the Company's performance and of the holding to account of the executive management.

C. *The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.*

The Board ensures that necessary resources are in place to enable the Company to meet objectives and measure performance. The Board annually approves the budget for the Company over a rolling 5-year period, which sets out the resources required by the Company, including capital and funding resources.

The Board also approves and regularly reviews the Company's ILAAP and ICAAP and monitors Company performance against those processes, thereby ensuring the Company retains sufficient capital and liquidity to achieve its strategic objectives and mitigate key risks. During 2020 and against the backdrop of the Covid-19 pandemic, the Board has been even more vigilant than usual in monitoring performance against both adequacy processes. The Board also approves and annually reviews the Company's Recovery and Resolution Plan.

The Board has approved detailed Terms of Reference for both itself and its Committees and these are regularly, and at least annually, assessed against banking industry best practice. The Board also has a formal system in place for Directors to declare any conflict or potential conflict of interest. To enable the Company's formally established Risk and Audit Committees to fully discharge their risk control responsibilities, the Board ensures that they comprise the appropriate membership, including with sector experience and competence.

The Managing Director, Finance Director and Chief Risk Officer provide reports on their respective areas of responsibility to each scheduled Board meeting, ensuring that the Board retains effective oversight over the performance of the Company against the budget, its liquidity, capital strength and funding needs. In the case of the former two, their reports include progress updates of the Company's business and financial performance against the agreed strategy.

An annual Compliance Monitoring Plan is approved by the Audit Committee. During the year, the Company's Compliance Department also updates the Risk Committee on all regulatory and other compliance matters, including an analysis of any compliance breaches and associated remedial actions, together with more detailed updates on more significant breaches, and the results of the compliance monitoring reviews are considered by the Audit Committee. The Audit Committee is responsible for overseeing the monitoring of the Company's systems and controls, including overseeing the operation of the Company's internal and external audit functions and monitoring its independence, effectiveness and objectivity. The Risk Committee is responsible for ensuring that identified risks are managed to acceptable levels and within the Company's risk appetite.

The Risk and Audit Committees, and in turn the Board, closely monitor progression of any regulatory investigations right through to the point of closure of such investigations. With the assistance of the Compliance Department, the Board also monitors ongoing compliance with the requirements of the Senior Managers & Certification Regime (SMCR) of the FCA and the Management Responsibilities Map for the business. The Board receives regulatory updates within the risk-related Board papers it receives ahead of each scheduled Board meeting. The Money

Statement of corporate governance arrangements (continued)

Laundering Regulation Officer reports regularly to the Risk Committee and the Company has in place a formal programme to counter Financial Crime.

Complementing the work of the Compliance Department, as noted above in Principle B, the Group Internal Audit Department reports regularly to the Audit Committee on its progress against the annual internal audit plan as previously approved by the Audit Committee. It provides the Committee with updates on any findings and the status of update remedial actions. The Board ensures that there is an internal audit assurance overlay for key programmes undertaken by the Company. The Audit Committee also reviews and approves the External Audit plan and monitors the progress and outcomes of that plan, ensuring remedial actions identified are implemented as appropriate.

On behalf of the Board, the Audit Committee undertakes an annual assessment of the effectiveness of Internal and External Audit and, similarly, the Risk Committee carries out an annual assessment of the robustness of the Chief Risk Officer's report on the adequacy of the Company's risk resource. Whilst the Risk Committee and Board monitor closely those risks and opportunities to the achievement of the Company's strategy, the Company relies upon the Group for the completion of the annual robust assessment of the Company's principal and emerging risks, and further details of these are reported within the Group Annual Report and Financial Statements. A Model Governance framework and assessment for the Company is reported to both the Audit and Risk Committees by the Group Risk function. The Risk Committee, on behalf of the Board, sets the risk framework and risk appetite for the Company, which is closely aligned with that of the Group, and regularly measures and monitors Company performance against them. The Chief Risk Officer is a member of the Group Enterprise Risk Committee and attends the Group Risk Committee to ensure the appropriate discussion and escalation of risks within the Group. To this end, the Risk Committee Chair and that of the Group Risk Committee meet regularly to discuss key risk themes and mitigations. The Risk Committee undertook a review of its first line of defence controls in 2019 and the resultant action plan is ongoing, ensuring an enhanced risk and control environment within the Company. A remuneration-related Risk Adjustment Framework has been established for the Company and regular update reports in relation to the framework are provided to the Remuneration Committee.

The Board approved the Company's formal funding policy, after due consideration of a funding proposal Board paper. The Board then formally approves any material individual steps to implement the agreed funding strategy at the point they fall due, which in 2020 involved the approval of the securitisation of certain of the Company's assets (see the principal decision on page 20 for further details). On such matters, the Board ensures that there is appropriate interaction with the Group Treasury Committee and that all related matters fully adhere to the Group Treasury Policy.

Vanquis Planning Conference (VPC) tracking and updates are provided within the regular papers for Board meetings, and related metrics are automatically incorporated as part of the Company's standard budgeting approval process.

D. *In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.*

The Board works to ensure that there is a good dialogue with the Company's sole shareholder and parent company throughout the year, so that any issues and concerns about the Company that either party may wish to air with the other are clearly understood and considered in a timely manner. The Group CEO and CFO are also a Directors of the Company and provide the Board with Group updates and perspectives. The Chairman also sits on the Group Board and the Chairs of the Company's Committees meet regularly with their Group Committee counterparts. Joint Company and Group Committee meetings are held in relation to ILAAP and ICAAP and this has proved particularly helpful for both the Group and the Company during the Covid-19 pandemic.

The Company resources aspects of its activities through utilising Group functions, such as legal and internal audit, which ensures coordination and engagement with its shareholder and across the Group. There are also multiple cross-Group forums, with membership from the Company, to enable effective engagement and resource management, including: Group Finance Leadership Team meetings; Group Treasury Committee; Group Complaints Forum; and the Cross Divisional Risk Forum.

Statement of corporate governance arrangements (continued)

The above channels provide natural conduits to both receive and pass salient matters or concerns between the Company and the Group, and both Boards actively encourage this form of collaboration and engagement. This is particularly relevant and effective given that the Company is a private company and a wholly owned subsidiary of PF plc. As referred to previously in this Statement, the Company's Board paper reporting templates used for all Board matters require both the Board paper preparer and the Board to have regard to and report on the relevant directors' wider s.172 responsibilities in connection with matters concerning the Company's operations.

As referred to under Principle B, there is a dedicated Non-executive Director Colleague Champion on the Group Board to encourage and facilitate strong Board engagement with the workforce of the Company and throughout the Group. That dedicated Non-executive Director Colleague Champion also chairs the Group CCE Committee and reports to the Company's Board on the outcome of his engagement activities. The Board therefore chose to also implement the PF Group workforce engagement mechanism of a dedicated Group Non-executive Director to lead engagement with colleagues, combined with a workforce panel, as the Company's workforce engagement under the Code. Full details of how the Group PF Dedicated Non-executive Director Colleague Champion engages with the workforce across the Group may be found within the Group Annual Report and Financial Statements which are available at www.providentfinancial.com. A presentation of the latest Colleague Forum discussion is also given by the dedicated Non-executive to the Board to ensure that the Board is actively attuned to matters that are of current concern or particular importance to its colleagues. As also reported in Principle B, colleague surveys are undertaken at certain times during the year and the resulting feedback from them, as well as those from the Banking Standards Board, are reported to and reviewed by the Board.

The Board considered the output of a 'pulse' colleague survey undertaken during 2020, which included feedback on how the Company had responded to the Covid-19 pandemic and how it was supporting colleagues. The Board also ensures that colleagues are kept informed on matters affecting the business through video blogs ('VLOGs') and email communication updates from the members of the Company's senior management team. The Board actively promotes participation from the Company's wider workforce in the PF plc Save-As-You-Earn and Share Incentive, to further align the interests of colleagues with those of PF plc's shareholder base. As referred to previously, 'Women in Leadership' employee mentoring sessions and employee and 'diversity and inclusion Pillars' presentations are held at various times throughout the year to actively promote colleague awareness of the Company's initiatives on such matters.

The Board monitors the Good Customer Outcomes Framework, and also receives 'deep dive' training sessions during the year on various customer facing parts of the business, including participation in certain customer call listening sessions. In addition, the Board received the results of the Company Customer Lives Survey during 2020, pertinent results of which were incorporated into the Company's strategic review of its product offering and reported to the Board as appropriate.

The Company undertakes supplier surveys to canvas the views of those stakeholders in relation to their dealings with the Company, with the survey results then being reviewed and considered by the Board. The Board also receives periodical updates regarding the Company's key suppliers and approves the Modern Slavery Act statement.

Members of the Board meet with the Company's regulatory authorities and provide regulatory attestations to them as may be required from time to time. Partly as a result of this close engagement and improvements made to the Company's risk management framework and associated process, the FCA was able to get sufficiently comfortable in December 2020 to remove the Company from its watchlist. The regular Board reports from the Managing Director and Chief Risk Officer outline for the Board regulatory and competitor updates.

The Board's approach to and assessment of stakeholder engagement forms part of the annual Board evaluation process, from which an action plan is then developed, with the execution of any such outcomes then being tracked by the Board.

Please see the s.172 statement on page 14 for more details on stakeholder engagement and consideration during the year. Further information regarding the Group's stakeholder engagement and consideration during the year can be found in the Group Annual Report and Financial Statements and the Group's Corporate Social Responsibility Report, both at www.providentfinancial.com.

Statement of corporate governance arrangements (continued)

E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The Board has ultimate responsibility for ensuring that Company's workforce policies and practices are in line with the Company's purpose and values, and that they support the Company's desired culture.

The Company's workforce policies and practices flow from and are aligned with the Company's 'Blueprint' strategic values, which are designed to support the long-term sustainable success of the business. All such policies are reviewed within the Company and then submitted to the Board for its consideration and formal approval, as required. The Company's workforce policies were reviewed against the 'Blueprint' following its rollout in 2019. In addition, the Human Resources (HR) function maintains a 'People' dashboard which is presented to the Board within the monthly Board Management Information (MI) report. As previously noted in this statement, the Board also reviews the results of colleague surveys, which provide an insight into colleague views regarding workforce policies and practices. In order to drive greater clarity and consistency of workforce policies across the Group, a Group-wide project is underway to review and consolidate workforce policies, which the Company is actively participating in.

The HR function also, periodically, analyses which policies impact the workforce and drive colleague behaviours, such as those relating to recruitment and retention, promotion and progressions, performance management, training and development and flexible working. Following such analysis, HR then provides assurance to the Board concerning the consistency of workforce policies and practices with the Company's values and that they support the Company's long-term sustainable success.

The Company's colleague performance management framework and assessment process is aligned to the 'Blueprint' and links to the Company's remuneration arrangements. The 'Blueprint' colleague dashboard, which is a tool used to track and display various colleague-related key performance indicators, is monitored at Group level within the CCE Committee, on which the Chairman sits.

The Group Whistleblowing Policy, which the Board has formally adopted for the Company, enables all staff to raise any matters of concern that they may have about practices within the business. The policy also facilitates a Whistleblowing Forum and the outputs from both channels are reviewed by the Board.

Division of responsibilities

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

The Non-executive Chairman is responsible for leadership of the Board and promoting a culture of openness and constructive debate. He was considered to be independent upon his appointment as Chairman. The role of Chairman is documented and the clear separation of duties between the role of Chair and the Managing Director are set out in the Company's formal Board Governance Manual.

The Chairman's performance and effectiveness is reviewed annually by the Company's Senior Independent Director (SID) as part of the Company's overall Board effectiveness evaluation. Their review includes peer feedback from the other Non-executive Directors and any associated actions arising from the review are tracked through to implementation or fruition.

Statement of corporate governance arrangements (continued)

The Group Secretariat support the Chairman and maintains and operates a formal Board and Committee annual agenda planner process for the Company's meetings. The Chairman works with management to ensure appropriate matters are covered by the Board agendas and sufficient time is dedicated to them. The Board and Committee Terms of Reference are formally reviewed annually by the Board, in conjunction with Group Secretariat, to ensure that they remain current and fit for purpose. Minutes are produced in respect of each Board and Committee meeting, which are reviewed for approval and signature at the relevant subsequent meeting of the respective Board or Committee concerned, to ensure that they form a true and accurate record of the proceedings of the meeting. Standard Board paper reporting templates are used across the Company's Board and its Committees. Papers are circulated to the respective Board or Committee members 5 working days prior to the relevant Board or Committee meeting. Verbal updates are provided at each scheduled Board meeting from the Company's Committees and the Group CEO and CFO.

Non-executive Directors hold private sessions of the Board, without Executive Directors present, to discuss any salient Company matters as may appear to them to be relevant in enabling them to properly discharge their Non-executive Director duties. Ordinarily, Board dinners are held at certain times during the year to enable Board members to interact with one another outside of a formal Board or Committee meeting setting.

The Chairman's independence is considered as part of the annual Board effectiveness evaluation. The Chairman ensures that a formal Board training plan is in place for the Company, the requirements of which are also informed by the annual Board effectiveness evaluation process. Individual tailored training plans are also established for the Chairman and the Non-executive Directors. A Company Board skills matrix is maintained and reviewed by the Nomination Committee.

G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

The Board composition meets the requirement of the Principle, comprising four Independent Non-executive Directors, including the Chairman, two Group Non-executive Directors and two Executive Directors - the Managing Director and Finance Director. Regular review of the Company's Board and Committee composition are undertaken by the Nomination Committee. The roles of the Board, Board Committees, Chairman, Managing Director and SID are documented, as are the Board's reserved powers and Company's delegated authorities. The SMF responsibilities of the Chairman, Managing Director and SID are similarly documented and the overall documentation of their roles sets out the clear division of responsibilities between each of them. Group and Divisional governance manuals are formally put in place, documenting the Company's governance arrangements. Annual effectiveness evaluations are also carried out for the Board, Committees, individual directors and the Chairman. A Remuneration Committee is in place and comprised of independent Non-executive Directors so as to ensure that executives do not determine their own remuneration.

During 2020, the Nomination Committee considered the independence of each Independent Non-executive Director for the purposes of the Code and confirmed that each Independent Non-executive Director continued to be independent.

H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

The role of the Non-executive Directors is to provide constructive challenge, hold the Company's executive management to account and offer specialist advice and strategic guidance.

The Nomination Committee reviews the time commitment of prospective Non-executive Directors as part of the appointment process and also reviews time commitment annually. Specific prior approval is also required from the Board prior to a Non-executive Director taking on an additional directorship appointment elsewhere. If a Non-executive Director is unavoidably absent from a particular Board or Committee meeting, they are still provided with the papers for the meeting so that they can review and provide input ahead of the meeting, in order that their views are made known and considered at the meeting.

Statement of corporate governance arrangements (continued)

Jonathan Baum was appointed as a director of TransUnion International UK Limited on 10 December 2020. Since he held no other significant external appointments, prior approval of that appointment was given by the Board as it was considered by the Board that he would continue to have sufficient time to meet his responsibilities as a Non-executive Director of the Company. Whilst the Company was in the process of moving away from using the services of TransUnion over the medium-term, prior to his TransUnion appointment, his potential conflict of interest with the Company was duly considered and approved by the Board and recorded in the Company's directors' conflicts of interest register. Under the terms of such approval, it was determined that he would be excluded from any potential related Board discussions or decision-making concerning TransUnion going forward.

The Company's standard Board paper reporting templates contain built in prompts to ensure that all directors fully consider their s.172 duties regarding the Company's operations. The Company's Board and Committee minutes record and evidence the constructive challenge by the Non-executive Directors.

The Independent Non-executive Directors, through their Board and respective Committee memberships, review and challenge the robustness of management's proposals, such as concerning the ICAAP and ILAAP processes and capital and liquidity buffers. Appropriate information is made available to the Board in order that they can challenge management on operation and financial performance and also culture, with culture related KPIs are monitored by the Non-executive Directors. The Company has well established and effective Audit, Remuneration and Risk Committees comprised of Non-executive Directors. Appropriate discretion, malus and clawback arrangements and risk assessment in relation to remuneration, enable Non-executive Directors to hold management to account and to ensure that performance and reward are aligned. See Principles P, Q and R for further information.

