PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

CONTENTS

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

DIRECTORS' REPORT

Provident Personal Credit Limited (the 'company') is a wholly-owned subsidiary of Provident Financial plc which, together with its subsidiaries, forms the Provident Financial group (the 'group'). The immediate parent to the company is Provident Financial Management Services Limited. Provident Financial plc is a public limited company, listed on the London Stock Exchange.

The following reporting requirements, 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 8); 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 6 to 10).

Principal activities
The principal activity of the company is to provide unsecured home credit loans to customers in the UK and Republic of Ireland. The company also provides unsecured online instalment loans to customers in the UK.

CCD operational review
In November 2020, the group communicated its intention to initiate an operational review of CCD. In response to evolving customer demand, changing home credit market dynamics and the desire to focus on larger market segments, on 10 May 2021 the group announced its intention to withdraw from the home credit market entirely and is considering a sale of this business. Further details on the CCD operational review are provided on page 15.

Due to the company's net liability position at the year-end, the ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for a period of at least twelve months from the date of approval of the financial statements.

Results
The statement of comprehensive income for the year is set out on page 22. The loss for the year of £124.7m (2019: loss of £44.2m) has been deducted from reserves.

Dividends
The directors are unable to recommend a final dividend in 2020 (2019: £nil).

Provident Financial plc waived the right in 2020 and 2019 to receive the 5.165% dividend on the preference shares issued in 2002 and the 5.84% dividend on the preference shares issued in 2004.

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:

M J Le May	Chairman
N Kapur	(Appointed 30 June 2020)
N L M Moore	(Appointed 30 April 2021)
H S Paton	(Appointed 30 December 2020)
C D Gillespie	(Resigned 28 August 2020)
E C Thornhill	(Resigned 18 November 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.

Financial risk management
The financial and capital risk management policies of the company are set out on pages 33 to 37.

Post balance sheet events
Post balance sheet events have been disclosed in note 28 of the accounts.

Employee involvement
The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company and group is encouraged as achieving 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.

Climate change
Disclosures are made in the annual report and financial statements of Provident Financial plc, which does not form part of this report, 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.

Equal opportunities
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.

Auditor information
In accordance with section 418 of the Companies Act 2006, each person who is a director at the date of this report confirmed that:

i) so far as he/she is aware, there is no relevant audit information of which the company's auditor is unaware; and
ii) he/she has taken all reasonable 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 auditor is aware of that information.

Auditor
Deloitte LLP will continue as auditor to the company for the next financial year.

BY ORDER OF THE BOARD

Neill Moore
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N L M Moore
Director
Bradford
19 July 2021

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

STRATEGIC REPORT

The company forms part of the Consumer Credit Division ('CCD') of Provident Financial plc and comprises Provident home credit and Satsuma. A full review of the business, results and future prospects of CCD is set out in the annual report and financial statements of Provident Financial plc, which does not form part of this report.

CCD operational review and Scheme of Arrangement

In November 2020, the group communicated its intention to initiate an operational review of CCD. In response to evolving customer demand, changing home credit market dynamics and the desire to focus on larger market segments, on 10 May 2021 the group announced its intention to withdraw from the home credit market entirely and is considering a sale of this business. Further details on the CCD operational review are provided on page 15.

On 15 March 2021, the group informed the market of its decision to launch a Scheme of Arrangement (the 'Scheme') to address the liability of ongoing customer complaints based on historic lending at CCD. Further details on the Scheme are provided on page 15.

Review of the business

The loss before taxation and exceptional items for the year increased by 78.2% to £85.9m (2019: loss of £48.2m). Exceptional items in 2020 of £66.5m (2019: £5.1m) relate to: £50.0m for the provision for customer claims under the CCD Scheme of Arrangement and £15.0m of costs to deliver the Scheme; £2.1m of redundancy costs following the removal of approximately 400 field roles in the UK field operation to reflect the reduction in customer numbers and receivables, and to more effectively align field roles with customer preferences; and an exceptional gain of £0.6m, offset against finance costs, relating to an additional interest credit on borrowings from the company's ultimate parent, Provident Financial plc following the tender and early redemption of the 2018 five-year-fixed-rate bond in August 2020. Exceptional items of £5.1m were incurred in 2019 in respect of costs associated with the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017.

The home credit business responded quickly to the challenges presented by Covid-19 by introducing several new ways of working in order to continue supporting customers. This included being able to offer lending and collections services on a fully remote basis including: taking repayments online, over the phone or via an Allpay card, managing loan applications remotely to new, existing or returning customers, offering Provident Direct and utilising central collections activity support with a particular focus on arrears and customers missing payments consecutively.

The home credit team implemented processes to help identify customers indicating that they have been impacted by Covid-19 and whose circumstances have changed as a result. At the end of June, there were c.8.5k customers identified which equated to around 3% of customers and 1% of receivables. By the end of December, this had fallen to c.5k, representing 2% of customers and 1% of receivables.

Financial performance

Key performance indicators for the company are detailed in the commentary below.

Customer numbers ended the period at 311,000, 40.4% lower than 522,000 last year, and comprised 263,000 in respect of the home credit business (2019: 386,000) and 48,000 in respect of Satsuma (2019: 136,000). Home credit customer numbers have fallen by 31.9% in 2020 driven by significantly reduced new customer bookings and 46.5% lower year-on-year issue volumes in home credit as a result of tighter underwriting standards and operational restrictions due to Covid-19, the latter particularly in the earlier stages of the pandemic. Satsuma customer numbers have fallen by 64.7% following the decision in Q2 2020 to pause lending on the high-cost short-term credit Satsuma book.

Total CCD receivables were £138.9m at the end of 2020 (2019: £249.0m), 44.2% lower than the end of 2019, and comprised £135.2m in respect of the home credit business (2019: £205.8m) and £3.7m in respect of Satsuma (2019: £43.2m). Home credit receivables have fallen by 34.3% in 2020 broadly in line with the reduction in customer numbers, driven by significantly lower issue volumes and higher impairment due to Covid-19. Satsuma receivables have reduced considerably in 2020 as lending to new and existing customers was paused in Q2 2020, alongside collection activity remaining strong throughout the period.

Financial performance (continued)

Revenue for the period of £191.5m (2019: £293.5m) has fallen by 34.8% in 2020, a modestly higher rate than the 33.0% reduction in the average receivable across the year. The revenue yield (revenue as a percentage of average receivables for the 12 months) of 115.6% in 2020 has reduced from 118.6% due to the significant reduction in the higher-yielding HCSTC Satsuma loan book in 2020. The net interest margin for the year of £185.6m (2019: £283.6m) was 34.6% lower than the prior year driven by the significantly lower revenue recognised in the period from the lower receivables and slightly lower yield.

Impairment for the year of £51.0m (2019: £99.6m) has reduced by 48.8%, better than the rate of reduction in average receivables, driven by the dynamics in both the home credit and Satsuma receivables books. Despite the significantly smaller book year-on-year, the home credit impairment charge increased, impacted by higher relative levels of write-off after the initial onset of Covid-19. The collect out of the Satsuma book during the year was stronger than initially anticipated and contributed to a significantly lower year-on-year impairment charge. As a result, the impairment rate at the end of December 2020 was 30.8% compared to 40.3% in the prior year with the impact of the lower Satsuma impairment outweighing the lower total average receivable for the year.

On a risk-adjusted basis, the net interest margin fell by 26.8% year-on-year to £134.6m (2019: £184.0m), with lower recognised revenue being partly offset by lower impairment. The risk-adjusted net interest margin as a proportion of average receivables increased to 81.2% in 2020 from 74.4% in 2019 driven by the lower impairment rate dynamics.

Operating costs increased by 20.9% to £287.0m in 2020 (2019: £237.3m). Operating costs before exceptional costs reduced by 5.3% to £219.9m in 2020 (2019: £232.2m). Expenses were reduced significantly year-on-year driven by lower salary costs following management action taken in 2019 and 2020 to reduce headcount, and savings realised across several other operating areas including travel, property, marketing and lower commission costs in the ROI business; the company also received significantly lower recharges from its immediate parent company, Provident Financial Management Services Limited (‘PFMS’) following the reduction in the cost base of PFMS in 2020 compared to 2019. The cost efficiencies were substantially offset by a significant increase in complaint costs, primarily from the UK home credit business, approximately £40m higher than 2019.

Regulation

In August, the FCA published the findings of a review into relending by firms that offer high-cost credit, which required businesses to ensure that relending did not lead to worse customer outcomes. At the same time, the Kerrigan vs. Elevate Credit (trading as Sunny) decision was published by the High Court which, in part, focused on affordability and creditworthiness procedures in place at Sunny, including repeat borrowing assessments.

After the period end, in February 2021, the initial findings of the Woolard Review were published. The recommendations include encouraging alternatives to high-cost credit, promoting better access to debt advice and that the FCA work with credit unions to expand their product offering. The group is reviewing the recommendations set out in the Woolard Review and will look to incorporate anything taken forward by the FCA. Importantly, the group’s new unsecured personal loan product will be a ‘mid-cost’ offering, in keeping with the suggestions of the Review’s recommendations.

On 2 March 2021, CCD was notified by the FCA enforcement team that it will be starting an investigation into the affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process in the period between 26 February 2020 and 11 February 2021. This is still at an early stage of investigation; a programme has been initiated to coordinate any requests from the FCA.

Principal risks and uncertainties

The company participates in the group-wide risk management framework of Provident Financial plc. Details of the group's risk management framework together with the group's principal risks and uncertainties are set out in the annual report and financial statements of Provident Financial plc, which does not form part of this report.

Statement regarding section 172 Companies Act 2006

Our purpose, as part of the Provident Financial group, is predicated on our customers and is underpinned by a number of strategic drivers and behaviours. These aim to deliver an appropriate balance between the needs of our customers, our regulators, investors and our employees, in order to ensure that we are successful and sustainable for all of our stakeholders. Our stakeholders are individuals or groups who have an interest in, or are affected by, the activities of our business and our key stakeholders are set out in the table below. We seek to engage with them regularly to ensure that we are aware of their views and concerns with regard to a wide range of issues and we do this in a number of ways, as detailed on this page and pages 7 to 10. By balancing the interests of our stakeholders, lending responsibly, contributing to wider society and ensuring the appropriate corporate governance arrangements are in place, we can seek to maintain a reputation for high standards of business conduct. You can read about how the group has generated and preserved value over the long term in the strategic report and review of business within the annual report and financial statements of Provident Financial plc, which does not form part of this report.