During the year, Non-executive Directors hold private sessions of the Board, Remuneration Committee and Audit Committee, without Executive Directors present, to discuss any current Company matters as may appear to them to be relevant in enabling them to properly discharge their duties as Non-executive Directors.

I. *The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.*

The General Counsel and Company Secretary, reporting to the Chairman on Board matters, supports the Board and is responsible for ensuring that all meetings of the Board and its Committees are properly convened and held, that the Board and Committee members receive appropriate information in a timely manner to enable them to discharge their responsibilities effectively, and that all governance requirements are duly and efficiently met.

The Company's policies, which sit within the framework of the Group Corporate Policies, are reviewed, updated and approved (as necessary). Compliance with the Group Corporate Policies is attested to annually by the corporate department responsible for the relevant policy.

Board and Committee agendas for each meeting are prepared by Group Secretariat and reviewed in advance by the key internal stakeholders and the relevant Chair. The Chairman is responsible for ensuring that the Board has sufficient time to address its business, including strategy, and additional Board meetings are scheduled when required to deal with key and urgent matters. Group Secretariat ensures that Board and Committee forward agenda planners are also in place for all Board-level forums. Standard Board paper reporting templates are used across the Company's Board and its Committees to drive effectiveness, clarity and consistency in Board and Committee reporting. Papers are circulated to the respective Board or Committee members 5 working days prior to the relevant Board or Committee meeting. After each Board or Committee meeting, actions arising are formally tracked and followed up through to completion or closure. Minutes of each meeting are reviewed and approved for signature at the relevant subsequent meeting of the respective Board or Committee concerned.

Statement of corporate governance arrangements (continued)

An annual Board and Committee effectiveness review is undertaken and includes assessment of the information and support received by the Board, with resultant recommendations and actions arising being closely tracked through to implementation or completion. The Chairman and individual Non-executive Directors are similarly also subject to personal performance effectiveness evaluations. The Board and its Committees are able to seek their own external advice if required.

Group Secretariat ensures that Group and Company Board governance manuals are formally in place at all times, which operate in conjunction with corresponding Group and Company Delegated Authority Manuals. This provides clarity regarding authorities and responsibilities throughout the Company. All such manuals are periodically refreshed as a result of changes in legislation and developments in governance best practice, and as the Group and Company structure evolves. Risk management frameworks are also in place for the Company and indeed throughout the Group, upon which the Group reports annually. In the event that the Company's Internal Audit Function identifies matters requiring further investigation or controls weaknesses to be addresses, such matters and actions are escalated promptly to the Audit Committee and Board as appropriate. The Board also annually reviews and confirms the effectiveness of Internal Audit Function and external audit.

<u>Composition, succession and evaluation</u>

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The Company has a Nomination Committee comprised of a majority of independent Non-executive Directors to oversee a formal, transparent a rigorous Board appointment process and to make recommendations to the Board on appointments for approval.

A formal documented Board appointment process in place, which is used to guide the process for Board appointments to ensure it is objective and based on merit. Appointments to the Board following a robust process of candidate shortlisting based on suitability against a role profile, interviews by key internal stakeholders and candidate competency and suitability assessments. As required by the regulatory framework, candidates are assessed as to whether they are 'fit and proper' and appointments are made subject to regulatory approval, ensuring that directors that are appointed to the Board are deemed suitable by our regulators. Regulatory references are also taken regarding new Board appointments. As part of Board appointment processes, areas for personal development are identified for the successful appointee and they are supported in a plan to address these areas.

The Company's Board skills matrix supports the identification of skill gaps, including technical and cognitive skills, which inform Board appointments. The Nomination Committee reviews both Executive and Non-executive succession plans to ensure that appropriate plans are in place. In its review of Executive succession planning, the Nomination Committee noted the progress made in relation to diversity, including the efforts that had been made to ensure that the Company drive broad candidate searches to tap into as diverse as possible talent pools. Whilst continued improvement is still needed, 40% of the Company's succession pipeline are female. The Company has stated its intention to achieve Hampton-Alexander targets, and currently has 25% female representation on the Board.

The Board has a Board Diversity policy in place and the Company has a Diversity policy in place for all colleagues in order to drive equality, inclusion and diversity, both of which recognise diversity in its broadest sense. The Nomination Committee monitors what progress has been made in relation to the Company's inclusion and diversity culture and how the Company is strengthening inclusion and diversity.

Statement of corporate governance arrangements (continued)

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

The Board is composed of a mixture of executive, independent Non-executive and Group Non-executive directors, bringing a combination of views, skills, knowledge and experience to the Board. Appointments to the Board follow a robust process and are based on merit (see above), which ensures that only directors with appropriate skills and experience are appointed. The Board skills matrix enables the Nomination Committee to monitor and assess the combination of technical and cognitive skills across the Board and identify any gaps to be addressed through future Board appointments of training. Development plans for Directors are implemented to assist ongoing personal developments. A Board training plan is also in place to identify key areas for the Board as a whole to receive training on.

The Board’s composition, tenure and succession plans are reviewed by the Committee to ensure composition remains appropriate, and Board membership has been refreshed notably in the last two years.

The Company’s Board effectiveness evaluation includes an assessment of Board composition, the results of which are considered by the Board and Nomination Committee.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

The Company undertakes an annual Board and Committee effectiveness evaluation which includes, amongst a number of other areas, composition, diversity and how effectively Board members work together. The results of the evaluation are considered by the Chairman and then the full Board, with an action plan agreed. Individual director and Chairman effectiveness evaluations are also undertaken. The Board, led by the SID and excluding the Chairman, discuss the Chairman’s performance and feedback is provided to him.

<u>Audit, risk and internal control</u>

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The Company has in place a dedicated Audit Committee with appropriate sector competence which assists the Board in fulfilling its oversight responsibilities by monitoring the integrity of the Company’s financial statements and other financial information prior to its publication, and reviewing significant judgements contained within them. In addition, the Committee also reviews the system of internal financial and operational controls on a continuing basis and the accounting and financial reporting processes, along with the roles and effectiveness of both the Internal Audit Function and external auditor.

The Company operates an in-house Internal Audit Function which is managed by the Group Chief Internal Auditor with specialist services provided by third-party consultants where necessary. The Internal Audit Function reports, via the Group Chief Internal Auditor, to the Audit Committee at each meeting, ensuring the function’s independence from management. Separate private sessions with internal and external audit are held at each Audit Committee on a rotating basis and the Chair of the Audit Committee also meets separately with the Group Chief Internal Auditor and the Chair of the Group Audit Committee on at least a quarterly basis.

Statement of corporate governance arrangements (continued)

The Audit Committee approves the internal audit charter on an annual basis and reviews, approves and monitors progress against the internal audit plan. As part of this approval process, the Audit Committee requires the confirmation from the Group Chief Internal Auditor that the Internal Audit Function has the requisite expertise and resources to successfully fulfil its role. In 2020, the Audit Committee received the Internal Audit Function's 2020 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 Audit Committee confirmed the Internal Audit Function's conclusion that it generally conformed with the CIIA Financial Services Code, agreeing the plan to address those areas where conformance could be enhanced and confirming the effectiveness of the Internal Audit Function for the year ended 31 December 2020.

The Audit 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 at the Group level by key stakeholders involved in the annual audit process and 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.

To further ensure external audit independence and objectivity, the Company has in place a policy on the appointment of staff from the external auditor. Within two years of acting in that capacity, 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 by the Company.

The Chair of the Audit Committee was a member of the Group External Audit Tender Selection Panel, who conducted a tender in 2020, and following an in-depth discussion of the selection criteria and each tendering firm's strengths and weaknesses, it was determined that Deloitte LLP (Deloitte) would be proposed to the Board for reappointment. The Board subsequently approved the reappointment of Deloitte as the Company's external auditor.

The Audit Committee considered the critical accounting assumptions and key sources of estimation uncertainty in relation to the financial statements and also considered the going concern statement. The Audit Committee discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus within the independent auditor's report. In 2020, the Audit Committee commissioned an external validation review of the IFRS 9 models, conducted by Moody's, with findings and planned actions overseen by the Audit Committee.

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Audit Committee considers whether, in its opinion, the Company's financial statements, taken as a whole, are fair, balanced, and understandable and provide the necessary information for the reader to assess the Company's position and performance, business model and key audit matters. To this end the Audit Committee adopts the following process:

- Early involvement in the preparation of the financial statements which enables the Audit Committee to provide input into the overall messages and tone; the input provided by Company and Group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;
- Regular review of internal audit activity reports which are presented at Audit Committee meetings;
- Review and consideration of the draft financial statements in advance of final sign-off;
- Obtaining reviews conducted by external advisors appointed to advise on best practice; and
- Final sign-off process by the Board.

Statement of corporate governance arrangements (continued)

In addition to this approach, the Audit Committee considered in detail management's critical accounting assumptions detailing the approach taken and key sources of estimation uncertainty documented in the financial statements. These and the going concern assumption were carefully reviewed and challenged by the Audit Committee following the review performed by 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 which were of concern to the Audit Committee was also performed. The financial statements are approved by the Board upon the recommendation of the Audit Committee.

Upon conclusion of the above process, the Directors consider the Company's Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

O. The board should 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.

The Company is dual regulated by both the FCA and PRA and as such, has in place a dedicated Risk Committee, the role of which is to ensure there is an effective risk management framework in operation which enables the effective oversight of the Company's risk position. The Risk Committee's principal area of responsibility is to understand the Board's strategy, desired culture and direction and identify the key strategic and emerging risks which may prevent delivery. The Risk Committee achieves this by the endorsing of a Company risk appetite, aligned with that of the Group, and recommending it to the Board at least annually. In addition, the Risk Committee reviews the Company's management of current and forward-looking risk exposures, including notifying the Board of any changes in the status and control of material risks. The Chair of the Risk Committee also meets separately with the Chief Risk Officer and the Chair of the Group Risk Committee on at least a quarterly basis.

The Risk Committee works with the Group Risk Committee to review and recommend to the Company and Group Boards approval of the ICAAP and ILAAP, including the stress testing and capital allocation approach. The Risk Committee further considers and recommends to the Board for approval the Company's RRP. The Company's budgeting process considers underpinning assumptions and associated risks, and these are reviewed and challenged by the Risk Committee in advance of being recommended to the Board for approval.

The Company operates a three lines of defence model in line with that of the Group and facilitates close alignment with the Group via the Chief Risk Officer being a member of the Group Executive Risk Committee and attendee at the Group Risk Committee. The Company is in the process of enhancing its framework via the development of a risk and control self-assessment approach, through which key controls will be identified, evaluated and monitored by line management as part of day-to-day activities. Board reporting templates encourage the consideration of risk implications of strategic initiatives, providing requisite information to enable effective decision making.

The Company relies upon the Group Enterprise Risk Function for the completion of an annual robust assessment of the principal and emerging risks faced by the Company and Group, including associated mitigating actions undertaken by management, and these are reported within the Group Annual Report and Financial Statements, available at www.providentfinancial.com.

The Board delegates to the Audit Committee the monitoring and the assessment, on its behalf, of the effectiveness of the Company's risk management and internal control systems. The Company's dedicated Audit Committee therefore assesses the effectiveness of the risk management and internal control systems within the Company. To this end, in 2020 Internal Audit Function conducted an analysis of the aggregate outcomes from Company audits carried out in 2020 from both a control environment and a risk and control culture perspective, assessed the progress made in terms of the enhancement of the second line of defence, and assessed the number of open and overdue audit issues. In addition, the Internal Audit Function worked closely with the second line of defence to monitor levels of risk awareness across the Company. The Internal Audit Function confirmed to the Audit Committee the level of risk and control awareness within the Company and confirmed that during 2020 there was a commitment from management to maintain momentum with regard to the embedding of a risk aware culture. Further information about the annual review, during 2020, of the effectiveness of the Group's risk management and internal control systems, upon which the Audit Committee in turn further relies for the Company, is set out in

Statement of corporate governance arrangements (continued)

the Group's Annual Report and Financial Statements at www.providentfinancial.com.

The assurance plans for the coming year, developed by the Internal Audit Function and Compliance Function, are prioritised according to risk, and aligned to deliver maximum coverage and minimum duplication. The Internal Audit Function and Compliance Function monitoring plans are approved by the Audit Committee. Findings arising from second line and third line reviews are shared with the Audit Committee and between second and third lines to allow for cross examination and to develop further assurance activity, where deemed necessary. In addition to the private sessions with internal and external audit which are held twice per year, the Audit Committee hold a private session with the Compliance Director on an annual basis.

<u>Remuneration</u>

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

The Company's remuneration policies and practices are designed to support the current 5-year plan to become customer champion in the Company's sector. The wider Group's 'Blueprint' purpose defines the behaviours and strategic drivers around which the Company's 5-year strategic plan is built. Central to this plan is the delivery of ongoing positive customer outcomes which create the foundation for sustainable long term returns for shareholders. The tools used to determine Executive Director variable pay are derived directly from the Company's 5-year plan and 'Blueprint' purpose, with the value of bonus awards and long-term parent share-based awards being primarily informed by performance against a balanced, business scorecard of financial and non-financial objectives and measures. This business scorecard adopts the current year priorities and deliverables from the 5-year strategic plan with the measures and objectives being structured into categories based around the Company's adoption of the 'Blueprint' purpose: Grow, Cost, Digitise and Culture. The business scorecard integrates current year financial budget targets ensuring there is a financial underpin for variable pay and alignment of interests around financial returns to shareholders. Non-financial objectives integrate quantifiable customer outcomes, regulatory risk and risk control measures requiring all employees and executives to deliver and demonstrate the embedding of culture, customer, regulatory and conduct programmes via objective output-based measures. In this way the Company's risk management performance and ongoing development of the risk culture remain central to executive pay outcomes.

The Remuneration Committee, comprised of Independent Non-executive Directors, are responsible for the assessment of the business scorecard and this Committee retains full discretion over the value of any bonus and long-term awards being made. This approach ensures that all circumstances, including long-term outcomes, may be considered before variable awards are made and therefore ensures long-term customer and shareholder-centric values are embedded and practised, in line with the Group's 'Blueprint' purpose.

Further to the assessment of the scorecard, and in recognition of the importance of effective risk management to sustainable growth and shareholder value, the Company also operates independent variable pay risk adjustment assessments both during the review of bonus funding and at the point of vesting of any deferred awards. The operation of the Variable Pay Risk Adjustment Framework maintains the integrity between effective risk management outcomes and executive pay awards. These assessments consider whether variable pay funding should be reduced, or granted awards reduced or recouped, based on the profile of risk control and risk events experienced over the performance period the variable pay relates to. The Group's Malus and Clawback Policy, which is applicable to the Company, operates in conjunction with these assessments and ensures that the Company has a legal capability to enforce the reduction or repayment of historical awards where harm has resulted from conduct risks. This sanction capability incentivises executives to remain focussed on the delivery of long-term sustainable value in accordance with the business plan.

Additionally, the Company also operates a variable remuneration cap covering short- and long-term incentives, which restricts value of variable remuneration that may be paid relative to an executive's base salary at 200% of base salary. Shareholder support was received to increase this ratio from 100% of base salary, demonstrating shareholder support for the current quantum of executive pay opportunity relative to shareholder value generation.

Statement of corporate governance arrangements (continued)

The vesting timeframe of the Group's share-based, long term incentives (Restricted Share Plan – (RSP)) which forms part of the Company's executive pay opportunity, has been purposely set at three years to create a long-term alignment of interests between shareholder returns and executive variable pay outcomes. Prior to the vesting of RSP awards, the Remuneration Committee is required to perform a performance underpin evaluation. This assessment reviews performance over the three-year vesting period to consider if the vesting value of the award is appropriate relative to the performance delivered to shareholders over the same period. This assessment also provides an opportunity to adjust any share price-related windfall gains to executives relative to the shareholder return experience. The Remuneration Committee's discretionary authority to determine the value of long-term awards at vesting enables the full spectrum of performance and conduct risk factors to be reviewed and in doing so encourages executives to demonstrate long-term behaviours.

Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

The Company's approach to remuneration is developed and overseen by the Remuneration Committee in coordination with the policies and practices developed and implemented by the Group Remuneration Committee. Both the Company and Group Remuneration Committees are comprised entirely of Independent Non-executive Directors. Independent Non-executive Directors are remunerated solely on a fixed-fee basis and are not eligible for any variable remuneration plan. As non-participants in variable pay programmes, there is no conflict of interest in either their oversight of the design and implementation of the Company's and Group's variable remuneration policies, or the assessment of the performance outcomes and levels of award delivered. Company Independent Non-executive Directors fees are reviewed by the Chairman of the Company in conjunction with a wider review of non-executive fees throughout the Group.