Our Stakeholders 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 was 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 • Continually reviewing the customer proposition • Monitoring performance against good customer outcomes • Considering the customer experience, customer contact strategy and customer journeys	• 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 levels and complaints • Customer affordability, vulnerability and persistent debt • Safeguarding our Customers' personal data • Clear and transparent customer communications • Policy suite pertaining to customers, processes and safeguards including, but not limited to: Anti Money Laundering ('AML'), Data Protection and Record Retention, Vulnerable Customers and Financial Promotions	• Adapted the business model to reflect a better understanding of customer needs • Accelerated the roll out of Provident Direct in the UK by Q1 2020 to meet rapidly changing customer needs • Oversaw the inception of a dedicated Complaints Model Office during 2020 to facilitate the timely and efficient processing of complaints and investigate root causes • Oversaw the progress of a programme of work undertaken to understand the feasibility and appropriateness of a Scheme of Arrangement for customer complaints • Remote lending and collections facilities to enable customers to safely make payments throughout the Covid-19 pandemic • Tightened credit underwriting reflective of the desire to lend responsibly through a period of unprecedented disruption • Designed and implemented enhanced policies in order to continue to best protect customers and their information

STRATEGIC REPORT (CONTINUED)

Our Stakeholders 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 was the impact of the engagement and/or consideration?)
Our shareholders The company is a wholly owned subsidiary of Provident Financial 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, its budget, its 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, our Blueprint • The group CEO and group CFO are members of the company Board • Reporting on financial performance, strategy and common accounting principles at group committee meetings • Budget and financial plan developed as part of wider group process • The Directors and CRO of the company participate in the group Executive Risk Committee to support alignment of risk strategy to group • The group has an aligned corporate governance framework and structure including complementary Delegated Authorities Manuals • The group has a centralised Corporate Responsibility team and a group-wide approach to CSR • Participation in the group credit underwriting review • The Directors and CRO participate in the group Executive Committee to support alignment of business model and strategy	• Strategy and long-term value creation • Culture • Financial and operational performance • Risk Management • Corporate Governance arrangements and alignment • Corporate Responsibility • Interactions with regulators	• Business model aligns with evolving regulatory expectations • Continued alignment and evolution of the business model with the group's vision and purpose • Operational review of CCD initiated, and concluded following the period end, in response to financial underperformance • Group approved budget and operational plan • Enterprise Risk Management Framework aligned to that of the group • Tightened underwriting standards in April 2020 aligned with the group Risk Appetite

Our Stakeholders 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 was 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.	• A group-wide colleague survey was carried out during the year together with additional Covid-19 specific surveys • A workforce panel consultation was undertaken to establish Covid-19 secure working environment and practices • Our Designated Group Non-Executive Director Colleague Champion 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 remote roll-out during the year and included hosted discussion panels • Group recognition platform, 'Better Everyday' to help create a culture where we say 'thank you' or 'well done' to colleagues who demonstrate our Blueprint behaviours • A confidential externally facilitated whistleblowing line is available for colleagues to raise concerns • Board oversight of policies that protect employees, their rights and their personal data • Gender pay gap report produced • Review of internal communications strategy	• 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 • Introduction of personal protective equipment to Customer Representatives to enable safe customer visits • Provision of Colleague Mental Health Toolkits for managers and the roll-out of the 'Thrive' mental health app across the group • Launch of the 'Be yourself' diversity and inclusion initiative including hosted discussion panels • Review of the whistleblowing process and output • Embedded mechanisms for colleague recognition 'Better Everyday' • The Board and Executive Management agreed a 20% pay reduction for a three month period whilst operations were impacted by Covid-19 related disruption • The purchase and distribution of equipment to enable colleagues to work from home • More frequent and broader types of colleague communications including regular Vlogs from the group CEO and company MD • Programme of work initiated to update the group and Divisional Intranets

STRATEGIC REPORT (CONTINUED)

Our Stakeholders 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 was 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 • The company participates in the group Customer, Culture and Ethics Committee at which group-wide community matters are discussed and overseen by the group Board • Group Board oversight of community matters and the approach to external engagement regarding the company's purpose and role in society	• Community contributions and charitable giving • Volunteering • Matched employee fundraising • Relationships with debt charities	• Group volunteering policy • Group approved approach to external engagement regarding the company's purpose and role in society • Matched employee charitable fundraising • The group 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.	• Board members and executive management engage proactively with regulators via regular face to face and telephone meetings • Proactive interaction with regulators on business and operational models and product design • Regulatory risk reporting, including horizon scanning, is carried out and reported to the company's dedicated Risk Committee and Board which is attended by the company CRO • Regulatory engagement and correspondence is reported to and discussed by the Board and escalated to the group Board as appropriate • Dialogue and engagement regarding current and potential products, customer outcomes and digitisation • Appropriate Risk Office structure and resource levels via the Risk Management Framework • Company CRO attends the group Executive Risk Committee	• Customer vulnerability and persistent debt • Our products, our potential products and digitisation • The company's Governance Framework • The company's regulatory capital level and wind down plan • Customer proposition improvements • Complaints levels and handling • Senior Management & Certification Regime (SM&CR) embedding and ongoing compliance • Culture and Blueprint	• The views of regulators and the regulatory environment have informed the business model updates and any amendments to our product offering during the year. • Enhanced oversight and monitoring of customer lending and collections processes • The implementation of wearable technology within the ROI field teams following discussion with the Central Bank of Ireland • Engaging with FOS on areas of mutual interest • SM&CR responsibilities mapped and policy embedded

STRATEGIC REPORT (CONTINUED)

Our Stakeholders 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 was 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 company policies • There are standardised contractual terms that we attempt to use with all of our suppliers to reduce contractual risks • The company is a signatory to the Prompt Payment Code, and we publish our Payment Practices Reporting at Companies House • There is a Supplier Relationship Management Framework in place which highlights supplier performance and enables joint roadmaps	• Prompt payment • Data protection • Information Security • CCO and Tax Evasion • Environmental issues • Supplier on-boarding process • Supplier performance • Delegated authorities • Anti-bribery and corruption • Modern Slavery • Conduct, behaviour and performance	• Signatories of the Prompt Payment Code • Compliance with SYSC regulations and European Banking Authority Outsourcing Guidelines
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 utilises and contributes to the group's Environmental Management System (EMS) • The company participates in the group Customer, Culture and Ethics 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 • Achievement of the Task Force on Climate Related Financial Disclosures objectives	• Group-wide reduced emissions targets resulting in a reduction in the group's scope 1 and 3 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 • Implementation of the Task Force on Climate Related Financial Disclosures objectives and recommendations

In making the following principal decision, the Board took into account its duties under s.172 of the Companies Act 2006:

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 and continued to adapt to the demands of the crisis as it evolved. Listed below are some of the key Covid-19 related matters discussed by the Board during the year. They demonstrate how the Board has integrated stakeholder considerations, including its duties under s.172 of the Companies Act 2006 into its deliberations and decision making. A Steering Group, at which Directors of the company were present, was incepted in February 2020 to plan for the potential impact of the Covid-19 pandemic on the group's colleagues and customers. The company communicated frequently with its key stakeholders including the regulator, colleagues, customers and the shareholder about changes that might impact them. These included changes to processes, new or adapted methods of engagement and the working environment.

In May 2020, the Board received a fulsome summary of management's Covid-19 decision making and an assessment of the key risks arising from it, what mitigations had been implemented and what mitigations were available to be implemented in the future. The Board considered in detail amongst other things: the amendments that had been made to customer journeys; the approach to lending to new and existing customers; areas where there might be potential for customer detriment; and colleague variable remuneration and associated colleague retention. The assessment covered critical risks such as credit risk, fraud and financial crime, customer service, regulatory risk and reputational risk. In noting and discussing the key risks and determining an approach to address them, the Board gave due and careful consideration of its stakeholders and duties under s172 of the Companies Act 2006 and reached conclusions which it believes are in the best interests of the company.

Customers
The Board monitored management's customer facing processes, including the transition of those relating to lending and collections to be fully remote, including: customer loan repayments taken over the phone; the processing of loan applications remotely; and the national roll-out of Provident Direct in the UK by the end of Q1 2020. The action taken by the company under the direction of the Board helped to ensure that customers were able to maintain their payments and therefore the status of their credit files, ensuring they had continued access to credit where appropriate. In doing so the Board acknowledged the group's common strategic purpose of 'helping put people on the path to a better everyday life'. The Board has met more frequently throughout the reporting period and has received comprehensive business and financial updates from management at each meeting. Updates to operational processes have been supported by both the group Internal Audit and Risk functions, who have completed reviews of proposed processes and controls and reported on their findings.

Colleagues
Board directors and executive management agreed 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 onwards and the Board received updates on the technological resources required to make this possible. 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 our existing Colleague Forums, and their terms of reference were updated to meet this requirement. The Board has received updates on colleagues' return to work strategy, including health and safety, planning and internal communications.

Suppliers
The company has continued to pay its suppliers promptly, thereby remaining signatories of the Prompt Payment Code and maintaining the group's reputation for high standards of business conduct.

Purpose and leadership
PPC's purpose, 'We help put people on a path to a better everyday life', is aligned with that of its parent company, Provident Financial plc (PF plc), is predicated on its customers and is underpinned by a number of strategic drivers and behaviours. PF plc follows the 2018 UK Corporate Governance Code and details of its compliance are reported within its 2020 Annual Report and Accounts (the "PF Annual Report"), which is available here: www.providentfinancial.com/shareholder-hub/results-reports-and-presentations/. The Board is focused upon delivering an appropriate balance between the needs of the Company's stakeholders, in order to ensure that PPC is successful and sustainable. By balancing the interests of our stakeholders, lending responsibly, contributing to wider society and ensuring the appropriate corporate governance arrangements are in place, PPC can maintain a reputation for high standards of business conduct.

PPC is a wholly-owned subsidiary of PF plc and its Board is comprised of experienced directors with key experience, knowledge and skills in the sector in which the company operates and in serving its target customers. Visibility, coordination and transparency between the PPC and PF plc is ensured by the PF plc CEO and CFO being members of the Board, the CEO also being the Chair. The company has an appropriate governance framework in place, including a Schedule of Matters Reserved for the Board, written Terms of Reference and a Governance Manual which codifies the company's governance arrangements. Delegated Authorities Manuals (DAMs) which cover the Consumer Credit Division (CCD) (incorporating PPC) and the wider PF plc group, set clear decision making expectations and clarity of authorities and responsibilities of the PPC Board and management.

PPC's relationship with its' employees is of vital importance to the company and workforce advisory panels are in place throughout the PF plc group, including the Consumer Credit Division, of which PPC forms a part. A group-wide survey was conducted in 2020. The results have been discussed by PF plc group and CCD leadership teams and an action plan formulated and overseen by key PPC directors and senior management. Changes delivered in the year have included improvements to employee health and safety; remote card readers for field-based colleagues and instant access to emergency services when in danger. Enhanced mechanisms for colleague recognition have been launched and are in operation. Furthermore, roadshows, weekly departmental meetings, use of a PF plc group-wide intranet, and also a specific CCD intranet, all help demonstrate to employees that they are respected and appreciated by the company. With regards to making sure feedback is not simply a 'once a year' event, the group has in place a group Non-executive Employee Champion who visits PPC sites and engages with colleagues, including via the CCD workforce panel, and delivers feedback to the PF plc group Customer, Culture and Ethics ("CCE") Committee Report, which is further explained in the PF plc Annual Report at page 131.

PPC operates under PF plc's cultural Blueprint, the aim of which is to unify colleagues around the PF plc group's and company's purpose and seeks to provides financial inclusion for the 1 in 5 UK adults who are not well served by mainstream lenders. The embedding of the PF plc group's strategic 'Blueprint' behaviours into the company's day to day operations formed a key part of the company's ongoing colleague performance development and review process for both directors and all colleagues. PPC utilises a balanced scorecard of Key Performance Indicators to measure its embedding of the Blueprint, and these are reported into and monitored by the PF plc group through its Customer, Culture and Ethics Committee.

PPC has in place a Whistleblowing Policy, Whistleblowing Forum and an external independent route for employees to raise any matters of concern. Whistleblowing reports are collated and reported to the PF plc group Board, with actions cascaded to PPC as appropriate. This process is sponsored by the group General Counsel and Company Secretary who is responsible for facilitating robust controls and comprehensive independent investigation of any reports made.

PPC's strategy is set at the company level, and is aligned overall with the group. The company's aim is to support customers to navigate their everyday life and provide opportunities for them to improve their credit rating. More information on PPC's purpose and strategy can be found within the PF plc Annual Report on pages 20 to 47.

Purpose and leadership (continued)
The nature of PPC's customer base and the market it specialises in has made the building and maintaining of open and trusting dialogue with policy makers and key regulators, the Financial Conduct Authority (FCA) and Central Bank of Ireland (CBI), critical for the long term success of the company. During 2020 the PPC Board engaged with the FCA in relation to adaptation made to its operations in response to the COVID-19 pandemic. The Board considered, and engaged with the FCA, regarding a programme of work undertaken to understand the feasibility and appropriateness of a Scheme of Arrangement for customer complaints arising from CCD's home credit business. See pages 15, 32 and 52 for more information regarding the Scheme of Arrangement.

For further information on how the PPC Board engages with its regulators and how it considered and supported its customers, please see the Section 172 statement on pages 6 to 11.

Board composition
The PPC Board's roles of Chair and CCD Managing Director (MD) are separate, with the group CEO being the Chair of PPC. The Board also normally comprises the CCD Finance Director (FD) and the group CFO, ensuring that there is the appropriate level of oversight for the size and complexity of the business, and reflecting the requirements of a company which is FCA and CBI regulated and a wholly-owned subsidiary of a group. The PPC Board is comprised of experienced directors with key experience, knowledge and skills in the sector in which the company operates and in serving its target customers and all Directors each demonstrate a strong knowledge of the business.

In order to ensure access to specialist knowledge, other attendees are invited to attend Board meetings as appropriate (including the Chief Risk Officer (CRO)). The Chair (group CEO) and group CFO's biographies are located on page 102 of the PF plc Annual Report.

There is a joint Audit and Risk Committee, the membership of which includes the group CFO (chair), MD, CRO and FD. The duties and responsibilities of this Committee are documented within its terms of reference and include monitoring the integrity of financial reporting, internal controls and risk management of PPC and advising the Board on whether internal controls and risks are sufficiently robust and appropriately managed.

The Board and Chair are supported by the group Company Secretariat who ensure that an appropriate agenda is set in consultation with the Chair, that directors have access to appropriate information and that there is sufficient time within meetings to enable meaningful discussion. In 2020 PPC held 11 Board meetings and four Audit and Risk Committee meetings. This is a higher number of Board meetings than typical, and this partly reflects both the Board's oversight of the company's response to the COVID-19 pandemic and also the Scheme of Arrangement mentioned above.

CCD, including PPC, has adopted and adhered to the group-wide policy on Equality, Diversity and Inclusion ('EDI'), which references both the Hampton-Alexander Review and the Parker Review targets. The group EDI policy recognises that Board diversity plays a key role in contributing to the group's success. The appointment of individuals to the roles that act as directors of PPC are based on their employee roles, and the recruitment of employees is based on merit taking due consideration of diversity.

PPC undertakes a regular functional talent review for employees. This includes assessing colleagues' skills and identifying any key skill gaps, an assessment of successors and a key action log exploring team wide interventions and longer term goals. The outcome is considered by PPC leadership and also forms part of the wide PF group talent management process which is reported to the PF plc Nomination Committee. PPC has participated in wider PF group initiatives on diversity including: the group Women in Leadership Programme, which seeks to aid female colleague progression throughout the group and their influence throughout their respective entity; 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.

Director responsibility
To ensure that all the Board and individual directors continue to have a clear understanding of their accountability and responsibilities, on appointment new PPC directors are provided with training materials on their directors' duties, including those under section 172 of the Companies Act 2006.

The CCD and group DAMs are in place which clearly set out approval limits and document the appropriate hierarchy of decision making at the company and group level. Further to this, there is a company specific Governance Framework and Governance Manual that are subject to internal audit review to assess their effectiveness.

The Board has in place a schedule of matters reserved for its decision and Board and committee terms of references. Senior Management Function Statements of Responsibilities and a Management Responsibilities Map are in place in compliance with the Senior Managers and Certification Regime.

A PF group-wide enterprise risk management framework is in place, which PPC applies alongside its own risk appetite to ensure Directors have appropriate oversight of risk through the Audit and Risk Committee and Board, please see below for more information. Furthermore, PPC complies with PF Corporate Policies and attested to this during the year. In addition PPC has a suite of risk policies, compliance with which is monitored by its risk and internal audit functions and overseen by the Audit and Risk Committee.

With regards to Conflict of Interests, PPC's Conflict of Interests register is maintained by the group Company Secretariat and care is taken to accurately reflect those conflicts which arise due Directors being on the board of more than one group company.

Group Company Secretariat support the Board and Chair on all governance matters, including providing timely Board and Committee agendas. Board papers are preceded by an executive summary and enhancements to the standards of reports to the Board have been made during the year, including through the inclusion of s.172 considerations in the standardised reporting templates used in PPC and across the group.

Opportunity and risk
Sustainability and the ability to create an environment for the business where growth and success are prevalent is important to the Board of PPC. The company prepares a budget, approved by the Board, and embedded within which are the assumptions made within the Board approved strategy and plan. The Budget satisfies the requirements of the company and aligns with that of the group. For more information on PPC's strategy, please refer to pages 20 to 47 of the PF plc Annual Report.

The Audit and Risk Committee is responsible for overseeing PPC's risk management and adherence to the company's risk appetite, and received regular reporting on risk from the PPC Chief Risk Officer, including key risk indicators by which the company's adherence to its Risk Appetite is measured. Risk ownership in PPC is defined by role and risk owners report into the CRO who, in turn, reports into the Audit and Risk Committee and Board. The Risk Management report involves the use of a Risk Map whereby all latest changes are highlighted accordingly to predetermined risk grading and RAG status. Internal audit reports are considered and findings and action closure rates discussed. Risk reporting is reviewed within Board meetings and aggregated and aligned with that of the group for onward reporting to the Board of PF plc. Furthermore there is a PF plc group Risk Committee and, outside of the formal governance structure a meeting between the Chief Risk Officers of each subsidiary and the group Risk Committee Chair. For further information on Provident Financial plc's three lines of defence model, please see the Risk Committee Report in the PF Annual Report at pages 138 to 140.

During the year the Audit and Risk Committee and Board oversaw the impact of the COVID-19 pandemic on the company's risks and the actions plans implemented to address those risks. The impact on colleagues, customers and conduct was included as part of this review.

CCD operational review and Scheme of Arrangement
In November 2020, the group communicated its intention to initiate an operational review of CCD, to be carried about by Hamish Paton, Managing Director, and his team. In the context of Covid-19, rising customer complaint volumes driven by Claims Management Companies (CMCs) and evolving customer choice dynamics, it was clear that CCD needed to evolve its business model in order to keep providing sustainable returns to shareholders.

On 15 March 2021, the group informed the market of its decision to launch a Scheme of Arrangement (the 'Scheme') to address the liability of ongoing customer complaints based on historic lending at CCD. The £65m cost of claims and related costs under the Scheme has been recorded as a provision in 2020 (comprising £50m remediation and £15m of costs to administer the Scheme). On 22 April 2021, the High Court made an order enabling CCD to convene a meeting of Scheme creditors to consider the merits of the Scheme. CCD customers, past and present, as well as the Financial Ombudsman Service (FOS), now have the opportunity to vote on the Scheme. The creditors meeting will be held on 19 July 2021 and, if creditors vote in favour of the Scheme, the final Court sanction hearing will be held on 30 July 2021.

In response to evolving customer demand, changing home credit market dynamics and the desire to focus on larger market segments, on 10 May 2021 the group announced its intention to withdraw from the home credit market entirely and is considering a sale of this business. The home credit business has been placed into a managed run-off, which is expected to conclude by December 2021. The business expects to manage the IT infrastructure and support service expenditure lower as the receivables book falls. At the end of March 2021, CCD had approximately 2,100 employees and an internal consultation for these employees started on 10 May 2021. It is anticipated that the cost to the group of placing the business into managed run-off or disposing of CCD will be up to c.£100m.

The group will leverage its existing expertise to expand its unsecured personal loan product. The new loan offering will be a 'mid-term, mid-cost' product and will take into account the most recent sector regulation whilst catering much more closely to modern customer requirements.

Remuneration
PPC is a wholly owned subsidiary of Provident Financial plc and as such remuneration levels for colleagues are set within the group framework. The group Remuneration Committee sets the bonus policy, overall annual salary budgets (within which PPC can set annual salaries) and share scheme awards. The Remuneration Policy, applicable to group NED's and Executive Directors, is determined by its parent company and details of the policy can be found within the Directors Remuneration Report within the PF Annual Report. The group Remuneration Committee also oversee the remuneration of the CCD MD, PPC's Chair and group CFO as they are group Senior Management.

The remuneration of the wider workforce is discussed as part of the budgeting process and is aligned to performance through the performance management framework, both in terms of what colleagues achieve and how they achieve it, desired culture and business performance. Remuneration as a whole is benchmarked against the wider market so as to appropriately remunerate PPC's employees in order to retain talent and the progression of the business.

Stakeholder Relationships
The Board of PPC is dedicated to maintaining meaningful and productive engagement with its key stakeholders. PPC used a wide variety of methods during the year to engage with its stakeholders and reporting is considered at the most appropriate forum, whether this be at the company or group level. For further information regarding PPC's stakeholder engagement, please refer to pages 70 to 90 of the Strategic Report in the PF Annual Report.

Going concern

The company is fully funded through intercompany loan facilities made available indirectly by the ultimate parent company, Provident Financial plc, through the intermediate holding company, Provident Financial Holdings Limited. As a result, the ability of the entity to continue as a going concern is dependent on the ability and intent of its ultimate parent to continue to make funds available to enable the company to meet its liabilities as they fall due.

In assessing whether the group is a going concern, the directors have reviewed the group's reforecast, as approved in May 2021, which includes capital and liquidity forecasts, on detailed projections for 2021 to 2023. This assessment has included consideration of the group's principal risks and uncertainties, focusing on capital and liquidity, and the likelihood of these risks materialising into losses.

CCD has suffered financial difficulties since 2016. Whilst there are a number of reasons for the poor financial performance, three key factors have led to its recent decline: i) Covid-19 lockdowns; ii) the increasing number of customer complaints for loans which may have been incorrectly issued; and iii) reduced customer access to new loans following the tightening of regulatory requirements.

In November 2020, the group communicated its intention to initiate an operational review of CCD. Following the review, which highlighted reducing customer demand, changing home credit market dynamics and the desire to focus on larger addressable market segments, the group has now decided to withdraw from the home credit and high-cost short-term credit markets entirely.

The group has therefore decided that the home credit business will be placed into a managed orderly run-off, which would be expected to conclude by December 2021. It is, however, considering a sale of the home credit business, either as a whole or in part, and has received a preliminary expression of interest. Whilst there is no guarantee that these discussions will lead to a transaction, the group will continue to engage with interested parties in parallel with its market withdrawal plans.

The regulatory dynamics set out above have changed the operating environment materially for CCD during the second half of 2020. When combined with the impact of Covid-19 on CCD's profitability, customer complaints can no longer be treated as part of its operating costs. As a result, CCD has decided to seek a Scheme of Arrangement, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from historical customer creditworthiness complaints.

The proposed Scheme is considered by the group Board to be the fairest compromise that can be offered to CCD customers and if the Scheme is not sanctioned, it is likely that the company will be placed into administration or liquidation. As the only other alternative, this creates a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. It is therefore appropriate to make full disclosure on the risk to the going concern status. The Board believes that it is unlikely that the proposed scheme of arrangement will not be sanctioned but the consequences of not being successful indicate the existence of a material uncertainty.