The Remuneration Committee Terms of Reference clearly detail the authorities of the Committee and provide a transparent mandate for performance and remuneration governance and decisioning for executives. The Committee's role in executive remuneration governance includes the approval of business scorecard objectives and measures, the review of executive personal objectives, and the assessment of performance delivered against those objectives. In making the performance assessment determination, the Remuneration Committee is supported by financial reports from the Group and Company finance teams and by risk reports produced by the Chief Risk Officer. The Committee Terms of Reference provide that no executive may be present when their own remuneration is under review.

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

As noted above, the Remuneration Committee consists entirely of Independent Non-executive Directors, who are not eligible for participation in any of the remuneration programmes under review.

As also noted above:

- For Executive Directors' annual bonuses, the Remuneration Committee approves the balanced scorecard of objectives, wherein objectives reflect both the Company and more individual deliverables, and are therefore designed to reflect of holistic performance;
- Variable pay is designed to provide the Remuneration Committee with discretion to override scorecard outcomes and ensure reward is aligned to performance and delivery of value for the shareholders and stakeholders. Discretion is and has been used when the Remuneration Committee deems it appropriate;
- There is a robust risk assessment and adjustment process in place for variable pay to drive reward outcomes that reflect the delivery of long-term sustainable value, effective risk management and meeting of regulatory obligations, aligned with our customer-centric culture; and
- Appropriate Malus and Clawback Policies are in place to create a strong dis-incentive and sanction potential for inappropriate, short-term strategy taking, including by specific individuals.

Statement of corporate governance arrangements (continued)

PricewaterhouseCoopers LLP (PwC) were appointed by the Remuneration Committee and Group Remuneration Committee as independent adviser in 2020. PwC is a founding member of the Remuneration Consultants Group. Other than in relation to advice on remuneration, PwC provides support to management across the Group in relation to tax compliance, IT and internal audit and ad-hoc tax and accounting advice.

The additional table below details those provisions of the Code that the Company did not comply with for the entire reporting period during the 2020 financial year and the explanation for non-compliance. PF plc complies with all the Provisions of the Code and further information on how it has complied can be found in the Group Annual Report and Financial Statements at www.providentfinancial.com.

Provision not complied with	**Reason for non-compliance**
Code provision 1	The Company complied with the element of the provision that states that the Board should assess the basis on which the Company generates and preserves value over the long-term. However, the Company has chosen to not comply with the additional reporting requirement of the provision that: (a) it should describe in the Annual Report how opportunities and risks to the future success of the business have been considered and addressed; (b) the sustainability of the Company's business model and (c) how its governance contributes to the delivery of its strategy. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF plc. PF plc complies with this provision and further information can be found in the Group Annual Report and Financial Statements.
Code provision 2	The Company complied with the element of the provision that states that the Board should assess and monitor culture and, where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the Company's purpose, values and strategy, it should seek assurance that management has taken corrective action. However, the Company has chosen to not comply with the additional reporting requirements of the Provision that: (a) the Annual Report should explain the Board's activities and any action taken in regard to the abovementioned first element of the provision; and (b) in addition, it should include an explanation of the Company's approach to investing in and rewarding its workforce. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF plc. PF plc complies with this provision and further information can be found in the Group Annual Report and Financial Statements.
Code provision 11	The Company has chosen to not comply with the provision which requires that at least half the Company's Board, excluding the Chair, should be Non-executive Directors whom the Board considers to be independent. The composition of the Company's Board is reviewed regularly, is considered wholly appropriate given Company's status as a private wholly owned subsidiary of PF plc, with the appropriate balance of independence.
Code provision 14	The Company has chosen to not comply with element of the provision regarding the public availability of the Board-agreed, clear and written responsibilities of the Chair, Managing Director, SID, Board and its Committees. The roles are documented and are also set out in the Company's Board Governance Manual and have been approved by the Board. Additionally, the Company did not comply with the additional reporting requirements of the provision that the Annual Report should set out the number of meetings of the Board and its Committees, and the individual attendance by Directors. However, Group Secretariat does though formally track directors' attendance at Board and Committee Meetings. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF plc. PF plc complies with this provision and further information can be found in the Group Annual Report and Financial Statements.

Statement of corporate governance arrangements (continued)

Provision not complied with	Reason for non-compliance
Code provision 18	The Company has chosen to not comply with the provision which requires that: (a) all Directors should be subject to annual re-election; and (b) the Board should set out in the papers accompanying the resolutions to elect each Director the specific reasons why their contribution is, and continues to be, important to the Company's long-term sustainable success. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF plc. Given the Company's ownership structure, there is no requirement under the Company's constitution for the Company to convene an Annual General Meeting and, in practice, the Company's directors receive Group approval for their appointment to the Board. The Chairman, who is also a director of PF plc, is subject to annual re-election as a Group Board Director. PF plc complies with this provision and further information can be found in the Group Annual Report and Financial Statements.
Code provision 20	Open advertising and/or external search consultancies are used for the appointment of the Chair and Independent Non-executive Directors. The Company has chosen to not comply with the part of this provision which requires the identification of external search consultancies in the Annual Report alongside a statement about any other connection it has with the Company or individual Directors. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF plc. PF plc complies with this provision and further information can be found in the Group Annual Report and Financial Statements.
Code provision 23	The Company has chosen to not comply with the provision which requires that the Annual Report should describe the work of the Nomination Committee. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF plc. PF plc complies with this provision and further information can be found in the Group Annual Report and Financial Statements.
Code provision 26	The Company has chosen to not comply with the provision which requires that the Annual Report should describe the work of the Audit Committee. The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly owned subsidiary of PF plc. PF plc complies with this provision and further information can be found in the Group Annual Report and Financial Statements.
Code provision 28	The Company has chosen to not comply with the provision which requires that the Board should: (a) carry out a robust assessment of the Company's emerging and principal risks; and (b) confirm in the Annual Report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated. The Risk Committee, on behalf of the Board, identifies and seeks to manage the principal and emerging risks faced by the Company. The Company is captured by and relies upon the Group process regarding the annual robust assessment of the principal and emerging risks as consolidated within the Group Annual Report and Financial Statements. The Board considers that such non-compliance is appropriate and proportionate since the Company forms a significant proportion of the Group, has an escalated reporting process between the Company's Risk Committee and the Board up into the Group Risk Committee and Group Board. The Company also utilises the Group-wide Enterprise Risk function and is subject to and operates within the overall Group risk management framework, policy taxonomy and risk appetite. PF plc complies with this provision and further information can be found in the Group Annual Report and Financial Statements.

Statement of corporate governance arrangements (continued)

Provision not complied with	**Reason for non-compliance**
Code provision 29	The provision requires that the Board should: (a) monitor the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the Annual Report; and (b) that the monitoring and review should cover all material controls, including financial, operational and compliance controls. The Company complied with the provision, save that the Audit Committee undertook the relevant monitoring and review on behalf of the Board, and the results of the effectiveness review were not formally reported up to the Board for its own consideration and approval. However, since 23 March 2020 all of the Company's Independent Non-executive Directors are also members of the Audit Committee. The Group undertakes an annual robust assessment of the Group's risks and material controls, including those of the Company and the Company relies upon the Group Annual Report and Financial Statements for this disclosure. The Board therefore considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly-owned-subsidiary of PF plc.
Code provision 31	The Annual Report does not include an explanation by the Board, having taken account of the Company's current position and principal risks, of: • How the Board has assessed the prospects of the Company; • The period over which the board made its assessment; and • Why the board considers that period to be appropriate. The Company does regularly assess its principal risks and their potential impact on the Company. The Group complies with this Provision and, as the Company forms a significant part of this process, it is considered appropriate to rely upon this assessment. Furthermore, the Company regularly undertakes an ICAAP which is an internal regulatory-required process to assess the Company's capital adequacy over a determined multi-year period and requires us to have appropriate risk management techniques in place. The Company also regularly undertakes an ILAAP which also plays a key role in the risk management of credit institutions and comprises a clear assessment of the risks to the Company's liquidity. The Board therefore considers that such non-compliance with this provision is appropriate and proportionate to the Company's status as a private wholly-owned-subsidiary of PF plc.
Code provision 36	The Company did not comply with the stipulated vesting and holding periods or the development of a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares required by this provision. Share awards granted to the Company's Executive Directors have a three-year vesting period although the Remuneration Committee and Group Remuneration Committee have determined that currently no additional two-year post-vesting holding period should be applied to such awards, in view of the fact that the Company is a private wholly owned subsidiary. The Managing Director and Finance Director are participants in the Company's Restricted Share Plan and historical Long-Term Incentive Scheme, both schemes being fully aligned with the Company's long-term performance and success, as described above. The Remuneration Committee and the Group Remuneration Committee have similarly determined that the Group's post-employment shareholding policy is not currently required to be applied for share awards granted to the Company's Executive Directors given the Company's private company status. However, a robust Malus and Clawback Policy is in place and applies to all such share awards under the Company's remuneration schemes. The Company complied with the remainder of the provision.

Statement of corporate governance arrangements (continued)

Provision not complied with	Reason for non-compliance
Code provision 41	The Company did not comply with the provision which requires that there should be a description of the work of the Remuneration Committee in the Annual Report The Board considers that such non-compliance is appropriate and proportionate to the Company's status as a private wholly-owned-subsidiary of PF plc.

Going concern

In preparing the Financial Statements, the Directors are required to determine that the Company has adequate resources to continue to operate for the foreseeable future. The review has been made on the basis that the Company continues to operate as a going concern for the twelve months from the date the financial statements are approved, but when considering the analysis, the Directors' consideration extended beyond this time period. The Directors considered the appropriateness of the going concern basis, the period of assessment, any reporting requirements, and solvency and liquidity risks and included a variety of factors – forecasts and budgets, timing of cash flows and funding, the Company's primary market and any contingent liabilities. When considering the appropriateness of going concern the Directors have also considered the broader view of continuing to operate – in the context of the Company this means being able to meet its regulatory requirements (both capital and liquidity) at all times and not just a positive net asset measure.

The assessment of going concern for the Company for the purposes of the Annual Report and Financial Statements considered the following factors:

- Stress testing regulatory capital and liquidity projections for a severe but plausible downside scenario.
- Considering the point of no viability of the Company in terms of levels of unemployment.
- Assessing the operational resilience of the Company through the Covid-19 pandemic.
- Considering the regulatory risks that may impact the Company going forward.
- Considering the work undertaken by the Internal Audit Function and the Risk Office to support going concern.

Having considered the Company's forecasts, the regulatory capital and liquidity of the Company, the resilience of the Company through Covid-19, and the regulatory outlook, the Directors have a reasonable expectation that the Company will continue for the foreseeable future and will be able to meet its liabilities as they fall due. Accordingly, the Financial Statements of the Company have been prepared on the going concern basis.

A further review of the business, results and future prospects of the Company is set out in the Group Annual Report and Financial Statements which are available at www.providentfinancial.com.

Approved by the Board and signed on its behalf by:

N C Chandler
Managing Director
7 May 2021

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors 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 company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

In preparing these financial statements, International Accounting Standard 1 requires that the Directors:

- Properly select and apply suitable accounting policies;
- Make judgements and accounting estimates that are reasonable;
- 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, financial performance and cash flows; and
- Make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's and group's websites.

Approved by the Board and signed on its behalf by:

N C Chandler
Managing Director
7 May 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Vanquis Bank Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in shareholder's equity;
- the statement of cash flows;
- the statement of accounting policies;
- Financial and capital risk management report; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. 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 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 (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Company for the year are disclosed in note 3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Valuation of Expected Credit Losses ("ECL") on credit card receivables; and* • *Revenue recognition.* Within this report, key audit matters are identified as follows: Newly identified Similar level of risk to prior year
Materiality	The materiality that we used in the current year was £3.24m (2019: £6.98m) which represents 0.99% of net assets (2019: 3.68% of profit before tax). The rationale for the change in benchmark for materiality is explained in the significant changes in our approach section below.
Scoping	Our audit was scoped by obtaining an understanding of the Company and its environment including internal control and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatements was performed directly by the audit engagement team, with the support of appropriate specialists.
Significant changes in our approach	The significant changes in our approach included: • **Change in basis of materiality from profit before tax to net assets** In the prior year, we adopted 3.68% of profit before tax as the basis for determining materiality. However, in current year we have transitioned to using 0.99% of net assets. We have revised our benchmark upon which materiality is determined in the current year due to the volatility of the Company's results during the Covid-19 pandemic. We considered that net assets represent a more stable and relevant measure used by the ultimate parent, regulators and other stakeholders when assessing the performance and longer-term prospects of the Company as well as the importance of net assets to the Company's regulatory capital position. • **Valuation of Repayment Option Plan ("ROP") Provision** We no longer identify the valuation of the Repayment Option Plan ("ROP") forward flow provision as a key audit matter. This is on the basis of the reduced level of the provision (£2.6m at 31 December 2020 compared to £11.6m at 31 December 2019) and the fact that complaints levels in relation to ROP have tracked significantly below previous estimates.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained and inspected management's going concern assessment, which included specific consideration of the impacts of the Covid-19 pandemic and the Company's operational resilience, in order to understand, challenge and evidence the key judgements made by management;
- We obtained an understanding of the relevant controls around management's going concern assessment;
- We obtained management's income statement, statement of financial position and capital and liquidity forecasts and challenged key assumptions and their projected impact on capital and liquidity ratios, particularly with respect to amounts receivable from customers' growth and potential ECL;
- Supported by our prudential regulation specialists, we:
  - Reviewed the most recent Internal Capital Adequacy Assessment and Internal Liquidity Adequacy Assessment, evaluating the key assumptions and methods used in the capital and liquidity stress testing models, assessing management's capital and liquidity projections, and assessing the results of management's capital and liquidity stress testing; and
  - Tested the mechanical accuracy of the forecasts, including reconciling opening capital and liquidity ratios to the year-end regulatory submissions and assessing whether the year end balance sheet within the model was consistent with the audited position;
- We inspected correspondence with regulators to understand the capital and liquidity requirements imposed by the Company's regulator and evaluated any changes to those requirements;
- We met with the Company's lead regulators, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and discussed their views on existing and emerging risks to the Company and we considered whether these were reflected appropriately in management's forecasts, stress tests and principal risk disclosures;
- We assessed the historical accuracy of forecasts prepared by management; and
- We assessed the appropriateness of the disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. 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.

5.1 Valuation of ECL on credit card receivables

Key audit matter description

The Company holds a portfolio of receivables in respect of issued credit cards totalling £1,075.1m (2019: £1,432.5m) with respective provisions for expected credit losses totalling £466.4m (2019: £435.5m).

The IFRS 9 expected credit losses on credit card receivables are calculated by modelling the expected credit performance of the receivables portfolio within the Company. The significant changes in the economic environment including lockdown restrictions and government support schemes have continued to impact customer spending and behaviour patterns. The underlying modelling techniques are complex and require management to make significant judgements regarding the quantum and timing of expected future cash flows to calculate expected credit losses. Provisions for expected credit losses are 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 ECL is driven by account-specific estimation of probability of default ("PD") and loss given default ("LGD") which represent the key areas of judgement.

We focused our work on the following areas:

a) Covid-19 in-model adjustment of £59.6m (2019: Nil)

This adjustment is designed to correct PDs for two main factors:

- The actual default experience in 2020 did not increase as anticipated despite worsening of unemployment figures due to government support schemes including payment holidays temporarily masking credit issues; and
- The decreased utilisation of credit cards during the year, which would typically point to lower levels of credit risk, but in the current environment the relationship is distorted as changes in card utilisation were driven by the limited ability to spend in lockdown as opposed to improvements in credit quality.

b) Persistent debt Post Model Adjustment ("PMA") £9.1m (2019: £3.7m)

Additional provision for accounts in persistent debt for a period over 36 months. Due to the lack of historical data on how these accounts will perform, the adjustment required a high level of management judgement.

c) Appropriateness of the macroeconomic scenarios

As set out on page 60, the Company used macroeconomic scenarios provided by the Provident Financial Plc ("Group") Treasury Committee and considered four probability weighted scenarios. The key economic variable relevant for the Company's credit card portfolio was determined to be unemployment. There is significant judgement in determining the scenarios and associated weightings, considering the economic uncertainty arising from Covid-19 and Brexit.