In addition, due to the company's net liability position at the year end, the ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for a period of at least twelve months from the date of approval of the financial statements. Accordingly the financial statements of the company have been prepared on a going concern basis of accounting with the material uncertainty as noted above. Further details on the basis of preparation are provided on page 25.

BY ORDER OF THE BOARD

N L M Moore
Director
Bradford
19 July 2021

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

DIRECTORS' RESPONSIBILITIES STATEMENT

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 are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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:

- properly select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PROVIDENT PERSONAL CREDIT LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Provident Personal Credit 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 loss 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 statement of comprehensive income;
- the balance sheet;
- the statement of changes in shareholder's equity;
- the statement of cash flows;
- the statement of accounting policies;
- the financial and capital risk management report; and
- the related notes 1 to 28.

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.

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the Statement of Accounting Policies, which indicate that if the proposed Scheme of Arrangement is not sanctioned it is likely that the company will be placed into administration or liquidation. As stated in the Statement of Accounting Policies, these events or conditions, along with the other matters as set out in the Statement of Accounting Policies, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PROVIDENT PERSONAL CREDIT LIMITED (CONTINUED)

Other information (continued)
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. 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.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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.

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- 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 regulation set by the Financial Conduct Authority.

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We discussed among the audit engagement team, including relevant internal specialists, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud to be in relation to the estimation of expected credit losses on loans to customers. Our specific procedures performed to address it are described below:

- 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.
- We challenged the appropriateness of using the historic cash collection curves to forecast future performance, with input from our credit risk modelling specialists. We identified that the Home Credit Division customers that were most likely to exhibit additional credit risk as a result of the current economic environment are those currently in employment, who may be at risk of being made redundant; and those who own their own home and may be exposed to interest rate changes. We challenged management to consider collections performance on these specific cohorts, and we assessed whether there was indication of any credit risks not already captured in the core model.
- We also challenged the completeness of the macroeconomic factors identified and incorporated into the model and challenged management's assessment that macroeconomic scenarios are not relevant for HCD.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:
- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PROVIDENT PERSONAL CREDIT LIMITED (CONTINUED)

Report on other legal and regulatory requirements

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.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Perkins (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
19 July 2021

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	2020 £m	2019 £m
Revenue	1	191.5	293.5
Finance income	2	14.2	12.6
Finance costs	3	(20.1)	(22.5)
Net interest margin		185.6	283.6
Impairment charges		(51.0)	(99.6)
Risk-adjusted net interest margin		134.6	184.0
Operating costs		(287.0)	(237.3)
Loss before taxation	4	(152.4)	(53.3)
Loss before taxation and exceptional items	4	(85.9)	(48.2)
Exceptional items	4	(66.5)	(5.1)
Tax credit	5	27.7	9.1
Loss and total comprehensive expense for the year attributable to the equity shareholder		(124.7)	(44.2)

All of the above operations relate to continuing operations.

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

BALANCE SHEET

As at 31 December	Note	2020 £m	2019 £m
ASSETS			
Cash and cash equivalents	9	1.7	8.3
Amounts receivable from customers	10	138.9	249.0
Trade and other receivables	12	140.7	217.2
Current tax assets		4.7	9.9
Property, plant and equipment	13	1.7	3.0
Right of use assets	14	0.2	0.2
Deferred tax assets	16	30.2	6.8
Total assets		318.1	494.4
LIABILITIES AND EQUITY			
Liabilities			
Trade and other payables	18	304.0	444.4
Lease liabilities	19	0.2	0.2
Provisions	20	88.4	-
Preference shares	21	0.3	0.3
Total liabilities		392.9	444.9
Equity attributable to the shareholder			
Share capital	22	71.5	71.5
Share premium		1.0	1.0
Share-based payment reserve		0.8	0.5
Retained losses		(148.1)	(23.5)
Total equity deficit		(74.8)	49.5
Total liabilities and equity		318.1	494.4

The financial statements on pages 22 to 58 were approved by the board of directors on 19 July 2021 and signed on its behalf by:

N L M Moore
Director

H S Paton
Director

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £m	Share premium £m	Share-based payment reserve £m	Retained earnings/ (losses) £m	Total £m
At 1 January 2019		71.5	1.0	0.4	20.7	93.6
Loss and total comprehensive expense for the year		-	-	-	(44.2)	(44.2)
Share-based payment charge	23	-	-	0.1	-	0.1
At 31 December 2019		71.5	1.0	0.5	(23.5)	49.5
At 1 January 2020		71.5	1.0	0.5	(23.5)	49.5
Loss for the year		-	-	-	(124.7)	(124.7)
Other comprehensive income:						
- exchange differences on translation of foreign operations		-	-	-	(0.1)	(0.1)
Other comprehensive income for the year		-	-	-	(0.1)	(0.1)
Loss and total comprehensive expense for the year		-	-	-	(124.8)	(124.8)
Share-based payment charge	23	-	-	0.5	-	0.5
Transfer of share-based payment reserve		-	-	(0.2)	0.2	-
At 31 December 2020		71.5	1.0	0.8	(148.1)	(74.8)

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2020 £m	2019 £m
Cash flows (used in)/generated from operating activities			
Cash generated from operations	26	(1.1)	5.6
Finance costs paid		(20.1)	(22.5)
Finance income received		14.2	12.6
Tax received		-	0.2
Net cash used in operating activities		(7.0)	(4.1)
Cash flows (used in)/generated from investing activities			
Purchase of property, plant and equipment	13	(0.2)	(0.9)
Proceeds from disposal of property, plant and equipment	13	0.6	2.7
Net cash generated from investing activities		0.4	1.8
Net decrease in cash, cash equivalents and overdrafts		(6.6)	(2.3)
Cash, cash equivalents and overdrafts at beginning of year		8.3	10.6
Cash, cash equivalents and overdrafts at end of year		1.7	8.3
Cash, cash equivalents and overdrafts at end of year comprise:			
Cash at bank and in hand	9	1.7	8.3
Total cash, cash equivalents and overdrafts		1.7	8.3

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

STATEMENT OF ACCOUNTING POLICIES

General information
The company is a private company limited by shares incorporated and domiciled in England. The address of its registered office is No. 1 Godwin Street, Bradford, West Yorkshire, BD1 2SU.

Basis of preparation
The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value. In preparing the financial statements, the directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the company's accounting policies.

Going concern
The company is fully funded through intercompany loan facilities made available indirectly by the ultimate parent company, Provident Financial plc, through the intermediate holding company, Provident Financial Holdings Limited. As a result, the ability of the entity to continue as a going concern is dependent on the ability and intent of its ultimate parent to continue to make funds available to enable the company to meet its liabilities as they fall due.

In assessing whether the group is a going concern, the directors have reviewed the group's reforecast, as approved in May 2021, which includes capital and liquidity forecasts, on detailed projections for 2021 to 2023. This assessment has included consideration of the group's principal risks and uncertainties, focusing on capital and liquidity, and the likelihood of these risks materialising into losses.

CCD has suffered financial difficulties since 2016. Whilst there are a number of reasons for the poor financial performance, three key factors have led to its recent decline: i) Covid-19 lockdowns; ii) the increasing number of customer complaints for loans which may have been incorrectly issued; and iii) reduced customer access to new loans following the tightening of regulatory requirements.

In November 2020, the group communicated its intention to initiate an operational review of CCD. Following the review, which highlighted reducing customer demand, changing home credit market dynamics and the desire to focus on larger addressable market segments, the group has now decided to withdraw from the home credit and high-cost short-term credit markets entirely.

The group has therefore decided that the home credit business will be placed into a managed orderly run-off, which would be expected to conclude by December 2021. It is, however, considering a sale of the home credit business, either as a whole or in part, and has received a preliminary expression of interest. Whilst there is no guarantee that these discussions will lead to a transaction, the group will continue to engage with interested parties in parallel with its market withdrawal plans.

The regulatory dynamics set out above have changed the operating environment materially for CCD during the second half of 2020. When combined with the impact of Covid-19 on CCD's profitability, customer complaints can no longer be treated as part of its operating costs. As a result, CCD has decided to seek a Scheme of Arrangement, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from historical customer creditworthiness complaints.

The proposed Scheme is considered by the group Board to be the fairest compromise that can be offered for CCD customers and if the Scheme is not sanctioned, it is likely that the company will be placed into administration or liquidation. As the only other alternative, this creates a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. It is therefore appropriate to make full disclosure on the risk to the going concern status. The board believes that it is unlikely that the proposed scheme of arrangement will not be sanctioned but the consequences of not being successful indicate the existence of a material uncertainty.

In addition, due to the company's net liability position at the year end, the ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for a period of at least twelve months from the date of approval of the financial statements. Accordingly the financial statements of the company have been prepared on a going concern basis of accounting with the material uncertainty as noted above.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

(a) The impact of new standards adopted by the company from 1 January 2020

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.

(b) 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.

Revenue
Revenue comprises interest income earned and represents the charge payable by the customer on the amount of credit advanced by the company. Revenue excludes value added tax.

Revenue recognition
Under IFRS 9, revenue on customer receivables is recognised using an effective interest rate. The effective interest rate is calculated using estimated cash flows, being contractual payments adjusted for the impact of customers who either repay early, to term or beyond term, but do not trigger the IFRS 9 default arrears stage during the full life of the loan. Directly attributable incremental issue costs are also taken into account in calculating the effective interest rate. Interest income is accrued on receivables using the original effective interest rate applied to either the loan's gross carrying amount or net carrying amount, dependent of the loan's credit risk status under IFRS 9 at the last reporting date, until revenue equal to the loan's original service charge has been fully recognised.

Revenue is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2 and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition at the company's interim or year-end balance sheet date.

Finance income
Finance income comprises interest income earned from the parent undertaking on intercompany loans.

Finance costs
Finance costs principally comprise the interest on intra-group loan arrangements, and are recognised on an effective interest rate basis.

Foreign currency translation
Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The company operates primarily in the UK and Republic of Ireland. The company's financial statements are presented in sterling, which is the company's functional and presentational currency.

Transactions that are not denominated in the company's functional currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the exchange rates ruling at the balance sheet date. Differences arising on translation are charged or credited to the statement of comprehensive income.

If a foreign operation were to be disposed of, the cumulative amount of the exchange differences arising on translation recognised in other comprehensive income would be recognised in the statement of comprehensive income when the gain or loss on disposal is recognised.

Amounts receivable from customers

All customer receivables are initially recognised at the amount loaned to the customer plus directly attributable incremental issue costs. After initial recognition, customer receivables are subsequently measured at amortised cost. Amortised cost is the amount of the customer receivable at initial recognition less customer repayments, plus revenue earned calculated using the effective interest rate, less any deduction for impairment.

Impairment provisions are recognised on initial recognition of a loan, and are adjusted in line with changes in credit risk through the life of the loan based on the credit risk stages within IFRS 9: Financial Instruments. For certain loans the presumption of 30 days' contractual arrears in respect of the definition of significant increase in credit risk and 90 days' contractual arrears for the definition of default has been rebutted. This is supported by historical data which supports payment recency as a better indicator of the degree of impairment than overall past days due.

Home credit business

- Stage 1 – Accounts at initial recognition and customers who have either not missed a payment or missed the equivalent of only 1 payment in the last 12 weeks. The expected loss is based on the full lifetime credit loss adjusted for the 12 month probability of default, based on historic experience.
- Stage 2 – Accounts which have suffered a significant deterioration in credit risk, and have missed the equivalent of either 2, 3 or 4 payments in the last 12 weeks. The expected loss is based on the full lifetime credit loss, based on historic experience.
- Stage 3 – Accounts which have defaulted, i.e. have missed the equivalent of 5 or more payments in the last 12 weeks. The expected loss is based on the full lifetime credit loss, based on historic experience.

Within the home credit business, the impairment provision is calculated on a portfolio basis by reference to customer arrears stages and risk grade at the balance sheet date and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate applicable to the products and based on the actual duration profile. Subsequent cash flows are regularly compared to estimated cash flows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

Satsuma

- Stage 1 – Accounts at initial recognition and customers who are not in contractual arrears. The expected loss is based on the full lifetime credit loss adjusted for the 12 month probability of default, based on historic experience.
- Stage 2 – Accounts which have suffered a significant deterioration in credit risk, and have missed 1 monthly contractual payment. The expected loss is based on the full lifetime credit loss, based on historic experience.
- Stage 3 – Accounts which have defaulted, i.e. have missed 2 or more monthly contractual payments. The expected loss is based on the full lifetime credit loss, based on historic experience.

Within the Satsuma business, the impairment loss is calculated on an agreement level basis by reference to customer arrears stages and acquisition channel and is measured as the difference between the carrying value of the loans and the present value of estimated future cash flows discounted at the original effective interest rate. Subsequent cash flows are regularly compared to estimated cash flows to ensure that the estimates are sufficiently accurate for impairment provisioning purposes.

Within both businesses, there is no separate macro-economic overlay applied as the customers are not reflective of the wider economy as they are less indebted and are therefore not materially impacted by macro-economic factors.

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
Equipment (including computer hardware)	10 to 33.3	Straight-line
Motor vehicles	25	Reducing balance

The residual values and useful economic lives of all assets are reviewed, and adjusted if appropriate, at each balance sheet date.

All items of property, plant and equipment 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 and operating costs in the statement of comprehensive income.

Depreciation is charged to the statement of comprehensive income as part of administrative and operating 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.

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 effective interest rate 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 statement of comprehensive income and presented within finance costs and administrative and operating costs respectively.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Borrowings
Borrowings are recognised initially at fair value, being 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 statement of comprehensive income over the expected life of the borrowings using the effective interest rate.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Dividends
Dividend distributions to the company's shareholder are recognised in the financial statements when approved by the company's shareholders.

Retirement benefits
Defined benefit pension schemes:
The company participates in the Provident Financial Staff Pension Scheme, a multi-employer scheme, sponsored by Provident Financial plc. As there is no contractual agreement for charging the company a portion of the defined benefit costs of the plan as a whole, the company recognises their cash contributions on an accruals basis.

Defined contribution pension schemes:
For defined contribution schemes the amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Share-based payments
Equity-settled schemes:
The company grants options under employee savings-related share option schemes (typically referred to as Save As You Earn schemes (SAYE)). The scheme is equity-settled.

The cost of providing options and awards to company employees is charged to the statement of comprehensive income 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 providing 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. 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.

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

Cancellations by employees of contributions to the group's SAYE plans are treated as non-vesting conditions and the group 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 statement of comprehensive income.

Cash-settled schemes:
The company also previously granted awards under the Provident Financial Equity Plan (PFEP) to eligible employees based on a percentage of their salary. The cost of the awards is based on the performance conditions of divisional profit before tax and share price growth or TSR growth compared to a comparator group. The scheme is cash settled.

The cost of the award is charged to the statement of comprehensive income 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.

Exceptional items
Exceptional items are costs 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 results.

Taxation
The tax entries represent 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 substantively enacted by the balance sheet date. Taxable profit differs from profit before taxation as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the future.

Taxation (continued)
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, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Critical accounting assumptions and key sources of estimation uncertainty
In applying the accounting policies set out above, the company makes judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions that affect the reported amounts of assets and liabilities. The estimates and assumptions are based on historical experience, actual results may differ from these estimates.

Amounts receivable from customers
Critical accounting assumptions:
The company reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purposes of assessing the impairment of customer loans and receivables, customers are categorised into IFRS 9 stages and cohorts which are considered to be the most reliable indication of future payment performance. The company makes assumptions to determine whether there is objective evidence that credit risk has increased significantly which indicates that there has been an adverse effect on expected future cash flows. In the home credit business, credit risk is assumed to increase significantly when the cumulative amount of two or more weekly payments have been missed in the previous 12 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly. In Satsuma, a significant increase in credit risk is deemed to be when one contractual monthly payment has been missed.

Key sources of estimation uncertainty:
The level of impairment is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage, and are regularly tested using subsequent cash collections to ensure they retain sufficient accuracy. The impairment models are regularly reviewed to take account of the current economic environment and recent customer payment performance. However, on the basis that the payment performance of customers could be different from the assumptions used in estimating future cash flows, a material adjustment to the carrying value of amounts receivable from customers may be required.

Sensitivity analysis of the company’s main assumptions are set out in note 10.

Critical accounting assumptions and key sources of estimation uncertainty (continued)
Provision for complaints of irresponsible lending and the Scheme of Arrangement
Provisions have been created in 2020 against ongoing customer claims of irresponsible lending of home credit (£23.4m). Further provisions were recognised following the year end, for the cost of customer claims under the resulting proposed Scheme of Arrangement, (the 'Scheme') which will provide remediation of £50m, plus estimated costs of delivering the settlement (£15m).

Key judgements made in calculating the provisions recognised are:

- The level of founded claims which have been received and would be due remediation in future based on recent experience of valid claims;
- The proportion of irresponsible lending claims which may be upheld both internally and by the FOS;
- The average redress payments paid to customers both internally and by the FOS;
- Both claims received prior to the Practice Statement Letter (PSL) but not determined at the point of issue of the PSL and claims received after the PSL is issued, are expected to be covered by the Scheme of Arrangement remediation; and
- The Scheme will be approved by creditors. This judgement has been made through consultation with advisors who are familiar with dealing with similar Schemes. This is therefore deemed to be the probable outcome.

Past experience is used as a predictor of future judgments. Management apply overlays, where necessary, dependent on the nature and circumstances, considering where past experience may not be indicative of future settlements.

Key sources of estimation uncertainty are:

- The level of remediation payable for irresponsible lending claims in CCD. Management estimates the level of claims which may be agreed with customers prior to the Practice Statement Letter (PSL) being issued. These claims are expected to be remediated in full. There is significant uncertainty around the level of valid claims which will be remediated prior to the issuance of the PSL due to the volume of unfounded claims received through CMCs;
- The level of remediation payable under the Scheme is only deemed to be an estimation uncertainty to the extent that the Scheme is approved by creditors. If approved, the £50m remediation which will be payable to customers is a fixed amount payable.
- The costs of delivering the Scheme of Arrangement represents management's estimate of costs contracted when the Practice Statement Letter was issued.
- Proportion of claims upheld. Significant developments have been made in 2020 in determining whether a home credit loan was issued irresponsibly. The provision at 31 December 2020, is based on past settlement volumes over the past 6 months and therefore may be misstated by changes in interpretation of irresponsible lending over time.

The impact of any future regulatory changes and CMC activity is not provided for as the outcome of which cannot be reliably estimated.

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

FINANCIAL AND CAPITAL RISK MANAGEMENT REPORT

Provident Personal Credit Limited (the 'company') is a wholly-owned subsidiary of Provident Financial plc which, together with its subsidiaries, forms the Provident Financial group (the 'group').

The overall group internal control and risk management framework is the responsibility of the group board with certain responsibilities in respect of internal control and risk management being delegated to various sub-committees who report directly to the board. An overview of the group's risk management framework can be found in the annual report of Provident Financial plc, which does not form part of this report.

The group operates with a centralised treasury function and therefore the funding requirements of the company are met wholly or partially via funding from Provident Financial plc or one of its subsidiaries. In addition, the allocation of capital is managed on a group basis by the centralised treasury function. Accordingly, it is inappropriate to consider the management of liquidity risk, interest rate risk, foreign exchange risk, market risk and capital risk on a stand-alone company basis.

(a) Credit risk
Credit risk is the risk that the company will suffer loss in the event of a default by a customer or a bank counterparty. A default occurs when the customer or bank fails to honour repayments as they fall due.

(i) Amounts receivable from customers
The 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 £138.9m (2019: £249.0m).

Credit risk within CCD is managed by the Credit Forum, which meets at least eight times per year, and which is responsible for reviewing credit risk and performance of the portfolio and for making recommendations on credit model, lending and collections strategy changes, based on a majority vote, to the CCD Managing Director for approval.

Credit risk is managed using a combination of lending policy rules, credit scoring (including behavioural scoring), individual lending approval limits, central underwriting, affordability assessment processes, and a home visit in the home credit business to make a decision on applications for credit. The loans offered by the weekly home credit business are short term, typically a contractual period of around a year, with an average value of approximately £600.

Prior to the Covid-19 pandemic, loans were underwritten in the home by a field-based colleague based on consideration of any previous lending experience with the customer, affordability and the field-based colleague's assessment of the credit risk based on a completed application form and the home visit, in conjunction with central decisioning enhanced through the use of credit bureau data. During the Covid-19 pandemic significant adaptations were made to the home credit business lending process: lending to new customers was paused at start of the initial lockdown in March 2020 and recommenced in mid-May with remote disbursement and tighter scorecard cut-offs; for further lending to existing customers, remote disbursement was possible seven days after lockdown started, although product offerings were restricted on term length; alongside the tighter credit risk thresholds additional focus was placed on the affordability assessment in line with the nature of the government furlough scheme; adjustments were made in April to the percentage of income accepted for employed key workers/furloughed customers and lending to self-employed customers was restricted. Throughout the year all sales calls were recorded, ID and other documents verified via video and documents uploaded where required; affordability is reassessed by the field-based colleague each time an existing customer is re-served.

Prior to the Covid-19 pandemic, once a loan had been made, the field-based colleague typically visited the customer weekly, to collect payment. During the Covid-19 pandemic, the field-based colleague has maintained regular contact with the customer and has been able to offer collections services on a fully remote basis including: taking repayments online, over the phone or via an Allpay card, offering Provident Direct and utilising central collections activity to support with a particular focus on later-stage arrears.

(a) Credit risk (continued)

(i) Amounts receivable from customers (continued)

The field-based colleague is well placed to identify signs of strain on a customer's income and can moderate lending accordingly, managing loan applications on a fully remote basis. Equally, the regular contact and professional relationship that the field-based colleague has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This forbearance can be in the form of taking part-payments, allowing missed payments or other payment arrangements in order to support customers with their repayments. The home credit team implemented processes to help identify customers indicating that they have been impacted by Covid-19 and whose circumstances have changed as a result, with forbearance offered in line with FCA guidance.

Arrears management within the home credit business is a combination of central letters, text messages, emails, central telephony, and field activity undertaken by field management. This will involve a discussion with the customer to understand reasons for non-payment and to agree a suitable resolution, based on an affordability assessment where required.

The loans offered by the Satsuma business are short term, with a contractual period of between 3 and 12 months, or weekly equivalent, and an average value of around £370. The loans are underwritten using credit decisioning, enhanced with the use of external credit bureau data. An affordability assessment is performed on all lending decisions.

At the beginning of the Covid-19 pandemic in March 2020 all digital lending was restricted to existing customers only, with tighter thresholds applied to affordability. All applications were referred at the time to a central team of advisors to manually verify applications. In mid-May a decision was taken to stop all digital lending.

Satsuma collections processes are undertaken utilising the collections capabilities at Vanquis Bank. Contact Centre representatives are engaged at an early stage to optimise collections performance and work closely with customers and, for those customers whose circumstance have changed, representatives utilise their extensive range of forbearance measures, based on an affordability assessment where required.