The accounting policies in relation to the valuation of the provision for ECL are presented on page 59. Further detail in respect of the assumptions and estimation uncertainty is set out on page 63 to 64. The quantitative disclosures on ECL are included in note 10.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls identified in relation to the valuation of ECL on credit card receivables. We engaged our credit risk modelling specialists to assist in our assessment and challenge of management's methodology and evaluated whether the methodology is compliant with the 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 had been appropriately incorporated into expected credit loss calculations. Supported by our credit risk modelling specialists, we tested the valuation of both the Covid-19 in-model adjustment and the persistent debt PMA by evaluating the appropriateness of the methodology applied and the programming code used to calculate the adjustments. We also tested the input data used in the calculations by tracing them to source systems. We challenged the key assumptions made in the estimation of the adjustments by evaluating the appropriateness of the customer segments to which rate adjustments are applied and testing the calculations used to arrive at the rate adjustment values. We assessed whether the treatment of receivables where customers took payment holidays in 2020 complies with IFRS 9. To challenge the Company's macroeconomic scenarios and the probability weightings applied, we engaged with an internal macroeconomic specialist to review the appropriateness of the shape of unemployment curves and respective weightings attached to them.
Key observations	Based on the procedures performed, we found that: • The methodology used is compliant with the requirements of IFRS 9; • The provision model's calculations were found to be executed as intended and in compliance with the documented methodologies; • The macroeconomic assumptions and weightings are reasonable; and • The data used in the models were accurate. We concluded that the provision for expected credit losses is reasonable.

5.2 Revenue recognition

Key audit matter description	The Company's primary source of revenue is interest accrued on credit card receivables. The Company pays directly attributable acquisition costs (DAC) to affiliates for new customer bookings originated through them. Following the change in the accounting policy in the prior year, DAC are capitalised and amortised over the average behavioural life of a credit card account. The amortised portion of DAC is recognised as a reduction in revenue and amounted to £10.8m (2019: £7.8m). Having performed our risk assessment, we identified a key audit matter relating to the appropriateness of the behavioural life assumption used to amortise DAC. Management has assumed a behavioural life of five years (2019: five years). Covid-19 introduced an additional uncertainty to the estimation of behavioural life due to the significant impact the pandemic has had on the UK economy and customer spending patterns, as well as due to the measures taken by the UK government to stimulate the economy in response to Covid-19. Further information on the accounting policy is disclosed on pages 58, and the estimation uncertainty including sensitivity analysis is disclosed on page 65.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the management review control over the appropriateness of the behavioural life assumptions. We have obtained and inspected management's behavioural life judgement paper and evaluated the appropriateness of the approach used. We also evaluated whether the impact of future expected increases in charge-offs as a result of the Covid-19 pandemic had been appropriately considered. With the support of our credit risk modelling specialists, we tested data extracts used by management to perform the behavioural life analysis by reviewing the report code and parameters. We have reconciled input data used in management's analysis to source data extracts for a sample of items.
Key observations	Based on the procedures performed above, we concluded that the behavioural life assumptions used were appropriate.

6. Our application of materiality

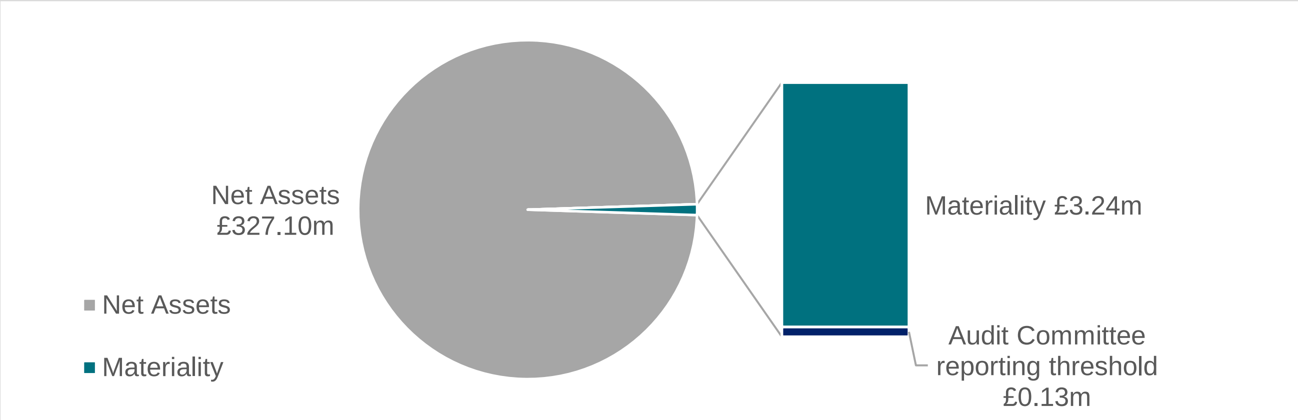
6.1. Materiality

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:

Materiality	£3.24m (2019: £6.98m)
Basis for determining materiality	0.99% of net assets (2019: 3.68% of profit before tax).

Rationale for the benchmark applied	We have revised our benchmark upon which materiality is determined in the current year due to the volatility of the Company's results during the Covid-19 pandemic. We considered that net assets represent a more stable and relevant measure used by the ultimate parent, regulators and other stakeholders when assessing the performance and long-term prospects of the Company as well as the importance of net assets to the Company's regulatory capital position.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%).

In determining performance materiality, we considered a number of factors, including: our understanding of the control environment and controls reliance obtained; our understanding of the business; and the number of uncorrected misstatements identified in the prior year.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £129,000 (2019: £200,000), 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.

7. An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, with the support of appropriate specialists.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of the audit, or otherwise appears to be materially misstated.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

9. 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.

10. 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their 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;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and

- the matters discussed among the audit engagement team and relevant internal specialists, including tax, share based payments, Information Technology, data analytics, credit risk modelling, macroeconomic, conduct and prudential regulatory specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of ECL on credit card receivables and revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, tax legislation, distributable profits legislation and the Capital Requirements (Country-by Country Reporting) Regulations 2013.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Bank's compliance with the Prudential Regulation Authority (PRA) Rulebook and the Financial Conduct Authority (FCA) Handbook.

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of ECL on credit card receivables and revenue recognition as key audit matters related to the potential risk of fraud. 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.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and 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 HMRC, the PRA and FCA; 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 remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by 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 the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 27 to the financial statements for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. 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; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. 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.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Directors' of the Company on 29 June 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 December 2012 to 31 December 2020.

15.2. 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).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VANQUIS BANK LIMITED (CONTINUED)

16. 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.

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Alastair Morley (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
7 May 2021

VANQUIS BANK LIMITED
(Company Number 2558509)

INCOME STATEMENT

For the year ended 31 December	Note	**2020 £m**	2019 £m
Income	1	**489.2**	590.4
Finance costs	2	**(35.5)**	(34.4)
Net income		**453.7**	556.0
Impairment charges	10	**(239.9)**	(198.9)
Net operating income		**213.8**	357.1
Administrative and operational costs		**(163.1)**	(167.1)
Profit before tax	3	**50.7**	190.0
Profit before tax and exceptional items		**42.4**	177.6
Exceptional items	4	**8.3**	12.4
Tax charge	5	**(8.1)**	(51.4)
Profit for the year attributable to equity shareholders		**42.6**	138.6

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	**2020 £m**	2019 £m
Profit for the year attributable to equity shareholders	**42.6**	138.6
Items that will not be reclassified subsequently to the income statement:		
- fair value movements on investments	**3.8**	4.4
- tax on items taken directly to the other comprehensive income	**(1.0)**	(1.2)
- impact of change in UK tax rate	**(0.2)**	0.1
- deferred tax credit on disposal of investment	**2.0**	-
- current tax charge on disposal of investment	**(2.0)**	-
Other comprehensive income for the year	**2.6**	3.3
Total comprehensive income for the year	**45.2**	141.9

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF FINANCIAL POSITION

	Note	**31 December 2020 £m**	31 December 2019 £m
ASSETS			
Cash and cash equivalents	9	**833.6**	325.2
Amounts receivable from customers	10	**1,094.3**	1,461.5
Loan to ultimate parent undertaking	11	**69.3**	-
Trade and other receivables	12	**19.7**	7.8
Investment held as fair value through other comprehensive income	13	**9.2**	16.6
Property, plant and equipment	14	**6.4**	6.3
Intangible assets	15	**14.4**	5.5
Right-of-use assets	16	**35.7**	40.7
Deferred tax assets	17	**23.8**	25.8
Total assets		**2,106.4**	1,889.4
LIABILITIES AND EQUITY			
Liabilities			
Retail deposits	19	**1,683.2**	1,345.2
Lease liabilities	20	**42.7**	47.6
Trade and other payables	21	**49.8**	59.2
Current tax liabilities		**1.0**	34.7
Provisions	22	**2.6**	11.6
Total liabilities		**1,779.3**	1,498.3
Equity attributable to owners of the parent			
Share capital	23	**124.2**	124.2
Share based payment reserve	24	**2.0**	1.8
Fair value reserve		**3.9**	6.7
Retained earnings		**197.0**	258.4
Total equity		**327.1**	391.1
Total liabilities and equity		**2,106.4**	1,889.4

The financial statements on pages 54 to 95 were approved by the board of directors on 7 May 2021 and signed on its behalf by:

Neil Chandler
Managing Director

Gary Thompson
Finance Director

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share - based payment reserve £m	Fair value reserve £m	Retained earnings £m	Total £m
At 31 December 2018		124.2	1.8	3.4	262.0	391.4
Initial impact of adoption of IFRS 16		-	-	-	(2.6)	(2.6)
At 1 January 2019		124.2	1.8	3.4	259.4	388.8
Profit for the year		-	-	-	138.6	138.6
Other comprehensive income:						
- fair value movements on investments		-	-	4.4	-	4.4
- tax on items taken directly to other comprehensive income		-	-	(1.1)	-	(1.1)
Other comprehensive income for the year		-	-	3.3	-	3.3
Total comprehensive income for the year		-	-	3.3	138.6	141.9
Share-based payment charge	24	-	0.2	-	-	0.2
Transfer of share-based payment reserve	24	-	(0.2)	-	0.2	-
Dividends	6	-	-	-	(139.8)	(139.8)
At 31 December 2019		124.2	1.8	6.7	258.4	391.1
At 1 January 2020		124.2	1.8	6.7	258.4	391.1
Profit for the year		-	-	-	42.6	42.6
Other comprehensive income:						
- fair value movements on investments		-	-	3.8	-	3.8
- tax on items taken directly to other comprehensive income		-	-	(1.2)	-	(1.2)
Other comprehensive income for the year		-	-	2.6	-	2.6
Total comprehensive income for the year		-	-	2.6	42.6	45.2
Share-based payment charge	24	-	0.8	-	-	0.8
Transfer of cumulative gain on disposal of investment		-	-	(7.4)	7.4	-
Transfer of tax on disposal of investment		-	-	2.0	(2.0)	-
Transfer of share-based payment reserve	24	-	(0.6)	-	0.6	-
Dividends	6	-	-	-	(110.0)	(110.0)
At 31 December 2020		**124.2**	**2.0**	**3.9**	**197.0**	**327.1**

VANQUIS BANK LIMITED
(Company Number 2558509)

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	**2020 £m**	2019 £m
Cash flows from operating activities			
Cash generated from operations	26	**354.9**	211.7
Finance costs paid		**(35.5)**	(34.0)
Tax paid		**(25.5)**	(22.5)
Net cash generated from operating activities		**293.9**	155.2
Cash flows from investing activities			
Purchase of property and equipment	14	**(5.0)**	(2.7)
Purchase of intangible assets	15	**(14.1)**	(4.4)
Proceeds from sale of gilts		**-**	35.8
Proceeds from sale of shares	13	**7.4**	-
Net cash (used in)/generated from investing activities		**(11.7)**	28.7
Cash flows from financing activities			
Capital elements of lease payments		**(6.0)**	(6.0)
Proceeds from borrowings		**680.8**	125.1
Repayment of borrowings		**(338.6)**	(211.6)
Dividends paid to company shareholder	6	**(110.0)**	(139.8)
Net cash generated from/(used in) financing activities		**226.2**	(232.3)
Net increase/(decrease) in cash and cash equivalents		**508.4**	(48.4)
Cash and cash equivalents at beginning of year		**325.2**	373.6
Cash and cash equivalents at end of year		**833.6**	325.2
Cash and cash equivalents at end of year comprise:			
Cash and cash equivalents	9	**833.6**	325.2
Total cash and cash equivalents		**833.6**	325.2

Cash at bank and in hand includes £833.3m (2019: £321.9m) in respect of the liquid assets buffer, including other liquidity resources, held by the company in accordance with the PRA's liquidity regime. As at 31 December 2020, £691.9m (2019: £138.2m) of the buffer was available to finance the Company's day-to-day operations.

STATEMENT OF ACCOUNTING POLICIES

General information
The Company is a private company limited by shares and is incorporated and domiciled in England, United Kingdom. The address of its registered office is No. 1 Godwin Street, Bradford, BD1 2SU. The Company is authorised and regulated by the PRA and regulated by the FCA.

Basis of preparation
The financial statements of the 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 determine that the Company has adequate resources to continue to operate for the foreseeable future. The review has been made on the basis that the Company continues to operate as a going concern for the twelve months from the date the financial statements are approved, but when considering the analysis, the Directors' consideration extended beyond this time period. Accordingly, the Directors have reviewed the Company's latest budgets, as approved in April 2021, which includes capital and liquidity forecasts, on detailed projections for 2021 to 2023. The assessment has included consideration of:

- Stress testing regulatory capital and liquidity projections for a severe but plausible downside scenario.
- Considering the point of no viability of the Company in terms of levels of unemployment.
- Consideration of the Company's principal risks and uncertainties, including that of Covid-19, and the likelihood of these risks materialising into losses.
- Considering the work undertaken by the Internal Audit Function and the Risk Office to support going concern.

Within the severe but plausible downturn scenario, 'severe' has been defined consistently with the Company's IFRS 9 'severe' macroeconomic weighting. This assumes that unemployment in the UK reaches a peak unemployment rate of 12.7%. Further, more severe scenarios have been modelled which would need to materialise to prevent the Directors from adopting the going concern assumption. The projections do not assume any government support, and the Company's Total Capital Requirement (TCR) has been assumed in all scenarios modelled.

Having considered the Company's forecasts, the regulatory capital and liquidity of the Company, the principal risks and uncertainties of the Company, and the regulatory outlook, the Directors have a reasonable expectation that the Company will continue for the foreseeable future and will be able to meet its liabilities as they fall due. Accordingly, the Financial Statements of the Company have been prepared on the going concern basis.

There have been no new or amended standards adopted in the financial year beginning 1 January 2020 which have a material impact on the Company.

The impact of new standards not yet effective and not adopted by the Company from 1 January 2020
There are no new standards not yet effective and not adopted by the company from 1 January 2020 which are expected to have a material impact on the company.

Income
Interest is calculated on credit card and unsecured loan advances to customers using the effective interest rate (EIR) on the daily balance outstanding. Directly attributable marketing costs are included in the EIR calculation following a change in accounting policy in 2019. Fee income, which comprises default fees and other ancillary income streams are the charges made to customers that are recognised when performance obligations are met.

Income 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.

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

Income (continued)

Interest income from the loan to the ultimate parent undertaking is recognised on an EIR basis.

Finance costs

Finance costs principally comprise the interest on retail deposits and are recognised on an EIR basis.

Exceptional items

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

Intangible assets

Intangible assets, which comprise computer software and computer software development costs, represent the costs incurred to acquire or develop the specific software and bring it into use.

Directly attributable costs associated with the development of software that will generate future economic benefits are capitalised as an intangible asset. Directly attributable costs include the cost of employees involved in software development.

Computer software (both internally generated and purchased) is amortised on a straight-line basis over its estimated useful economic life which is generally estimated to be between three to five years.

The residual values and economic lives of intangible assets are reviewed by management at each balance sheet date. Amortisation is charged to the income statement as part of administrative costs. A provision is made for any impairment.

Amounts receivable from customers

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

The impairment provisions are recognised for 12 months for Stage 1 accounts, for lifetime for Stage 2 accounts where the credit risk has significantly increased since origination, and for lifetime for Stage 3 accounts where accounts are defaulted. The impairment provisions are calculated using probability of default (PD), exposure at default (EAD) and loss given default (LGD) models.

Stage 1 provisions are held where an account is not defaulted and is not deemed to have suffered a significant increase in credit risk. Accounts are included in stage 2 when there has been a significant increase in credit risk either through a deterioration in lifetime PD compared with origination PD or when they are more than 30 days past due but are not defaulted. Stage 2 exposures are predominantly identified using a quantitative test where the lifetime PD has deteriorated by more than a predetermined threshold relative to origination PD's. The deterioration thresholds are defined as multiples of origination PD and are set by origination risk grades. As origination PD increases, the threshold value reduces. A backstop criteria is also applied to staging of accounts where accounts that are more than 30 days past due but are not defaulted are provided for lifetime losses in Stage 2. An account is considered to be in default and is provided for in Stage 3 when they are more than 90 days past due or are on a payment arrangement.

The Company has developed PD and LGD models which focuses 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 initially determined with reference to the customer's application score used in underwriting and thereafter using both internal and external data for both credit card and loans customers. The EAD for the Company's 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. For loans, the EAD follows the amortisation schedules of the loan and adjusted for expected missed payments at point of default. Lifetime losses are recognised when a significant increase in credit risk is evident, either from a missed monthly payment or an increase in PD. Income 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 or they enter a payment arrangement. A customer is charged off in the following cycle after being six minimum monthly payments in arrears.

Amounts receivable from customers (continued)
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 the Company, the provision reflects the potential for future changes in unemployment under a range of unemployment forecasts provided by a range of economists, approved by the Group Treasury Committee.

Property, plant and equipment
Property, plant and equipment is shown at cost less subsequent depreciation and 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 value over their useful economic lives. The following are the principal bases used:

	%	Method
Leasehold land and buildings	Over the lease period	Straight-line
Equipment (including computer hardware)	10 to 33.3	Straight-line

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 are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use or its fair value less costs to sell.

Gains and losses on disposal of property, plant and equipment are determined by comparing any proceeds with the carrying amount of the asset and are recognised within administrative costs in the income statement. Depreciation is charged to the income statement as part of administrative costs.

Leases

The 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 payments are 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 the Company, this would represent an average retail deposit rate.

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

- Fixed lease payments.
- Variable lease payments.
- 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 EIR method), and reducing to reflect the lease payments made.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Leases (continued)
The lease liability is re-measured whenever:

- The lease term has changed, in which case the lease liability is re-measured 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 re-measured by discounting the revised lease payments using the initial discount rate.

- The lease contract is modified and the modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The 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.

Investments
The following investments are 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. An election was made on adoption of IFRS 9 to classify these shares at fair value thorough OCI as they are not held for trading.

Fair value changes including any impairment losses and foreign exchange gains or losses are recognised directly in equity through other comprehensive income in the fair value reserve. A transfer is made from the fair value reserve to retained earnings when investments are disposed of. The fair value of monetary assets denominated in foreign currency are determined through translation at the spot rate at the reporting date. Income on equity instruments is recognised in the income statement when the Company’s right to receive the dividends is established.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand including amounts held within a Bank of England reserve account. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Borrowings
Retail deposits, are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate. Retail deposits are classified as current or non-current liabilities depending on the individual maturity date.

Dividends
Dividend distributions to the Company’s shareholder are recognised in the financial statements when paid.

Retirement benefits
Cash contributions to defined contribution pension schemes are charged to the income statement on an accruals basis.

Share-based payments
Equity-settled schemes:

The ultimate parent 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 Deferred Bonus Plan (DBP), the Restricted Share Pan (RSP) and the Company Share Option Plan (CSOP).

The cost of providing options and awards to employees is charged to the income statement of the Company over the vesting period of the related options and awards. The corresponding credit is made to a share-based payment reserve within equity.

The cost of options and awards is based on their fair value. A binomial model is used for calculating the fair value of SAYE options which have no performance conditions attached and the RSP for which vesting is based on the discretion of the Remuneration Committee. No charge has been recognised for the CSOP as it is linked to the RSP awards granted at the same time. Any gains made by an employee in relation to the CSOP reduces the number of shares exercisable under the RSP award. 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, risk metrics and profit before tax. 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.

Cancellations by employees of contributions to the Group's SAYE plans are treated as non-vesting conditions and the Company recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. Modifications are assessed at the date of modification and any incremental charges are recognised in the income statement.

A transfer is made from the share-based payment reserve to retained earnings when options and awards vest, lapse or are cancelled. 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 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.

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.

Taxation
The tax charge represents the sum of current and deferred tax. Current tax is calculated based on taxable profit for the year using tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of

Taxation (continued)
taxable profit and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax 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 Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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, the carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Intercompany loan to ultimate parent undertaking
The intercompany loan to ultimate parent undertaking is recognised on an amortised cost basis. The amortised cost is the amount at which the loan is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance.

Key sources of estimation uncertainty
In applying the accounting policies set out above, the Company makes significant estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as follows:

Amounts receivable from customers – £1,094.3m (2019: £1,461.5m)

Judgements

The Company reviews its amounts receivable from customers for impairment at each balance sheet date. For the purposes of assessing the impairment, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The Company makes assumptions to determine whether there is objective evidence that credit risk has increased significantly which indicates there has been an adverse effect on PD. The definition of a significant increase in credit risk for customers is presented on page 59. For the purpose of IFRS 9, the Company deems an account defaulted, when it becomes three minimum monthly payments in arrears or when they enter into a payment arrangement. An account is written off in the following cycle after being six monthly payments in arrears.

Macro-economic provisions are recognised to reflect an increased PD and LGD, in addition to the core impairment provisions, already recognised based on future macroeconomic scenarios. The provision reflects the potential for future changes in unemployment under a range of unemployment forecasts, as analysis has clearly evidenced correlation between changes in unemployment and credit losses incurred by the Company. The Company will continue to analyse and assess if there are any additional macroeconomic indicators which also correlate with credit losses.

Estimates

The level of impairment is calculated using models which estimate: (i) PD using customer behaviour, (ii) EAD on

Key sources of estimation uncertainty (continued)

balances and headroom; and (iii) LGD using historical payment performance to generate the estimated amount and timing of future cash flows 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 performance of customers could be different from the assumptions used, a material adjustment to the carrying value of amounts receivable from customers may be required.

The Company has reviewed customer behaviour in light of Covid-19 to adjust the calculations of PD and LGD.

This reflects assumptions in respect of:

- Higher PD's and LGD's for customers who have already activated a payment holiday;
- Higher PD's from increased arrears and additional defaults where a customer has not taken up a payment holiday. Future default expectations have been derived from analysis of previous customer behaviour, including utlisation history;
- Higher LGD's where recoveries from the customer may be impacted, as well as lower recoveries from third-party debt collection agencies and external debt sales; and
- The potential impact to PD or LGD as a result of changing forecasts of macroeconomic environment.

Based on IASB guidance, the activation of a payment holiday by a customer is not automatically deemed to be indicative of a significant increase in credit risk (SICR). A customer who is not in arrears on activation of a payment holiday, would remain in stage 1 unless internal data analysis indicates a SICR. If this were to be evident, a customer would be moved to stage 2. Individual customer behaviour has continued to be analysed to understand repayment behaviour on exit of a payment holiday to update the PDs, and stage classification, accordingly.

The unemployment data has been compiled from a consensus of sources including the Bank of England, HM Treasury, the Office for Budget Responsibility (OBR), Bloomberg and a number of prime banks. The table below shows the annual peak and average unemployment assumptions used at year end reporting. The combined severe and downside scenarios have doubled from 20% at 31 December 2019 to 40% at 31 December 2020 to reflect the uncertain outlook:

Unemployment rate %	Base	Upside	Downside	Severe
Weighting	50%	10%	35%	5%
2020				
Peak	7.9	6.2	10.1	12.7
Average	7.1	5.7	9.0	11.2
2021				
Peak	6.7	5.0	8.5	10.4
Average	6.1	4.8	7.7	9.0

Whilst the forward-looking nature of IFRS 9 requires provisions to be established for all losses arising out of the current Covid-19 crisis, the level of uncertainty may mean that additional impairment provision, or releases, may be required in future periods. Sensitivity analysis of the Company's main assumptions are set out in note 10.

Key sources of estimation uncertainty (continued)

Directly attributable acquisition costs – £32.9m (2019: £31.8m)

Judgements

Costs that are directly attributable and incremental to the issue or acquisition of a financial instrument are recognised as an adjustment to the effective interest rate ("EIR") and so spread over the expected life of the related instrument.

Directly attributable acquisition costs (DAC) paid to affiliates for new account bookings are recognised as an adjustment to the EIR and amortised over their expected average behavioural life of a credit card account. Whilst the fee is incremental and can be directly attributed to individual accounts, management uses judgement to determine:

- That the acquisition cost can be capitalised as it is directly attributable and incremental to the issue or acquisition of the financial instrument itself. Whilst there is no contractual guarantee that a financial asset will be created, based on the historical activation levels of new customers within a short timeframe, management considers that the creation of an asset is highly probable and that the treatment of the credit card as a financial asset is appropriate.
- That an average behavioural life of a credit card account is an appropriate estimate of the expected life of the instrument.

Estimates

The Company uses past customer activation rates and past behaviour of customer accounts to determine that DAC can be capitalised and that the appropriate average expected credit card life is 5 years. Management monitors the appropriateness of the expected life as and when there are material changes impacting the receivables book. Given the impact of Covid-19, the Company has undertaken an assessment of the appropriateness of the expected life of 5 years. The analysis has been performed by: (i) updating the assessment of the average life of customers; and (ii) assessing the level of charge offs to determine whether the expected life has been impacted. Based on the Company's assessment, the expected life of 5 years remains appropriate, but the Company will continue to assess the appropriateness on an annual basis. Had the expected life been one year less, the balance sheet value at 31 December 2020 would have been reduced by £1.4m and revenue in 2020 would have been £1.4m lower.

FINANCIAL AND CAPITAL RISK MANAGEMENT

In line with the Board's formal delegation of authorities and regulatory accountabilities, the Chief Risk Officer is ultimately responsible for management and oversight of the Company's Enterprise Risk Management and the Finance Director is ultimately responsible for the financial management and controls of the Company.

The Company also operates within a Group treasury framework and is subject to Group Treasury Policies including counterparty, liquidity, interest rate, market and capital risk.

(a) Credit risk

Credit risk is the risk that the Company will suffer loss in the event of a default by a customer, the ultimate parent undertaking, a bank counterparty or the UK Government. A default occurs when the customer, ultimate parent undertaking, bank or the UK Government fails to honour repayments as they fall due.

(i) Amounts receivable from customers

The Company's maximum exposure to credit risk on amounts receivable from customers as at 31 December 2020 is the carrying value of amounts receivable from customers of £1,094.3m (2019: £1,461.5m).

The Risk Committee is responsible for setting credit policy. The Chief Risk Officer 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 Chief Risk Officer discharges and informs this decision making through the Credit Risk Forum. The Credit Risk Forum meets at least ten times a year.

A customer's risk profile and credit line are evaluated at the point of application and at various times during the agreement. Internally generated scorecards based on both internally held data and data from external credit bureau 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. An affordability assessment is also carried out at application. 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 based on a combination of central letters, inbound and outbound telephony, SMS, e-mail and outsourced debt collection agency activities. Contact is made with the customer to discuss the reasons for non-payment and customer specific strategies are employed to support the customer in returning to a good standing.

(ii) Loan to ultimate parent undertaking

The Company's maximum exposure to the loan to the ultimate parent undertaking as at 31 December 2020 is the carrying value of the loan of £69.3m (2019: £nil). An assessment of the appropriate amount of the loan and recoverability was made on granting of the loan in August 2020 based on the credit status of the ultimate parent undertaking which was BB+ with a negative outlook. The assessment was challenged by the Risk Office and approved by the Board. The Company monitors regulatory announcements made by the ultimate parent undertaking in assessing the recoverability of the loan which matures in August 2022. The ultimate parent undertaking has since been downgraded to BB with a negative outlook, however the Company does not believe this has had a material impact on the recoverability of the loan.

(iii) Counterparty risk

The counterparty risk policy is approved by the Board as part of the Company's Treasury and Liquidity Policy with management delegated to the Finance Director. The main exposure is the liquid resources (together with an operational buffer) which the Company holds to comply with its regulatory liquidity obligations which are currently held in a Bank of England central reserve account. The Company does on occasion invest in UK Government Gilts but had £nil at the end of the reporting period (2019: £nil). The Company's maximum exposure to credit risk on bank and government counterparties as at 31 December 2020 was £833.3m (2019: £321.9m).

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk
Liquidity risk is the risk that the Company will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due.

The Company's funding is provided primarily by retail deposits, supported by internal cash generation. The deposits are a mix of 6-month deposits introduced at the onset of Covid-19 and one, two, three, four and five year deposits with early withdrawal only allowed in the event of death, mandated legal reasons or hardship, thus ensuring a stable and predictable funding profile.

The Company's Liquidity Policy is approved by the Board with day-to-day management delegated to the Finance Director who discharges and informs the decision-making through the Assets & Liabilities Forum. This Forum meets monthly and reports to the Board. The Managing Director is a member of the Assets and Liabilities Forum and the Group Treasurer also attends meetings. Updates are also provided to the Group Treasury Committee through the Finance Director.

The Company's liquidity policy is designed to ensure that it can meet its obligations in the event of stress events. The Company undertakes stress testing to determine the level of liquid resources it should hold to comply with its regulatory obligations. The assumptions in the stress testing are updated at least annually in the Company's ILAAP to ensure continued compliance of the policy to regulatory obligations. The Risk Committee is engaged to provide review and challenge of the ILAAP. The Risk Committee will then recommend the ILAAP to the Board for approval. Key elements of this policy are to maintain overall liquid resources to meet obligations should stress events occur to funding inflows (for example the suspension of deposit taking activities) and outflows (for example increased level of customer transactions). The ILAAP also incorporates the Company's Contingency Funding Plan which documents mitigating actions and procedures to be followed in the event of liquidity stress events. The 2020 ILAAP was reviewed by the Risk Committee and approved by the Board.

Since October 2015 the Company has complied and reported to the PRA the Liquidity Coverage Ratio (LCR) which requires institutions to match prescribed net liquidity outflows during a 30-day period with a buffer of 'high quality' liquid assets.

The Company's liquid assets buffer amounted to £833.3m at the end of 2020, up significantly from £321.9m at the end of 2019 following the additional liquidity raised at the onset of the Covid-19 pandemic.

A maturity analysis of the undiscounted contractual cash flows of the Company's financial liabilities is shown below. This shows the future cash payable under current drawings and reflects both the interest payable and the repayment of the borrowing on maturity.

					2020
	<1 year	**1-2 years**	**2-5 years**	**>5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowings:					
- retail deposits	**919.9**	**332.3**	**472.6**	**-**	**1,724.8**
Trade and other payables	**49.8**	**-**	**-**	**-**	**49.8**
Lease liabilities	**5.3**	**5.5**	**18.2**	**13.7**	**42.7**
Total	**975.0**	**337.8**	**490.8**	**13.7**	**1,817.3**

					2019
	<1 year	1-2 years	2-5 years	>5 years	Total
	£m	£m	£m	£m	£m
Borrowings:					
- retail deposits	423.0	387.1	592.9	-	1,403.0
Trade and other payables	59.2	-	-	-	59.2
Lease liabilities	4.3	2.8	19.4	21.1	47.6
Total	486.5	389.9	612.3	21.1	1,509.8

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(c) Market risk
Market risk is the risk of financial loss due to adverse market movements leading to a reduction in the Company's earnings or overall value. The Company's primary market risk exposure is to changes in interest rates *(see Interest Rate Risk below).* The Company is also exposed to a small amount of Foreign Exchange risk through its investments in non-GBP VISA shares.

The Company's Corporate Policies do not permit any subsidiary to take trading positions and no speculative activities are undertaken.

(d) Interest Rate Risk in the Banking Book
Interest rate risk in the banking book (IRRBB) is the current or prospective risk to the Company's economic value and/or earnings arising from adverse movements in interest rates that affect the value of the Company's interest sensitive assets and liabilities.