(ii) Counterparty risk

The company's maximum exposure to credit risk on bank counterparties as at 31 December 2020 was £0.9m (2019: £0.7m).

Counterparty credit risk arises as a result of cash deposits placed with banks, central government and the use of derivative financial instruments with banks and other financial institutions which are used to hedge interest rate risk and foreign exchange rate risk. Counterparty credit risk is managed by the group's treasury committee and is governed by a board-approved counterparty policy which ensures that the group's cash deposits and derivative financial instruments are only made with high-quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, regardless of credit rating. This is linked to the group's regulatory capital base in line with the group's regulatory reporting requirements on large exposures to the Prudential Regulation Authority (PRA).

(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.

Liquidity risk is managed by the group's centralised treasury department through daily monitoring of expected cash flows in accordance with a board-approved group funding and liquidity policy. This process is monitored regularly by the group Treasury Committee.

(b) Liquidity risk (continued)

The group's funding and liquidity policy is designed to ensure that the group is able to continue to fund the growth of the business. The group therefore maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months. As at 31 December 2020, the group's committed borrowing facilities had a weighted average period to maturity of 1.5 years (2019: 2.2 years) and the headroom on these committed facilities amounted to £79.3m (2019: £69.1m).

The group is less exposed than other mainstream lenders to liquidity risk as the loans issued by the home credit business are of short-term duration (typically around one year), whereas the group's borrowings extend over a number of years. The group's current funding strategy seeks to maintain a secure funding structure by maintaining committed facilities to pre-fund the group's liquidity and funding requirements for at least the next 12 months, maintaining access to four main sources of funding comprising: (i) the syndicated revolving bank facility; (ii) external market funding; (iii) securitisation; and (iv) retail deposits. Headroom on the group's committed debt facilities together with available cash was £143.7m at 31 December 2020 together with ongoing access to the retail deposits programme in Vanquis Bank. There are no contractual maturities of the group's facilities until a scheduled maturity of a £65m bond in September 2021.

A maturity analysis of the undiscounted contractual cash flows of the group's bank and other borrowings, including derivative financial instruments settled on a net and gross basis, is set out in the annual report and financial statements of Provident Financial plc, which does not form part of this report.

Due to the company's net liability position at the year-end, the ultimate parent undertaking, Provident Financial plc, has confirmed its continued support for the company for a period of at least twelve months from the date of approval of the financial statements.

(c) Interest rate risk

Interest rate risk is the risk of potential loss through unhedged or mismatched asset and liability positions, which are sensitive to changes in interest rates. Primarily, the group is at risk of a change in external interest rates which leads to an increase in the group's cost of borrowing.

The group's exposure to movements in interest rates is managed by the Treasury Committee and is governed by a board-approved interest rate hedging policy which forms part of the group's treasury policies.

The group seeks to limit the net exposure to changes in interest rates. This is achieved through a combination of issuing fixed-rate debt and by the use of derivative financial instruments such as interest rate swaps.

A 2% movement in the interest rate applied to group borrowings during 2020 and 2019 would not have had a material impact on the group's profit before taxation or equity given that the group's receivables can be repriced over a relatively short timeframe. Further details of the interest rate risk management are detailed within the annual report and financial statements of Provident Financial plc, which does not form part of this report.

Key benchmark interest rates and indices, such as the London Interbank Offered Rate (LIBOR), are being reformed in favour of risk free rates such Sterling Overnight Index Average (SONIA) in the UK. LIBOR will be withdrawn at the end of 2021. The group currently only has LIBOR linked liabilities relating to the group's revolving credit facility and securitisation funding in Moneybarn. There is no impact to financial assets or our fixed rate liabilities, which are all on administered rates. The securitisation funding is expected to be refinanced in 2021 and will be priced based on SONIA. The revolving credit facility moved to SONIA benchmark for all new drawings after 31 March 2021. LIBOR reform is therefore not considered to have a material impact on the group.

(d) Foreign exchange rate risk
Foreign exchange rate risk is the risk of a change in foreign currency exchange rates leading to a reduction in profits or equity.

The group's exposure to movements in foreign exchange rates during 2020 arose from the home credit operations in the Republic of Ireland which are hedged by matching euro-denominated net assets with euro-denominated borrowings or forward contracts as closely as practicable.

To manage the foreign exchange rate risk within the home credit operations in the Republic of Ireland branch, it is policy to maintain the euro-denominated net asset or net liability position of the branch to a maximum of €600,000 at each month end. This is achieved through periodic repatriation of euro-denominated profits to the company, which the company can sell in exchange for sterling. To provide greater certainty as to the value at which these euro-denominated cash flows are converted to sterling, forward exchange rate contracts are placed by the group treasury function.

As at 31 December 2020, a 2% movement in the sterling to euro exchange rate would have led to a £0.4m (2019: £0.7m) movement in customer receivables with an opposite movement of £0.4m (2019: £0.7m) in external borrowings. Due to the natural hedging of matching euro-denominated assets with euro-denominated liabilities, there would have been a minimal impact on reported profits and equity of the company (2019: £nil).

Further detail of the foreign exchange rate risk management are detailed within the annual report and financial statements of Provident Financial plc, which does not form part of this report.

(e) Market risk
Market risk is the risk of loss due to adverse market movements caused by active trading positions taken in interest rates, foreign exchange markets, bonds and equities. The company's and group's corporate policies do not permit it or the group to undertake position taking or trading books of this type and therefore neither it nor the group does so.

(f) Capital risk
Capital risk is managed by the group's centralised treasury department. The group manages capital risk by focussing on capital efficiency and effective risk management. This takes into account the requirements of a variety of different stakeholders including shareholders, policyholders, regulators and rating agencies. A more detailed explanation of the management of capital risk can be found in the annual report and financial statements of Provident Financial plc, which does not form part of this report.

(g) 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 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 group has proven resilient during previous economic downturns due to the specialist business models deployed by its divisions which are tailored to serving non-standard customers. In addition, all four of the group's businesses – Vanquis Bank, Moneybarn, Provident home credit and Satsuma – have tightened underwriting over the last three years in advance of a potential weakening in the UK economy.

The group's only direct exposure to the EU is the home credit operation in the Republic of Ireland. This represents c.13% of the home credit business and is, therefore, relatively immaterial to the group as a whole. The foreign exchange exposure to the Republic of Ireland operation is hedged through a net investment hedge.

(g) Brexit (continued)
No effect is anticipated on Vanquis Bank'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. The group has engaged extensively with its lending banks throughout 2020 in response to the Covid-19 pandemic and the economic uncertainties both that and Brexit present. The group's lending banks are predominantly UK based, have supported the group for many years and have broader relationships through ancillary business such as transactional banking. In the event of a prolonged period of market disruption and the closure of debt capital markets, then the group has the ability to manage receivables growth and/or dividend flows.

The group has maintained regulatory capital headroom in excess of £100m, in line with the Board's risk appetite, in response to the Covid-19 pandemic. 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. Furthermore, the group has the ability to manage receivables growth and/or dividend flows to preserve capital.

PROVIDENT PERSONAL CREDIT LIMITED
(Company Number 00146091)

NOTES TO THE FINANCIAL STATEMENTS

1 Revenue

	2020	2019
	£m	£m
Interest income	191.5	293.5

2 Finance income

	2020	2019
	£m	£m
Interest receivable from parent undertaking	14.2	12.6

3 Finance costs

	2020	2019
	£m	£m
Interest payable to ultimate parent undertaking	20.7	22.5
Exceptional interest credit on borrowings from ultimate parent undertaking (note 4)	(0.6)	-
Total finance costs	20.1	22.5

In 2020 and 2019 Provident Financial plc waived the right to receive the 5.165% dividend on the preference shares issued in 2002 and the 5.84% dividend on the preference shares issued in 2004. The amount paid in 2020 was therefore £nil (2019: £nil).

4 Loss before taxation

	2020	2019
	£m	£m
Loss before taxation is stated after charging/(crediting):		
Depreciation of property, plant and equipment (note 13)	0.9	2.1
Profit on disposal of property, plant and equipment (note 13)	-	(0.2)
Operating lease rentals:		
- property	0.2	0.3
Depreciation of right of use assets (note 14)	0.1	0.1
Employment costs (prior to exceptional redundancy costs (note 8(b))	71.7	87.6
Exceptional items:		
- exceptional interest credit on borrowings from ultimate parent undertaking (note 3)	(0.6)	-
- restructuring costs	-	0.5
- redundancy costs (note 8(b))	2.1	4.6
- customer redress provision (note 20)	65.0	-
Impairment of amounts receivable from customers (note 10)	51.0	99.6

The exceptional gain of £0.6m relates to an additional interest credit on borrowings from the company's ultimate parent, Provident Financial plc following the tender and early redemption of the 2018 five-year-fixed-rate bond in August 2020.

The exceptional redundancy costs in 2020 of £2.1m relate to the removal of around 400 field roles in September 2020 in the UK field operation to reflect the reduction in customer numbers and receivables, and to more effectively align field roles with customer preferences.

The exceptional customer redress provision in 2020 of £65.0m relates to £50.0m for the cost of customer claims under the CCD Scheme of Arrangement and £15.0m of costs to deliver the Scheme.

4 Loss before taxation (continued)

The exceptional restructuring costs and redundancy costs in 2019 of £5.1m relate to costs associated with the ongoing turnaround of the home credit business following the migration to the employed operating model in July 2017.

Auditor's remuneration payable to Deloitte LLP in respect of the audit of the company's financial statements was £220,000 (2019: £200,000). Auditor's remuneration to Deloitte LLP in respect of other services was £nil (2019: £11,000).

5 Tax credit

Tax credit in the statement of comprehensive income	2020 £m	2019 £m
Current tax		
- UK	4.3	10.1
Deferred tax credit/(charge) (note 16)	22.6	(1.0)
Impact of change in UK tax rate	0.8	-
Total tax credit	27.7	9.1

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. During 2016, a further change was enacted which further reduced the mainstream 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 17% to the extent that the temporary differences on which deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances have been re-measured at 19%. A tax credit in 2020 of £0.8m (2019: £nil) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes. Movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19% (2019: 19%).

The rate of tax credit on the loss before taxation for the year is lower than (2019: lower than) the average standard rate of corporation tax in the UK of 19% (2019: 19%). This can be reconciled as follows:

	2020 £m	2019 £m
Loss before taxation	(152.4)	(53.3)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 19% (2019: 19%)	29.0	10.1
Effect of:		
- adjustment in respect of prior years	(0.2)	-
- impact of change in UK tax rate	0.8	-
- impact of permanent differences	-	0.1
- impact of write off of deferred tax assets	(0.1)	-
- impact of lower rates overseas	(1.8)	(1.1)
Total tax credit	27.7	9.1

5 Tax credit (continued)

The home credit business in the Republic of Ireland is subject to tax at the Republic of Ireland statutory tax rate of 12.5% (2019: 12.5%) rather than the UK statutory mainstream corporation tax rate of 19% (2019: 19%). In 2020, the home credit business in the Republic of Ireland made a loss (2019: loss) which can only be relieved against profits of the business in the Republic of Ireland at the 12.5% statutory tax rate rather than the 19% UK statutory tax rate. This gives rise to an adverse impact on the tax charge of £1.8m (2019: adverse impact of £1.1m).

6 Dividends

During the year ended 31 December 2020, the directors are unable to pay an interim dividend on the ordinary shares of the company (2019: £nil).