The Company does not seek to generate income through maturity transformation and where feasible adopts an approach of funding its assets with liabilities of a similar tenor to reduce volatility in earnings and economic value over time. The company's interest rate hedging policy is set out in its Treasury and Liquidity Policy which is approved by the Board.

The Group measures its risk according to both Net Interest Income and Economic Value metrics. In line with previous years, the Company's behavioural interest rate risk profile remains significantly lower than the supervisory outlier tests for a 2% parallel movement in interest rates.

(e) Capital risk management
The Company's objective in respect of capital risk management is to maintain an efficient and secure capital structure and maintain an adequate buffer over the regulatory capital requirements set by the PRA.

The Company is subject to prudential regulation and supervision by the PRA. As part of this supervision, it is required to maintain a certain level of regulatory capital (known as its OCR) in order to mitigate against unexpected losses. The Finance Director is responsible for ongoing monitoring of the level of regulatory capital and the level of surplus regulatory capital against the OCR is reported to the Board on a monthly basis in the Finance Director's report. The Company regularly forecasts regulatory capital requirements as part of its budgeting and strategic planning process and the Company and the Group are required to report quarterly to the PRA on their level of regulatory capital.

As required by the PRA, under the Basel III regulatory framework, the Company also undertakes an ICAAP at least annually. This documents the control framework and the risks faced by the Company including those on its risk register. Capital allocations are made against these risks where appropriate and stress tests run to satisfy management that the level of the Company's capital is adequate even under stressed conditions. The ICAAP is approved by the Risk Committee and the Board.

As part of the regulation/supervision by the PRA, the Group, consistent with other regulated financial institutions, is required to make annual Pillar III disclosures which set out information on the Group's regulatory capital, risk exposures and risk management processes. Where necessary the disclosures separate out the exposures and processes for the Company. The Group's full Pillar III disclosures can be found on the Group's website, www.providentfinancial.com.

In accordance with PRA 2013/36, the Company's positive return on assets is 2.02% (2019: 7.34%) calculated using profit after tax divided by total assets.

FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

(f) Currency risk management

The Company has currency exposures in US Dollars as a result of its investment in VISA Inc. As at 31 December 2020, a 2% movement in the sterling to US dollar exchange rate would have led to a £0.2m (2019: £0.5m) movement in the investment held at fair value through other comprehensive income and a £0.2m impact on equity.

(g) Recovery and resolution risk management

As required by the PRA, the Company must maintain a Recovery and Resolution Plan (RRP) which documents recovery options in a severe stress. It aims to ensure that recovery options can be mobilised quickly and effectively and to provide regulatory authorities with information to construct resolution plans if necessary. The RRP is approved by the Risk Committee and the Board on an annual basis.

(h) Brexit

On 31 January 2020 the UK withdrew from the European Union and a transitional period formally ended on 31 December 2020. The economic outlook post Brexit remains uncertain against the backdrop of the impact of the Covid-19 pandemic and there remains a significant amount of instability in the UK economy and capital markets, albeit unemployment levels have remained stable due to the UK Government's job retention schemes.

Despite any potential second order risks of Brexit, the Company has proven resilient during previous economic downturns due to the specialist nature of its business model which is tailored to serving non-standard customers. In addition, the Company has tightened underwriting over the last three years in advance of a potential weakening in the UK economy.

The Company is currently fully funded by retail deposits to fund growth and no effect is anticipated on the Company's ability to access retail deposits, although it maintains an operational buffer over its liquid requirements stipulated by the PRA to withstand any short-term disruption. In the event of a prolonged period of market disruption then the Company has the ability to manage receivables growth and/or dividend flows.

The Company had surplus regulatory capital at the end of 2020. 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.

NOTES TO THE FINANCIAL STATEMENTS

1 Income

	2020 £m	2019 £m
Interest income	**404.0**	471.5
Interest income from loan to ultimate parent undertaking	**1.7**	-
Fee income	**83.5**	118.9
Total	**489.2**	590.4

Management regards the business as one operating segment.

2 Finance costs

	2020 £m	2019 £m
Interest payable on customer retail deposits	**34.4**	33.2
Interest payable on lease liabilities	**1.1**	1.2
Total	**35.5**	34.4

3 Profit before taxation

	2020 £m	2019 £m
Profit before taxation is stated after charging/(crediting):		
Amortisation of other intangible assets:		
- Computer software (note 15)	**4.6**	3.3
Depreciation of property, plant and equipment (note 14)	**2.7**	1.4
Depreciation of right of use asset (note 16)	**5.0**	5.0
Lease liability finance cost (note 2)	**1.1**	1.2
Loss on disposal of intangible assets (note 15)	**0.6**	-
Employment costs (note 8)	**64.2**	71.4
Management fee income	**(5.3)**	(6.9)
IT annual licensing fee and service charges	**18.7**	17.8
Amortised directly attributable acquisition costs	**10.8**	7.8
Impairment of amounts receivable from customers (note 10)	**239.9**	198.9
Exceptional item (note 4)	**(8.3)**	(12.4)

	2020 £m	2019 £m
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the financial statements	**0.7**	0.4
Total	**0.7**	0.4

An additional £78,000 was due to the Company's auditor in respect of non audit-related assurance services (2019: £45,000).

The ultimate parent undertaking recharges certain administrative costs to the Company in respect of services provided totalling £5.2m (2019: £5.2m).

4 Exceptional items

On 27 February 2018, a resolution was reached with the FCA in respect of their investigation into ROP. The investigation concluded that the Company 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. A settlement was reached with the FCA to refund those customers with the interest element of ROP charges in the period between inception of the product in 2003 and the communication to ROP customers which was conducted in December 2016. A provision was made in the 2017 financial statements of £172.1m.

The refund programme commenced in March 2018 and was completed during 2019 with nearly 1.3 million customers being refunded in total. As a result of the 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, £8.3m of the provisions originally established in 2017 were released during 2020 (2019: £14.2m) and recorded as an exceptional item.

(Credit)/Charge	**2020 £m**	2019 £m
Exceptional items:		
– release of ROP provisions (see note 22)	**(8.3)**	(14.2)
– internal reorganisation and recruitment costs	**-**	1.8
Total net exceptional credit	**(8.3)**	(12.4)

5 Tax charge

Tax charge in the income statement	**2020 £m**	2019 £m
Current tax	**5.3**	42.4
Deferred tax (note 17)	**5.0**	9.4
Impact of change in UK tax rate	**(2.2)**	(0.4)
Total tax charge	**8.1**	51.4

The tax charge in respect of exceptional costs in 2020 amounts to £2.2m (2019: £5.5m). This represents a tax charge of £2.2m (2019: £6.0m) at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of the £8.3m (2019: £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 more generally. In the case of 2019, it also represents 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 and tax on the release of the related impairment provision. In addition, for 2019, it represents a tax credit of £0.5m, being tax at the combined mainstream corporation tax rate and bank corporation tax surcharge rate of 27% in respect of £1.8m of restructuring and recruitment costs.

5 Tax charge (continued)

The rate of tax charge on the profit before taxation for the year is lower than (2019: the same as) the average rate of mainstream UK corporation tax and bank corporation tax surcharge rate in the UK of 27.0%. This can be reconciled as follows:

	2020 **£m**	2019 £m
Profit before taxation	**50.7**	190.0
Profit before taxation multiplied by the average rate of mainstream corporation tax and bank surcharge in the UK of 27% (2019: 27%)	**(13.7)**	(51.4)
Effect of:		
- adjustment in respect of prior years	**-**	(0.1)
- impact of change of UK tax rate (Note a)	**2.2**	0.4
- impact of permanent differences	**(0.2)**	-
- non-deductible bank compensation expenses (Note d)	**-**	(2.0)
- additional 10% of bank compensation expenses (Note d)	**-**	(0.3)
- profits not taxed for bank surcharge purposes (Note e)	**2.0**	2.0
- group capital losses transferred free of charge (Note b)	**0.9**	-
- movement in unrecognised deferred tax assets (Note b)	**1.1**	-
- deferred tax assets written off (Note c)	**(0.4)**	-
Total tax charge	**(8.1)**	(51.4)

a) Impact of change of UK tax rates

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015 changes in corporation tax rates 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 corporation tax rate from 18% to 17% with effect from 1 April 2020. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate has remained at 19% for 2020.

Deferred tax balances at 31 December 2019 were measured at the combined mainstream corporation tax and bank corporation tax surcharge rate of 25% to the extent that the temporary differences on which the deferred tax had been calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances have been re-measured at the combined mainstream corporation tax and bank corporation tax surcharge rate of 27% (2019: 25%), as have movements in the deferred tax balances during the year.

A tax credit of £2.2m (2019: credit of £0.4m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.2m (2019: credit of £0.1m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income.

b) Benefit of capital losses

The conversion and subsequent sale of the preference shares in Visa Inc during the year has given rise to a capital gain which has been offset partly by: (a) Group capital losses transferred free of charge which give rise to a beneficial impact on the tax charge of £0.9m (2019: nil); and (b) brought forward capital losses previously transferred from elsewhere in the Group, in respect of which a deferred tax asset was not previously recognised, which gives rise to a beneficial impact on the tax charge of £1.1m (2019: £nil).

c) Deferred tax assets written off

Deferred tax assets written off of £0.4m (2019: £nil) relates to deferred tax assets in respect of share scheme awards where future tax deductions are expected to be lower than previously anticipated.

5 Tax charge (continued)

d) Bank compensation payments

In 2019, 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 arose 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 gave rise to an adverse impact on the tax charge of £2.0m. 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 gave rise to an adverse impact on the tax charge of £0.3m.

e) Profits not taxed for banking surcharge purposes

The first £25m (2019: £25m) of the company's taxable profits are not subject to the bank corporation tax surcharge, giving rise to a beneficial impact on the tax charge of £2.0m (2019: £2.0m).

6 Dividends

		2020 **£m**	2019 £m
2018 final	- 48.1 pence per share	**-**	59.8
2019 interim	- 64.4 pence per share	**-**	80.0
2019 final	- 64.4 pence per share	**80.0**	-
2020 interim	- 24.2 pence per share	**30.0**	-
Dividends paid		**110.0**	139.8

No final dividend for the year ended 31 December 2020 is proposed (2019: £80.0m). On 31 March 2021 an interim dividend was paid amounting to £40m, equating to 32.20 pence per share.

7 Directors' remuneration

The remuneration of the Directors, who are deemed to be the key management of the Company, is set out below:

	2020	2019
	£m	£m
Short-term employee benefits	**1.8**	2.2
Share-based payment charge	**(0.1)**	0.1
Total	**1.7**	2.3

The Directors' emoluments disclosed above exclude the emoluments of Malcolm Le May and Neeraj Kapur (2019: Malcolm Le May), which are paid by the ultimate parent company, PF plc, and recharged to the Company, as part of a management charge.

The emoluments of these Directors are disclosed in the Annual Report of PF plc. The management charge, which in 2020 amounted to £5.2m (2019: £5.2m), includes a recharge of administration costs borne by the ultimate parent company on behalf of the Company but it is not possible to identify separately the recharge amount of the emoluments of Malcolm Le May and Neeraj Kapur (2019: Malcolm Le May).

Retirement benefits accrue to two Directors under a money purchase scheme (2019: one) to which the Company contributed £7,200 (2019: £15,000). Three Directors are entitled to shares under the PF plc share option/award arrangements (2019: two).

Fees and other emoluments of the highest paid Director are as follows:

	2020	2019
	£m	£m
Short-term employee benefits	**0.8**	1.2
Share-based payment charge	**-**	-
Total	**0.8**	1.2

The above Director accrued £nil of benefits under a defined benefit pension arrangement during the year (2019: £nil).

8 Employee information

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

	2020	2019
	Number	Number
Analysed as:		
Full time	**1,301**	1,366
Part time	**178**	171
Total	**1,479**	1,537

8 Employee information (continued)

(b) Employment costs – all employees (including directors) were as follows:

	2020	2019
	£m	£m
Aggregate gross wages and salaries paid to the Company's employees	**52.8**	60.0
Employers' National Insurance contributions	**5.6**	6.6
Pension charge	**5.0**	4.6
Share-based payment charge	**0.8**	0.2
Total	**64.2**	71.4

The pension charge comprises contributions to the stakeholder pension scheme.

9 Cash and cash equivalents

	2020	2019
	£m	£m
Cash and cash equivalents	833.6	325.2

Cash and cash equivalents include £833.3m in Bank of England Central reserve account (2019: £321.9m) held in accordance with the PRA's liquidity regime together with an operational buffer. The cash and cash equivalents amount also includes £0.1m of restricted cash held within the Bank of England collateral account, and £2.3m (2019: £3.9m) of unpresented cheques reducing the reported balance.

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 ILAAP undertaken by the Company. Liquid resources must be maintained based upon daily stress tests linked to the key drivers of liquidity risk. This results in a dynamic liquid resources requirement.

10 Amounts receivable from customers

The Company's receivables comprise £1,075.1m (2019: £1,432.5m) in respect of credit cards and £19.2m (2019: £29.0m) in respect of loans.

All of the Company's card receivables are due within one year. There is no fixed term for repayment of credit card balances 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, or £10.

The Company's unsecured loan receivables are reported as current for amounts due within 12 months and non-current for amounts due in greater than 12 months. The loans are on a fixed repayment term with fixed payments over the period of the loan.

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

	2020	2019
	£m	£m
Gross amounts receivable from customers	**1,568.5**	1,903.1
Allowance account	**(474.2)**	(441.6)
Reported amounts receivable from customers	**1,094.3**	1,461.5

10 Amounts receivable from customers (continued)

Amount receivable from customers can be reconciled as follows:

				2020
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross carrying amount				
At 1 January	**1,367.9**	**171.6**	**363.6**	**1,903.1**
New financial assets originated and new drawdowns	**1,931.7**	**47.5**	**31.6**	**2,010.8**
Net transfers and changes in credit risk:	**(333.3)**	**50.7**	**282.6**	**-**
- From stage 1 to 2	**(664.7)**	**664.7**	**-**	**-**
- From stage 1 to 3	**(127.5)**	**-**	**127.5**	**-**
- From stage 2 to 1	**412.9**	**(412.9)**	**-**	**-**
- From stage 2 to 3	**-**	**(224.9)**	**224.9**	**-**
- From stage 3 to 1	**46.0**	**-**	**(46.0)**	**-**
- From stage 3 to 2	**-**	**23.8**	**(23.8)**	**-**
Write-offs	**(12.2)**	**(13.4)**	**(253.0)**	**(278.6)**
Payments	**(2,334.5)**	**(127.0)**	**(115.3)**	**(2,576.8)**
Income	**418.3**	**56.4**	**6.7**	**481.4**
Other movements	**6.6**	**2.6**	**19.4**	**28.6**
At 31 December	**1,044.5**	**188.4**	**335.6**	**1,568.5**
Allowance account				
At 1 January	**(146.6)**	**(85.2)**	**(209.8)**	**(441.6)**
Movements through income statement:				
Drawdowns and net transfers and changes in credit risk	**(34.6)**	**(17.3)**	**(188.0)**	**(239.9)**
- From stage 1 to 2	**137.3**	**(334.6)**	**-**	**(197.3)**
- From stage 1 to 3	**20.7**	**-**	**(62.8)**	**(42.1)**
- From stage 2 to 1	**(95.5)**	**212.5**	**-**	**117.0**
- From stage 2 to 3	**-**	**153.2**	**(167.5)**	**(14.3)**
- From stage 3 to 1	**(3.4)**	**-**	**7.1**	**3.7**
- From stage 3 to 2	**-**	**(2.3)**	**1.6**	**(0.7)**
- Other movements	**(93.7)**	**(46.1)**	**33.6**	**(106.2)**
Total movements through income statement	**(34.6)**	**(17.3)**	**(188.0)**	**(239.9)**
Other movements:				
Write-offs	**12.2**	**13.4**	**253.0**	**278.6**
Amounts recovered	**(1.0)**	**(1.1)**	**(69.2)**	**(71.3)**
Allowance account at 31 December	**(170.0)**	**(90.2)**	**(214.0)**	**(474.2)**
Reported amounts receivable from customers at 31 December	**874.5**	**98.2**	**121.6**	**1,094.3**
Reported amounts receivable from customers at 1 January	**1,221.3**	**86.4**	**153.7**	**1,461.5**

10 Amounts receivable from customers (continued)

				2019
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross carrying amount				
At 1 January	1,303.3	174.7	519.7	1,997.7
New financial assets originated and new drawdowns	2,252.1	135.6	35.2	2,422.9
Net transfers and changes in credit risk:	(269.9)	20.1	249.8	-
- From stage 1 to 2	(807.1)	807.1	-	-
- From stage 1 to 3	(30.8)	-	30.8	-
- From stage 2 to 1	512.8	(512.8)	-	-
- From stage 2 to 3	-	(252.1)	252.1	-
- From stage 3 to 1	55.4	-	(55.4)	-
- From stage 3 to 2	-	(22.2)	22.2	-
Write-offs	(12.1)	(18.0)	(348.1)	(378.2)
Recoveries	(2,417.8)	(229.7)	(111.9)	(2,759.4)
Income	496.7	87.1	(3.0)	580.8
Other movements	15.6	1.8	21.9	39.3
At 31 December	1,367.9	171.6	363.6	1,903.1
Allowance account				
At 1 January	(187.1)	(58.6)	(256.9)	(502.6)
Movements through income statement:				
Drawdowns and net transfers and changes in credit risk	34.5	(43.9)	(189.5)	(198.9)
- From stage 1 to 2	95.5	(314.0)	-	(218.5)
- From stage 1 to 3	13.3	-	(56.3)	(43.0)
- From stage 2 to 1	(84.9)	220.7	-	135.8
- From stage 2 to 3	-	183.0	(200.4)	(17.4)
- From stage 3 to 1	(2.2)	-	6.2	4.0
- From stage 3 to 2	-	(2.2)	2.0	(0.2)
- Other movements	12.8	(131.4)	59.0	(59.6)
Total movements through income statement	34.5	(43.9)	(189.5)	(198.9)
Other movements:				
Write-offs	12.1	18.0	348.0	378.1
Amounts recovered	(6.1)	(0.7)	(111.4)	(118.2)
Allowance account at 31 December	(146.6)	(85.2)	(209.8)	(441.6)
Reported amounts receivable from customers at 31 December	1,221.3	86.4	153.8	1,461.5
Reported amounts receivable from customers at 1 January	1,116.2	116.1	262.8	1,495.1

10 Amounts receivable from customers (continued)

Write offs have reduced significantly in 2020 due to (i) tightened underwriting of new customer bookings as a result of Covid-19, (ii) lower new customer bookings; and (iii) higher number of customers remaining up-to-date due to payment holidays and government support. The Company's allowance accounts include the macro-economic provision which takes account of the expected changes in unemployment under a range of unemployment forecasts. The table below shows the annual peak and average unemployment assumptions used at year end reporting. The combined severe and downside scenarios have doubled from 20% at 31 December 2019 to 40% at 31 December 2020 to reflect the uncertain outlook:

Unemployment rate %	Base	Upside	Downside	Severe
Weighting	50%	10%	35%	5%
2020				
Peak	7.9	6.2	10.1	12.7
Average	7.1	5.7	9.0	11.2
2021				
Peak	6.7	5.0	8.5	10.4
Average	6.1	4.8	7.7	9.0

A 5% increase in the weighting from 35% to 40% with the base weighting reduced by an equal amount to 45% would result in an increase of £2.1m in the allowance account. Increasing the upside weighting by 5% to 15% and reducing the base weighting by an equal amount to 45% would reduce overall provisions by £1.5m. The impact on the allowance account if each macroeconomic scenario was applied at 100% weighting is i) £16.2m reduction for base, ii) £45.8m reduction for upside, iii) £24.8m increase for downside and; iv) £80m increase for severe scenario.

As at 31 December, unutilised credit card commitments were £1,180.6m (2019: £1,101.1m).

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £3.3m (2019: £5.3m) based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

In assessing the credit quality of receivables, the Company uses its internal credit scoring behavioural scores. A breakdown of the gross receivable by credit risk rating is shown below.

	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Good	**937.6**	**89.5**	**-**	**1,027.1**
Satisfactory	**106.9**	**98.9**	**-**	**205.8**
Lower quality	**-**	**-**	**335.6**	**335.6**
Total	**1,044.5**	**188.4**	**335.6**	**1,568.5**

The fair value of amounts receivable from customers is approximately £1.2bn (2019: £1.9bn). Fair value has been derived by discounting expected future cash flows at the credit risk adjusted discount rate at the balance date. Fair value measurement of the amounts receivable from customers is categorised in level 3 of the fair value hierarchy.

Included in amounts receivable from customers are unamortised directly attributable acquisition costs (DAC) of £32.9m (2019: £31.8m) relating to acquisition costs in respect of affiliates. Directly attributable acquisition costs are capitalised and amortised over the expected life of customer accounts (average of 5 years) as a deduction to income. In 2020 amortisation was £10.8m (2019: £7.8m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Loan to ultimate parent undertaking

In August 2020, the Company issued a 2 year £70m loan with a fixed interest rate of 6.25% p.a. to Provident Financial plc, the Company's ultimate parent. The loan matures in August 2022. The carrying amount of £69.3m at 31 December 2020 is net of the ECL impairment provision of £0.7m. The Company recognised income on the loan of £1.7m in 2020. Contractually, accrued interest is repaid to the Company on the last business day of the month and is not compounded. The fair value of the loan is approximately equal to the book value.

12 Trade and other receivables

Current assets	**2020 £m**	2019 £m
Other debtors	**11.4**	0.3
Prepayments and accrued income	**8.3**	7.5
Total	**19.7**	7.8

The maximum exposure to credit risk of trade and other receivables is the carrying value of each class of receivable set out above. There is no collateral held in respect of trade and other receivables (2019: £nil). The fair value of trade and other receivables equates to their book value.

Prepayments and accrued income include £0.6m (2019: £0.6m) of inventory in the form of plastic card stock and stationery.

13 Investments

Investments comprise preferred shares in Visa, Inc. held by the Company which had a fair value of £9.2m as at 31 December 2020 (2019: £16.6m).

The Visa Inc. shares represent preferred stock in Visa Inc. held by the Company following completion of Visa Inc.'s acquisition of Visa Europe Limited on 21 June 2016. In consideration for the Company's interest in Visa Europe Limited, the Company 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.

During 2020 there was a partial conversion event and 50% of the preferred stock was converted into class A shares which were then sold in December, as the shares are non-core to the business, and it was deemed economically efficient by management to liquidate. On disposal of the shares, the cumulative gain recognised in the fair value reserve was transferred to retained earnings (£7.4m) net of the tax arising on the disposal (£2.0m). The movement in the fair value during the year of the A shares, until they were sold, and the preferred stock, of £3.8m has been recognised in the statement of comprehensive income (2019: £4.4m).

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 tradeable 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.

14 Property, plant and equipment

	Leasehold land and buildings £m	Equipment £m	Total £m
Cost			
At 1 January 2020	**4.7**	**13.6**	**18.3**
Additions	**-**	**5.0**	**5.0**
Disposals	**-**	**(7.0)**	**(7.0)**
At 31 December 2020	**4.7**	**11.6**	**16.3**
Accumulated depreciation			
At 1 January 2020	**1.7**	**10.3**	**12.0**
Charged to the income statement	**0.4**	**2.3**	**2.7**
Disposal	**-**	**(4.8)**	**(4.8)**
At 31 December 2020	**2.1**	**7.8**	**9.9**
Net book value at 31 December 2020	**2.6**	**3.8**	**6.4**
Net book value at 1 January 2020	3.0	3.3	6.3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Property, plant and equipment (continued)

	Leasehold land and buildings £m	Equipment £m	Total £m
Cost			
At 1 January 2019	4.7	10.9	15.6
Additions	-	2.7	2.7
At 31 December 2019	4.7	13.6	18.3
Accumulated depreciation			
At 1 January 2019	1.3	9.3	10.6
Charged to the income statement	0.4	1.0	1.4
At 31 December 2019	1.7	10.3	12.0
Net book value at 31 December 2019	3.0	3.3	6.3
Net book value at 1 January 2019	3.4	1.6	5.0

15 Intangible assets

	Computer software £m	Computer software under development £m	Total £m
Cost			
At 1 January 2020	**20.4**	**-**	**20.4**
Additions	**8.0**	**6.1**	**14.1**
Disposals	**(5.7)**	**-**	**(5.7)**
At 31 December 2020	**22.7**	**6.1**	**28.8**
Accumulated amortisation			
At 1 January 2020	**14.9**	**-**	**14.9**
Charged to the income statement	**4.6**	**-**	**4.6**
Disposals	**(5.1)**	**-**	**(5.1)**
At 31 December 2020	**14.4**	**-**	**14.4**
Net book value at 31 December 2020	**8.3**	**6.1**	**14.4**
Net book value at 1 January 2020	5.5	-	5.5

15 Intangible assets (continued)

	Computer software £m	Computer software under development £m	Total £m
Cost			
At 1 January 2019	16.0	-	16.0
Additions	4.4	-	4.4
Disposals	-	-	-
At 31 December 2019	20.4	-	20.4
Accumulated amortisation			
At 1 January 2019	11.6	-	11.6
Charged to the income statement	3.3	-	3.3
Disposals	-	-	-
At 31 December 2019	14.9	-	14.9
Net book value at 31 December 2019	5.5	-	5.5
Net book value at 1 January 2019	4.4	-	4.4

The loss on disposal of computer software in 2020 amounted to £0.6m (2019: £nil) and represented proceeds received of £nil (2019: £nil) less the net book value of disposals of £0.6m (2019: £nil).

The additions of £14.1m (2019: £4.4m) include £13.1m (2019: £4.3m) of internally generated assets.

16 Right of use assets

	2020 £m	2019 £m
Cost		
At 1 January	**54.0**	54.0
Additions	**-**	-
At 31 December	**54.0**	54.0
Accumulated depreciation and impairment		
At 1 January	**13.3**	8.3
Charged to the income statement	**5.0**	5.0
At 31 December	**18.3**	13.3
Net book value at 31 December	**35.7**	40.7
Net book value at 1 January	**40.7**	45.7

All right of use assets relates to property leases.

17 Deferred tax

Deferred tax is a future tax liability or asset resulting from temporary differences between the accounting value of assets and liabilities and their value for tax purposes. Deferred tax arises primarily in respect of 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, equity investment holdings held at fair value 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 directly attributable acquisition costs which is taxable over 10 years and the opening balance sheet adjustment in respect of the adoption of IFRS 16 (Leases) which is deductible over the average period of the relevant leases.

In addition to the introduction of bank corporation tax surcharge with effect from 1 January 2016, during 2015 changes in corporation tax rates were 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 corporation tax rate from 18% to 17% with effect from 1 April 2020. In 2020, the reduction in the mainstream corporation tax rate to 17% was cancelled and the rate has remained at 19% for 2020.

Deferred tax balances at 31 December 2019 were measured at the combined mainstream corporation tax and bank corporation tax surcharge rate of 25% to the extent that the temporary differences on which the deferred tax had been calculated were expected to reverse after 1 April 2020. The exception to this was the opening balance sheet adjustment to restate the IAS 39 balance sheet on to an IFRS 9 basis where deferred tax was measured at the combined mainstream and bank corporation tax surcharge rates at which the amount would be tax deductible over the next 10 years. During 2020, these deferred tax balances have been re-measured at the combined mainstream corporation tax and bank corporation tax surcharge rate of 27% (2019: 25%), as have movements in the deferred tax balances during the year. A tax credit of £2.2m (2019: credit of £0.4m) represents the income statement adjustment to deferred tax as a result of these changes and an additional deferred tax charge of £0.2m (2019: credit of £0.1m) has been taken directly to other comprehensive income in respect of items reflected in other comprehensive income.

17 Deferred tax (continued)

Asset	**2020** **£m**	2019 £m
At 1 January	**25.8**	35.1
Credit on adjustment arising on transition to IFRS 16	**-**	0.8
Charge to the income statement	**(5.0)**	(9.4)
Credit/(charge) on other comprehensive income	**1.0**	(1.2)
Impact of change in the UK tax rate:		
- Credit to the income statement	**2.2**	0.4
- (Charge)/credit to the other comprehensive income	**(0.2)**	0.1
At 31 December	**23.8**	25.8

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

	2020			2019		
	Accelerated capital allowances £m	**Other temporary differences £m**	**Total £m**	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 January as previously reported	**0.4**	**25.4**	**25.8**	0.5	34.6	35.1
Credit on adjustment arising on transition to IFRS 16	**-**	**-**	**-**	-	0.8	0.8
Credit/(charge) to the income statement	**0.2**	**(5.2)**	**(5.0)**	(0.1)	(9.3)	(9.4)
(Charge)/credit on other comprehensive income:						
- on fair value movements in investments	**-**	**(1.0)**	**(1.0)**	-	(1.2)	(1.2)
- on disposal of investments	**-**	**2.0**	**2.0**	-	-	-
Impact of change in the UK tax rate:						
- credit to the income statement	**-**	**2.2**	**2.2**	-	0.4	0.4
- (charge)/credit to the other comprehensive income	**-**	**(0.2)**	**(0.2)**	-	0.1	0.1
At 31 December	**0.6**	**23.2**	**23.8**	0.4	25.4	25.8

The £1.0m deferred tax charge (2019: £1.2m) recognised in other comprehensive income arises on the movement in the valuation of the "B" preference shares in Visa Inc which have been retained, as well as, for the preference shares that have been sold, the movement in the valuation up to the point of conversion and sale. The deferred tax credit of £2.0m (2019: £nil) recognised in other comprehensive income arises as a result of the conversion and sale of the preference shares in Visa Inc and represents the reversal of the £2.0m deferred tax charge in respect of the valuation of the Company's shareholding in the preference shares in Visa Inc which has been historically recognised in other comprehensive income.

No deferred tax asset is provided in respect of capital losses carried forward of £13.1m (2019: £18.7m) as it is not probable that future chargeable gains will be realised against which these losses can be utilised against.

18 Financial instruments

(a) Classification and measurement

The following table sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

				2020
	Investments held at fair value through OCI £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets				
Cash and cash equivalents	**-**	**833.6**	**-**	**833.6**
Amounts receivable from customers	**-**	**1,094.3**	**-**	**1,094.3**
Loan to ultimate parent undertaking	**-**	**69.3**	**-**	**69.3**
Trade and other receivables	**-**	**7.8**	**11.9**	**19.7**
Investment held as fair value through other comprehensive income	**9.2**	**-**	**-**	**9.2**
Property, plant and equipment	**-**	**-**	**6.4**	**6.4**
Intangible assets	**-**	**-**	**14.4**	**14.4**
Right of use asset	**-**	**-**	**35.7**	**35.7**
Deferred tax assets	**-**	**-**	**23.8**	**23.8**
Total assets	**9.2**	**2,005.0**	**92.2**	**2,106.4**
Liabilities				
Borrowings and retail deposits	**-**	**(1,683.2)**	**-**	**(1,683.2)**
Lease liabilities	**-**	**(42.7)**	**-**	**(42.7)**
Trade and other payables	**-**	**(29.4)**	**(20.4)**	**(49.8)**
Current tax liabilities	**-**	**-**	**(1.0)**	**(1.0)**
Provisions	**-**	**-**	**(2.6)**	**(2.6)**
Total liabilities	**-**	**(1,755.3)**	**(24.0)**	**(1,779.3)**

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

18 Financial instruments (continued)

				2019
	Investments held at fair value through OCI £m	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets				
Cash and cash equivalents	-	325.2	-	325.2
Amounts receivable from customers	-	1,461.5	-	1,461.5
Investment held as fair value through other comprehensive income	16.6	-	-	16.6
Trade and other receivables	-	0.3	7.5	7.8
Property, plant and equipment	-	-	6.3	6.3
Intangible assets	-	-	5.5	5.5
Right of use asset	-	-	40.7	40.7
Deferred tax assets	-	-	25.8	25.8
Total assets	16.6	1,787.0	85.8	1,889.4
Liabilities				
Borrowings and retail deposits	-	(1,345.2)	-	(1,345.2)
Lease liabilities	-	(47.6)	-	(47.6)
Trade and other payables	-	(59.2)	-	(59.2)
Current tax liabilities	-	-	(34.7)	(34.7)
Provisions	-	-	(11.6)	(11.6)
Total liabilities	-	(1,452.0)	(46.3)	(1,498.3)

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

The Company 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:

			2020
	Level 1 £m	**Level 2 £m**	**Level 3 £m**
Assets			
Investments held at fair value through other comprehensive income:			
Visa Inc. shares	**-**	**-**	**9.2**
Total assets	**-**	**-**	**9.2**

			2019
	Level 1 £m	Level 2 £m	Level 3 £m
Assets			
Investments held at fair value through other comprehensive income:			
Visa Inc. shares	-	-	16.6
Total assets	-	-	16.6

18 Financial instruments (continued)

Level 1 fair value measurements are those derived from quoted market prices in active markets for identical assets and liabilities.