7 Directors' remuneration

The emoluments of the directors are paid by the immediate parent company, Provident Financial Management Services Limited, and recharged to the company as part of a management charge. This management charge also includes a recharge of administrative costs borne by the parent company on behalf of the company and it is not possible to identify separately the amount relating to each director's emoluments. The emoluments of these directors are disclosed in the financial statements of Provident Financial Management Services Limited.

During the year no directors exercised share awards under share incentive schemes (2019: none).

8 Employee information

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

	2020 Number	2019 Number
Administrative	17	36
Operations	1,834	2,430
Total	1,851	2,466
Analysed as:		
Full time	1,674	2,210
Part time	177	256
Total	1,851	2,466

(b) Employment costs

	2020 £m	2019 £m
Aggregate gross wages and salaries paid to the company's employees	60.5	75.9
Employer's National Insurance contributions	6.1	7.7
Pension charge (note 15)	4.7	3.9
Share-based payment charge (note 23)	0.4	0.1
Total employment costs prior to exceptional redundancy costs	71.7	87.6
Exceptional redundancy costs (note 4)	2.1	4.6
Total employment costs	73.8	92.2

8 Employee information (continued)

(b) Employment costs (continued)
All the above employee information excludes directors whose remuneration is paid by Provident Financial Management Services Limited. These costs are recharged to the company as a management recharge at the year end.

The pension charge comprises contributions to the defined benefit and stakeholder pension plan (see note 15).

The share-based payment charge of £0.4m (2019: £0.1m) relates to equity-settled schemes charge of £0.5m (2019: £0.1m) and cash-settled schemes credit of £0.1m (2019: £nil).

9 Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	1.7	8.3

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

Currency	2020 £m	2019 £m
Sterling	1.6	8.0
Euro	0.1	0.3
Total	1.7	8.3

10 Amounts receivable from customers

Receivables comprise £135.2m in respect of the home credit business (2019: £205.8m) and £3.7m in respect of Satsuma (2019: £43.2m).

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

	2020 £m	2019 £m
Gross amount receivable from customers	454.2	593.9
Allowance account	(315.3)	(344.9)
Reported amounts receivable from customers	138.9	249.0

10 Amounts receivable from customers (continued)

Amounts received from customers can be reconciled as follows:

	Stage 1	Stage 2	Stage 3	2020 Total
	£m	£m	£m	£m
Gross carrying amount				
At 1 January	155.9	36.0	402.0	593.9
New financial assets originated	160.7	3.4	-	164.1
Transfers due to changes in credit risk				
From stage 1 to stage 2	(13.0)	13.0	-	-
From stage 1 to stage 3	(58.2)	-	58.2	-
From stage 2 to stage 1	3.5	(3.5)	-	-
From stage 2 to stage 3	-	(18.9)	18.9	-
From stage 3 to stage 1	3.2	-	(3.2)	-
From stage 3 to stage 2	-	3.7	(3.7)	-
Write-offs	(0.2)	(0.3)	(80.5)	(81.0)
Recoveries	(299.3)	(41.5)	(76.9)	(417.7)
Revenue	123.4	25.7	42.2	191.3
Other movements	0.9	0.3	2.4	3.6
At 31 December	76.9	17.9	359.4	454.2
Allowance account				
At 1 January	(10.4)	(10.1)	(324.4)	(344.9)
Movements through statement of comprehensive income:				
New financial assets originated	(7.6)	(0.5)	-	(8.1)
Transfers due to changes in credit risk				
From stage 1 to stage 2	0.6	(0.6)	-	-
From stage 1 to stage 3	2.9	-	(2.9)	-
From stage 2 to stage 1	(0.5)	0.5	-	-
From stage 2 to stage 3	-	5.9	(5.9)	-
From stage 3 to stage 1	(0.9)	-	0.9	-
From stage 3 to stage 2	-	(1.1)	1.1	-
Remeasurements within existing stage	9.9	1.8	(54.6)	(42.9)
Total movements through statement of comprehensive income	4.4	6.0	(61.4)	(51.0)
Other movements:				
Write-offs	0.2	0.3	80.5	81.0
Other movements	-	-	(0.4)	(0.4)
Allowance account at 31 December	(5.8)	(3.8)	(305.7)	(315.3)
Reported amounts receivable from customers at 31 December	71.1	14.1	53.7	138.9
Reported amounts receivable from customers at 1 January	145.5	25.9	77.6	249.0

An increase of 1% of the gross exposure into stage 2 from stage 1 would result in an increase in the allowance account of £0.1m (2019: £0.3m) based on applying the difference between the coverage ratios from stage 1 to stage 2 to the movement in gross exposure.

There is no additional macroeconomic provision included in the allowance account for the company, consistent with the prior year, as the payment performance of home credit customers is not typically correlated to the wider economy as may be the case for prime customers.

10 Amounts receivable from customers (continued)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2019 Total £m
Gross carrying amount				
At 1 January	183.6	48.4	493.6	725.6
New financial assets originated	353.4	5.5	-	358.9
Transfers due to changes in credit risk				
From stage 1 to stage 2	(19.7)	19.7	-	-
From stage 1 to stage 3	(108.8)	-	108.8	-
From stage 2 to stage 1	5.4	(5.4)	-	-
From stage 2 to stage 3	-	(13.5)	13.5	-
From stage 3 to stage 1	4.4	-	(4.4)	-
From stage 3 to stage 2	-	2.9	(2.9)	-
Write-offs	(1.1)	(1.4)	(184.9)	(187.4)
Recoveries	(454.1)	(61.2)	(87.8)	(603.1)
Revenue	192.8	40.9	59.6	293.3
Other movements	-	0.1	6.5	6.6
At 31 December	155.9	36.0	402.0	593.9
Allowance account				
At 1 January	(12.0)	(12.9)	(408.2)	(433.1)
Movements through statement of comprehensive income:				
New financial assets originated	(31.5)	(0.7)	-	(32.2)
Transfers due to changes in credit risk				
From stage 1 to stage 2	3.2	(3.2)	-	-
From stage 1 to stage 3	2.8	-	(2.8)	-
From stage 2 to stage 1	(0.9)	0.9	-	-
From stage 2 to stage 3	-	2.0	(2.0)	-
From stage 3 to stage 1	(1.4)	-	1.4	-
From stage 3 to stage 2	-	(1.2)	1.2	-
Remeasurements within existing stage	28.3	3.6	(99.3)	(67.4)
Total movements through statement of comprehensive income	0.5	1.4	(101.5)	(99.6)
Other movements:				
Write-offs	1.1	1.4	184.9	187.4
Other movements	-	-	0.4	0.4
Allowance account at 31 December	(10.4)	(10.1)	(324.4)	(344.9)
Reported amounts receivable from customers at 31 December	145.5	25.9	77.6	249.0
Reported amounts receivable from customers at 1 January	171.6	35.5	85.4	292.5

10 Amounts receivable from customers (continued)

A breakdown of the gross receivable by internal credit risk rating below segments the credit risk rating on a basis aligned to the five credit risk grades in home credit. The Satsuma gross receivable is then consolidated on an aligned basis through use of a probability of write off assessment:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2020 Total £m
Very good	38.6	5.7	4.4	48.7
Good	15.6	4.2	7.4	27.2
Satisfactory	16.7	5.5	25.2	47.4
Lower quality	3.1	1.7	55.6	60.4
Below standard	2.9	0.8	266.8	270.5
Total	76.9	17.9	359.4	454.2

	Stage 1 £m	Stage 2 £m	Stage 3 £m	2019 Total £m
Very good	62.2	8.9	6.3	77.4
Good	23.2	6.7	10.4	40.3
Satisfactory	28.8	8.4	35.2	72.4
Lower quality	10.4	3.0	72.6	86.0
Below standard	31.3	9.0	277.5	317.8
Total	155.9	36.0	402.0	593.9

Internal credit risk ratings for home credit customers are assessed on a weekly basis derived from behavioural scores which are generated from three primary underlying behavioural scorecards which vary dependent on the length of a customer's time on book. The scorecards use a combination of application data, bureau data and the customer's performance since coming on to the book, to create a behavioural score which is then consolidated into one of five credit risk grades that therefore reflect the assessment of customer risk. These risk grades are used to determine decisioning on further lending to customers in conjunction with lending mandates, as well as being a variable in the expected loss assessment of a customer, as set out above.

An impairment charge of £51.0m (2019: £99.6m) in respect of amounts receivable from customers is reflected in impairment charges in the statement of comprehensive income.

The average effective interest rate for the year ended 31 December 2020 was 112% (2019: 125%).

The average period to maturity of the amounts receivable from customers is 5.9 months (2019: 5.7 months).

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

Currency profile of amounts receivable from customers	2020 £m	2019 £m
Sterling	120.6	215.5
Euro	18.3	33.5
Total	138.9	249.0

11 Financial instruments

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
	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets			
Cash and cash equivalents	1.7	-	1.7
Amounts receivable from customers	138.9	-	138.9
Trade and other receivables	140.7	-	140.7
Current tax assets	-	4.7	4.7
Property, plant and equipment	-	1.7	1.7
Right of use assets	-	0.2	0.2
Deferred tax assets	-	30.2	30.2
Total assets	281.3	36.8	318.1
Liabilities			
Trade and other payables	(304.0)	-	(304.0)
Lease liabilities	(0.2)	-	(0.2)
Provisions	-	(88.4)	(88.4)
Preference shares	-	(0.3)	(0.3)
Total liabilities	(304.2)	(88.7)	(392.9)

			2019
	Amortised cost £m	Non-financial assets/ liabilities £m	Total £m
Assets			
Cash and cash equivalents	8.3	-	8.3
Amounts receivable from customers	249.0	-	249.0
Trade and other receivables	217.2	-	217.2
Current tax asset	-	9.9	9.9
Property, plant and equipment	-	3.0	3.0
Right of use assets	-	0.2	0.2
Deferred tax assets	-	6.8	6.8
Total assets	474.5	19.9	494.4
Liabilities			
Trade and other payables	(444.4)	-	(444.4)
Lease liabilities	(0.2)	-	(0.2)
Preference shares	-	(0.3)	(0.3)
Total liabilities	(444.6)	(0.3)	(444.9)

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

12 Trade and other receivables

	2020 £m	2019 £m
Other receivables	1.6	1.4
Amounts owed by parent undertaking	131.0	200.0
Amounts owed by fellow subsidiary undertakings	7.9	15.6
Prepayments and accrued income	0.2	0.2
Total	140.7	217.2

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

The maximum exposure to credit risk of trade and other receivables 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.

13 Property, plant and equipment

	Equipment and vehicles	
	2020 £m	2019 £m
Cost		
At 1 January	7.8	13.6
Additions	0.2	0.9
Disposals	(1.3)	(6.5)
Transfers (to)/from other group undertakings	-	(0.2)
At 31 December	6.7	7.8
Accumulated depreciation		
At 1 January	4.8	6.7
Charged to the statement of comprehensive income	0.9	2.1
Disposals	(0.7)	(4.0)
At 31 December	5.0	4.8
Net book value at 31 December	1.7	3.0
Net book value at 1 January	3.0	6.9

The profit on disposal of property, plant and equipment in 2020 amounted to £nil (2019: profit of £0.2m) and represented proceeds received of £0.6m (2019: £2.7m) less the net book value of disposals of £0.6m (2019: £2.5m).