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.

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 Company 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:

	2020 £m	2019 £m
At 1 January	**16.6**	12.2
Gains or losses recognised in other comprehensive income	**3.8**	4.4
Disposals	**(11.2)**	-
Total assets	**9.2**	16.6

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.

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:

	2020 £m	2019 £m
Illiquidity +/- 1%	**0.1**	0.2
Future litigation costs +/- 1%	**0.1**	0.2

19 Bank and other borrowings

(a) Borrowing facilities

The Company's borrowings are comprised of retail deposits. An amount of £23.0m (2019: £21.4m) included within trade and other payables represents short term trading accounts arising in respect of amounts owed to other Group companies for corporation tax payments on account made on the Company’s behalf, and for the benefit of tax losses claimed as group relief.

(b) Retail deposits

As at 31 December 2020, £1,683.2m (2019: 1,345.2m) of fixed-rate, fixed-term retail deposits of 6-month, one, two, three, four and five years had been taken, representing 107.3% (2019: 70.7%) of gross amounts receivable from customers. The deposits were issued at rates of between 0.15% and 1.85% (2019: 1.0% and 2.70%).

19 Bank and other borrowings (continued)

(c) Maturity profile of borrowings and facilities

The maturity profile of borrowings is as follows:

	2020 £m	2019 £m
Repayable:		
In less than one year	**908.0**	410.1
Between one and two years	**320.6**	372.1
Between two and five years	**454.6**	563.0
Total	**1,683.2**	1,345.2

As at 31 December 2020, the weighted average period to maturity of committed facilities was 1.2 years (2019: 2.2 years).

(d) Fair values of liabilities

The fair value of the Company's borrowings is compared to their book values as follows:

	2020		2019	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Retail deposits	**1,683.2**	**1,689.2**	1,345.2	1,351.6
Total	**1,683.2**	**1,689.2**	1,345.2	1,351.6

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 and are categorised within level 3 of the fair value hierarchy.

20 Lease liabilities

A maturity analysis of the lease liabilities is shown below:

	2020 £m	2019 £m
Due within one year	**6.3**	5.3
Due between one and five years	**26.0**	25.6
Due in more than five years	**14.0**	21.9
Total	**46.3**	52.8
Unearned finance cost	**(3.6)**	(5.2)
Total lease liabilities	**42.7**	47.6

The total cash outflow for leases in the year amounted to £6.0m. The Company has options to terminate the Compass South lease in September 2026 and the Pembroke Court lease in January 2026. As of year-end, the lease liability for Compass South was £10.9m (2019: £13.0m) and the lease liability for Pembroke Court was £8.8m (2019: £11.7m).

21 Trade and other payables

Current liabilities	2020 £m	2019 £m
Trade payables	**4.5**	1.8
Other payables including taxation and social security	**2.0**	1.5
Accruals and deferred income	**20.4**	34.5
Intercompany trading account	**22.9**	21.4
Total	**49.8**	59.2

The fair value of trade, other payables and intercompany trading account equates to their book value (2019: fair value equated to book value).

22 Provisions

Provision	2020 £m	2019 £m
At 1 January	**11.6**	45.7
Utilised	**(0.7)**	(17.9)
Released	**(8.3)**	(16.2)
At 31 December	**2.6**	11.6
Analysed as: - due within one year	**2.6**	11.6
- due in more than one year	**-**	-
Total	**2.6**	11.6

On 27 February 2018, the Company agreed a settlement with the FCA into their investigation into ROP. The investigation concluded that the Company 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 ROP refund programme was completed in 2019 with over 1.3 million current and former ROP customers refunded. As a result, the provision had reduced from £45.7m at 31 December 2018 to £11.6m at 31 December 2019. The provision reduced further from £11.6m at 31 December 2019 to £2.6m at 31 December 2020 reflecting: (i) cash settlements and administration costs of £0.7m (2019: £17.9m); and (ii) the release of £8.3m of the provisions originally established in 2017 as an exceptional credit (see note 4) 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 (2019: £16.2m).

The remaining 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 should they arise; and
- Customer and FOS complaints upheld rates – the number of claims redressed as a percentage of total claims received.

22 Provisions (continued)

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.

23 Share capital

		2020	2019
		Issued and fully paid	Issued and fully paid
Ordinary shares of £1 each	**- £m**	**124.2**	124.2
	- number (m)	**124.2**	124.2

There are no shares issued and not fully paid at the end of the year (2019: no shares)

24 Share-based payments

PF plc operates the following equity-settled share schemes: the Restricted Share Plan (RSP) and associated Company Share Option Plan (CSOP), the Long Term Incentive Scheme (LTIS), employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)), and the Deferred Bonus Plan (DBP) (formerly known as the Performance Share Plan or "PSP"), where shares in the ultimate parent company are available to the employees of the Company. In 2015, the Company introduced a cash settled scheme, the Vanquis Equity Plan (VEP) for eligible employees based on a percentage of salary. This scheme was discontinued in 2018.

During 2020, awards/options have been granted under the DBP, RSP, LTIS and SAYE schemes (2019: LTIS and SAYE).

(a) Equity-settled schemes

The credit to the income statement during the year was £nil (2019: credit £nil) for equity-settled schemes. The fair value per award/option granted and the assumptions used in the calculation of the equity settled share-based payment charges are as follows:

				2020			2019
	RSP/CSOP	**PSP/DBP**	**LTIS**	**SAYE**	PSP	LTIS	SAYE
Grant date	**09-Nov-20**	**30-Mar-20**	**30-Mar-20**	**07-Oct-20**	01-Apr-19	01-Apr-19	08-Oct-19
Share price at grant date (£)	**2.73**	**2.02**	**2.02**	**2.19**	5.17	5.17	3.87
Exercise price (£)	**-**	**-**	**-**	**1.82**	-	-	3.23
Shares awarded / under option	**562,668**	**64,330**	**1,091,377**	**1,014,769**	16,491	477,372	569,429
Vesting period (years)	**3**	**3**	**3**	**3 and 5**	3	3	3 and 5
Expected volatility	**68.2%**	**85.0%**	**85.0%**	**68.5%-76.0%**	74.1%	74.1%	68.0%-84.9%
Option life (years)	**3**	**3**	**3**	**Up to 5**	3	3	Up to 5
Expected life (years)	**3**	**3**	**3**	**Up to 5**	3	3	Up to 5
Risk-free rate	**-**	**-**	**0.13%**	**(0.1%)-(0.6%)**	-	0.66%	0.2%-0.3%
Expected dividends expressed as a dividend yield	**n/a**	**n/a**	**n/a**	**6.80%**	n/a	n/a	3.00%
Fair value per award/option (£)	**2.41**	**2.20**	**1.31**	**£0.71–£0.80**	5.17	4.69	£0.38–£0.76

The expected volatility is based on historical volatility over the last three or five years as applicable. 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.

24 Share-based payments (continued)

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

	RSP/CSOP		**LTIS**		**SAYE**		**PSP**	
2020	**Number**	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**
Outstanding at 1 January	**-**	**-**	**1,048,661**	**-**	**882,157**	**3.92**	**40,971**	**-**
Granted	**562,668**	**-**	**1,091,337**	**-**	**1,014,769**	**1.82**	**64,330**	**-**
Cancelled	**-**	**-**	**(952,324)**		**-**		**-**	
Lapsed	**-**	**-**	**(473,529)**	**-**	**(534,829)**	**3.75**	**(17,923)**	**-**
Exercised	**-**	**-**	**-**	**-**	**-**	**-**	**(6,557)**	**-**
Outstanding at 31 December	**562,668**	**-**	**714,145**	**-**	**1,362,097**	**2.42**	**80,821**	**-**
Exercisable at 31 December	**-**	**-**		**-**		**-**		**-**

	LTIS		SAYE		PSP	
2019	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	754,121	-	960,846	5.23	34,010	-
Granted	477,372	-	569,429	3.23	16,491	-
Lapsed	(182,882)	-	(646,306)	5.26	(4,159)	-
Exercised	-	-	(1,812)	5.01	(5,371)	-
Outstanding at 31 December	1,048,611	-	882,157	3.92	40,971	-
Exercisable at 31 December	-	-	1,554	17.60	-	-

Share awards outstanding under the LTIS scheme at 31 December 2020 had an exercise price of £nil (2019: £nil) and a weighted average remaining contractual life of 0.7 years (2019: 1.6 years).

Share options outstanding under the SAYE schemes at 31 December 2020 had exercise prices ranging from 182p to 375p (2019: 323p to 1,760p) and a weighted average remaining contractual life of 2.6 years (2019: 2.5 years).

Share awards outstanding under the DBP schemes at 31 December 2020 had an exercise price of £nil (2019: £nil) and a weighted average remaining contractual life of 2.0 years (2019: 1.0 years).

Share awards outstanding under the RSP at 31 December 2020 had an exercise price of £nil and a weighted average remaining contractual life of 2.9 years.

Shares outstanding under the CSOP at 31 December 2020 have an exercise price of £2.41 and a weighted average remaining contractual life of 2.9 years.

(c) Cash settled schemes

Cash awards were granted under the VEP to eligible employees that require the Company to pay amounts linked to a combination of salary, financial performance and share price performance of PF plc. The credit to the income statement in 2020 was £nil (2019: credit £0.5m) and the Company has a liability of £0.5m as at 31 December 2020 (2019: £0.5m).

25 Related party transactions

(a) Receipt of services from related parties

During the year, the Company paid £5.2m (2019: £5.2m) to its ultimate parent, PF plc, in relation to the provision of various head office and corporate services.

(b) Purchase and sales related party

In 2019, the Company purchased one tranche of charged off debt from a Group company, Provident Personal Credit Limited. £29.3m of debt was purchased for £1.2m with a purchase price of 4.1p per £1 of nominal value which reflected a market valuation. There were no purchases of charged off debt from related parties in 2020.

(c) Provision of debt collection services to related party, debt sale facilitation and referral fees

The Company provides collection and debt recovery services to fellow group companies, Provident Personal Credit Limited and Moneybarn Limited. The Company charged Provident Personal Credit Ltd £5.0m for these services in 2020 (2019: £6.9m) and charged Moneybarn Limited £1.0m in 2020 (2019: £0.1m).

(d) Loan to ultimate parent undertaking

In August 2020 the Company issued a 2 year £70m loan with a fixed interest rate of 6.25% p.a. to Provident Financial plc, the Company's ultimate parent. The loan matures in August 2022. Interest income on this loan was £1.7m during 2020.

(e) Related party balances outstanding

Details of the Company's related party balances outstanding (excluding loan to ultimate parent undertaking) at 31 December are set out below:

	2020 **£m**	2019 £m
PF plc	**(11.3)**	(8.3)
Provident Personal Credit Ltd	**(7.7)**	(13.4)
Provident Financial Management Services	**(1.8)**	-
Moneybarn Limited	**(2.1)**	0.3
Related party balances outstanding	**(22.9)**	(21.4)

26 Reconciliation of profit after taxation to cash generated from operations

	2020	2019
	£m	£m
Profit after taxation	**42.6**	138.6
Adjusted for:		
- tax charge	**8.1**	51.4
- finance costs	**31.4**	34.4
- interest income – gilts	**-**	(0.1)
- exceptional provision release	**(8.3)**	(16.2)
- share-based payment charge	**0.8**	0.2
- amortisation of intangible assets	**4.6**	3.3
- depreciation of property, plant and equipment	**2.7**	1.4
- depreciation of right of use asset	**5.0**	5.0
- loss on disposal of intangible assets	**0.6**	-
- loss on disposal of property, plant and equipment	**2.2**	
- impairment charge	**239.9**	198.9
- interest on lease liability	**1.1**	1.2
Changes in operating assets and liabilities:		
- amounts receivable from customers	**127.3**	(165.3)
- loan to ultimate parent undertaking	**(70.0)**	-
- trade and other receivables	**(11.3)**	5.7
- trade and other payables	**(21.1)**	(28.9)
- provision utilisation	**(0.7)**	(17.9)
Cash generated from operations	**354.9**	211.7

The movements in amounts receivable from customers of £127.3m (2019: (£165.3m)) includes the non-cash movement in the impairment provision of £239.9m (2019: £198.9m).

26 Reconciliation of profit after taxation to cash generated from operations (continued)

	2020	2019
	£m	£m
Cash movement in amounts receivable from customers	**367.2**	33.6
Non-cash provision movement – allowance account	**(239.9)**	(198.9)
Net movement in amounts receivable from customers	**127.3**	(165.3)

The table below details changes in the 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.

					2020
		Cash changes		**Non-cash changes**	
	1 January 2020	**Financing cash flows**	**Lease payments**	**Interest**	**31 December 2020**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowings (retail deposits)	**(1,345.2)**	**(342.1)**	**-**	**4.1**	**(1,683.2)**
Lease liabilities	**(47.6)**	**-**	**6.0**	**(1.1)**	**(42.7)**
Total	**(1,392.8)**	**(338.0)**	**6.0**	**(1.1)**	**(1,725.9)**

					2019
		Cash changes		Non-cash changes	
	1 January 2019	Financing cash flows	Lease payments	Interest	31 December 2019
	£m	£m	£m	£m	£m
Borrowings (retail deposits)	(1,431.7)	86.5	-	-	(1,345.2)
Lease liabilities	(54.0)	-	7.6	(1.2)	(47.6)
Total	(1,485.7)	86.5	7.6	(1.2)	(1,392.8)

27 Country-by-country reporting

The Company provides credit cards to underserved non-standard consumers and operates solely in the United Kingdom.

	UK
Number of employees (number)	1,402
Turnover (£m)	489.2
Pre-tax profit or (loss) (£m)	50.7
Corporation tax paid (£m)	25.5
Public subsidies received (£m)	-

28 Ultimate parent undertaking and controlling party

In December 2020, a new Group holding company, Provident Financial Holdings No.2 (PFH2), was incorporated. The Company was transferred from PF plc to PFH2 in exchange for shares in PFH2 at a premium. Following the transfer, the immediate parent undertaking of the Company was PFH2. On 3 February 2021, PFH2 was renamed to Provident Financial Holdings Limited.

The ultimate parent undertaking and controlling party is PF plc, a company incorporated in the United Kingdom, which is the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of PF plc may be obtained from the Company Secretary, PF plc, No.1 Godwin Street, Bradford BD1 2SU.

29 Contingent liabilities

Legal actions and regulatory matters

During the ordinary course of business, the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. In addition, there continues to be heightened claims management company activity, particularly in the non-standard lending sector in respect of irresponsible lending. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company 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 Company 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.

30 Events after the reporting date

On 28 January 2021, the Company issued secured notes collateralised by a portion of the credit card receivables book. This is initially a fully retained transaction, which means the Company will keep all of the notes issued and will not sell the notes publicly. The Company will use the notes as collateral, and it is intended that the notes will be placed with the Bank of England later in the year to support borrowings against the Sterling Monetary Framework (SMF) facilities. The transaction issued two classes of notes with an aggregate principal amount of £453m. The programme enhances the Company's ability to diversify its sources of funding.

In the March 2021 Budget, the Government announced that the mainstream corporation tax rate would increase to 25% from 1 April 2023. Revaluing the deferred tax balances at 31 December 2020 at the combined mainstream corporation tax rate and banking corporation tax surcharge rate of 33% to the extent they relate to temporary differences which are expected to reverse after 1 April 2023, gives rise to a tax credit of £3.5m. Note that the Government have announced a review into the banking corporation tax surcharge, which may lead to a reduction in the current 8% rate of surcharge. The results of the review will be announced in the Autumn of 2021 and legislated for in Finance Bill 2022.