14 Right of use assets

	2020 £m	2019 £m
Cost		
At 1 January	0.3	0.3
Additions	0.1	-
At 31 December	0.4	0.3
Accumulated depreciation		
At 1 January	0.1	-
Charged to the statement of comprehensive income	0.1	0.1
At 31 December	0.2	0.1
Net book value at 31 December	0.2	0.2
Net book value at 1 January	0.2	0.3

All right of use assets relate to property leases.

15 Retirement benefits

The company's employees participate in both defined benefit and defined contribution pension schemes.

(a) Pension schemes - defined benefit
In order to provide its employees with a defined benefit pension, the company participates in the Provident Financial Staff Pension Scheme. The scheme is of the funded, defined benefit type and has been substantially closed to new members since 1 January 2003.

All future benefits in the scheme are now provided on a 'cash balance' basis, with a defined amount being made available at retirement, based on a percentage of salary that is revalued up to retirement with reference to increases in price inflation. This retirement account is then used to purchase an annuity on the open market. The scheme also provides pension benefits which were accrued in the past on a final salary basis, but which are no longer linked to final salary. The scheme also provides death benefits.

The scheme is a multi-employer scheme, sponsored by Provident Financial plc and, although the company participates in the scheme, there is no contractual agreement for charging the company a portion of the defined benefit costs of the plan as a whole. In accordance with IAS 19, 'Employee benefits', the company recognises the contributions payable in respect of its current employees in its individual financial statements, similar to the treatment of a defined contribution scheme. In 2020 these contributions amounted to £2.7m (2019: £1.5m). The expected contributions to the defined benefit pension scheme in the year ending 31 December 2020 are approximately £2.6m.

In accordance with IAS 19, the sponsoring company, Provident Financial plc, and the consolidated group, recognises the defined benefit cost and the retirement benefit asset in respect of the Provident Financial Staff Pension Scheme.

15 Retirement benefits (continued)

(a) Pension schemes - defined benefit (continued)

The retirement benefit asset reflects the difference between the present value of the group's obligation to current and past employees to provide a defined benefit pension and the fair value of assets held to meet that obligation. As at 31 December 2020, the fair value of the assets exceeded the obligation and hence a net pension asset has been recorded in the group's financial statements. The most recent actuarial valuation of the scheme was carried out as at 1 June 2018 by a qualified independent actuary. The valuation used for the purposes of IAS 19 'Employee benefits' has been based on the results of the 2018 valuation to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at the balance sheet date. Scheme assets are stated at fair value as at the balance sheet. The group is entitled to a refund of any surplus, subject to tax, if the scheme winds up after all benefits have been paid. As a result, the group recognises surplus assets under IAS 19.

In participating in a defined benefit scheme, the company is exposed to a number of risks, the most significant of which are as follows:

- Investment risk – the liabilities for IAS 19 purposes are calculated using a discount rate set with reference to corporate bond yields. If the assets underperform this yield a deficit will arise. The scheme has a long-term objective to reduce the level of investment risk by investing in assets that better match the liabilities.
- Change in bond yields – a decrease in corporate bond yields will increase the liabilities, although this will be partly offset by an increase in matching assets.
- Inflation risk – some of the liabilities are linked to inflation. If inflation increases then the liabilities will increase, although this will be partly offset by an increase in assets. As part of the long-term de-risking strategy, the scheme has increased its portfolio in inflation matched assets.
- Life expectancies – the scheme's final salary benefits provide pensions for the rest of members' lives (and for their spouses' lives). If members live longer than assumed, then the liabilities in respect of final salary benefits increase.

The retirement benefit asset disclosures relating to the group as a whole, as disclosed in the financial statements of Provident Financial plc, are shown below.

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

				Group
		2020		2019
	£m	%	£m	%
Equities	80.6	9	76.4	9
Corporate bonds	383.0	41	219.3	26
Fixed interest gilts	275.2	29	252.9	30
Index-linked gilts	192.7	21	284.8	34
Cash and money market funds	1.5	-	9.2	1
Total fair value of scheme assets	933.0	100	842.6	100
Present value of funded defined benefit obligations	(853.3)		(764.6)	
Net retirement benefit asset recognised in the balance sheet	79.7		78.0	

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

		Group
	2020	2019
	£m	£m
Fair value of scheme assets at 1 January	842.6	788.3
Interest on scheme assets	16.7	21.9
Actuarial movement on scheme assets	102.8	67.4
Contributions by the group	4.2	2.6
Net benefits paid out	(33.3)	(37.6)
Fair value of scheme assets at 31 December	933.0	842.6

15 Retirement benefits (continued)

(a) Pension schemes - defined benefit (continued)

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

	Group	
	2020	2019
	£m	£m
Present value of the defined benefit obligation at 1 January	(764.6)	(704.4)
Current service cost	(1.7)	(1.7)
Interest on scheme liabilities	(15.1)	(19.5)
Exceptional past service credit - plan amendment	(0.7)	-
Exceptional past service credit - curtailment credit	-	0.5
Actuarial movement - experience	4.3	0.1
Actuarial movement - demographic assumptions	(2.0)	19.9
Actuarial movement - financial assumptions	(106.8)	(97.1)
Net benefits paid out	33.3	37.6
Present value of defined benefit obligation at 31 December	(853.3)	(764.6)

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

	Group	
	2020	2019
	%	%
Price inflation - RPI	2.85	2.95
Price inflation - CPI	2.25	2.05
Rate of increase to pensions in payment	2.70	2.70
Inflationary increase to pensions in deferment	2.20	2.10
Discount rate	1.30	2.00

(b) Pension schemes - defined contribution

The group operates a stakeholder pension plan into which the company contributes a proportion of pensionable earnings of the member (typically ranging between 5.1% and 10.6%) dependent on the proportion of pensionable earnings contributed by the member through a salary sacrifice arrangement (typically ranging between 3.0% and 8.0%).

The group also operates a separate pension scheme for auto-enrolment into which the company contributes a proportion of qualifying earnings of the member of 1%.

The pension charge in the company's statement of comprehensive income represents contributions payable by the company in respect of these plans and amounted to £2.0m for the year ended 31 December 2020 (2019: £2.4m). No contributions were payable to the fund at the year end (2019: £nil).

The company made no contributions to personal pension plans in the year (2019: £nil).

16 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 is calculated in full on temporary differences under the balance sheet liability method. During 2015, reductions in corporation tax rates were enacted, reducing the mainstream UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and from 19% to 18% with effect from 1 April 2020. During 2016, a further change was enacted which further reduced the mainstream 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 17% to the extent that the temporary differences on which deferred tax was calculated were expected to reverse after 1 April 2020. At 31 December 2020, these deferred tax balances have been re-measured at 19%, and movements in deferred tax balances have been measured at the mainstream corporation tax rate for the year of 19% (2019: 19%). A tax credit in 2020 of £0.8m (2019: £nil) represents the statement of comprehensive income adjustment to deferred tax as a result of these changes. The movement in the deferred tax asset during the year can be analysed as follows:

Asset	2020 £m	2019 £m
At 1 January	6.8	7.8
Credit/(charge) to the statement of comprehensive income (note 5)	22.6	(1.0)
Impact of change in UK tax rate:		
- credit to the statement of comprehensive income	0.8	-
At 31 December	30.2	6.8

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	0.5	6.3	6.8	0.4	7.4	7.8
Credit/(charge) to the statement of comprehensive income	(0.1)	22.7	22.6	0.1	(1.1)	(1.0)
Impact of change in UK tax rate:						
- credit to the statement of comprehensive income	-	0.8	0.8	-	-	-
At 31 December	0.4	29.8	30.2	0.5	6.3	6.8

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, and 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.

17 Bank and other borrowings

Borrowing facilities principally comprise overdrafts which are repayable on demand. As at 31 December 2020, borrowings amounted to £nil (2019: £nil).

During 2020, the company no longer met the threshold to be classified as a material subsidiary of Provident Financial plc as set out in the respective agreements of the group's revolving credit facility and bonds issued under the £2bn Guaranteed Euro Medium Term Note Programme. In accordance with the provisions of the relevant agreements, the company was released from all obligations and ceased to be a Guarantor with effect from 17 December 2020.

18 Trade and other payables

	2020 £m	2019 £m
Amounts owed to ultimate parent undertaking	-	393.2
Amounts owed to intermediate holding company	292.1	-
Amounts owed to parent undertaking	-	27.5
Other payables including taxation and social security	5.6	2.7
Accruals	6.3	21.0
Total	304.0	444.4

The fair value of trade and other payables equates to their book value (2019: fair value equated to book value). The amounts owed to the ultimate parent undertaking, parent undertaking and fellow subsidiary undertakings are unsecured, due for repayment in less than one year and generally accrue interest at rates linked to LIBOR. The amounts owed to the intermediate holding company accrue interest linked to the monthly weighted average cost of funds of the ultimate parent plus a margin (see note 24).

19 Lease liabilities

A maturity analysis of the lease liabilities is shown below:

	2020 £m	2019 £m
Due within one year	0.1	0.1
Due between one and five years	0.1	0.1
Due in more than five years	-	-
Total lease liabilities	0.2	0.2

The total cash outflow for leases in the year amounted to £0.3m (2019: £0.4m) for the company, including short-term lease cash outflows of £0.2m (2019: £0.2m). At 31 December 2020, the company is also committed to £nil for short-term leases (2019: £nil).

20 Provisions

	2020 £m	2019 £m
At 1 January	-	-
Created in the year	45.5	-
Created in the year (scheme of arrangement)	65.0	-
Reclassified in the year	17.6	-
Utilised in the year	(39.7)	-
Released in the year	-	-
At 31 December	88.4	-
Analysed as:		
Complaints of irresponsible lending	23.4	-
Scheme of Arrangement	65.0	-
At 31 December	88.4	-

Complaints of irresponsible lending and the Scheme of Arrangement

The company has received significantly higher claims volumes in 2020 in respect of irresponsible lending of home credit loans. Some claims have been received directly from customers, although the majority have been received from Claims Management Companies (CMCs).

Claims are deemed to be irresponsible based on, what has become the Claims methodology under the Scheme. The methodology takes account of indicators of unaffordable lending such as the number and frequency of loans and other creditworthiness factors. The Scheme covers lending from 6 April 2007 to 17 December 2020.

£23.4m has been provided at 31 December 2020 for claims received for irresponsible lending. This reflects recent uphold rates and settlement values. The provision also assumes a settlement rate of customer claims to the Practice Statement Letter (PSL), being issued as part of the Scheme of Arrangement (the 'Scheme').

The company has decided to pursue the Scheme, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from complaints based on historic home credit lending prior to 17 December 2020 ('relevant claims') and has worked collaboratively with the FCA to get to this point.

If approved, the Scheme will remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline in February 2022. The successful implementation of a Scheme is deemed to be probable, but is subject to the approval of the requisite majority of customers with redress claims and the sanction of the Court. The objective of the Scheme is to ensure:

- all of our customers with redress claims are treated fairly and equally; and
- outstanding claims are treated consistently with all customers who submit a claim under the Scheme.

The group will fund legitimate Scheme claims with £50m and will cover further Scheme-related costs estimated at approximately £15m.

The uncertainty in respect of customer complaints for irresponsible lending, which was previously disclosed as a contingent liability, has been removed through the proposal of the Scheme. There is a chance of the proposed Scheme not being approved. If this were to happen, it is likely that CCD will be placed into administration or liquidation and CCD customers would then not be expected to receive any redress payment.

21 Preference shares

	2020 £m	2019 £m
Preference shares	0.3	0.3

		2020		2019	
		Authorised	Issued and fully paid	Authorised	Issued and fully paid
Preference shares of 1p each	**- £m**	0.3	0.3	0.3	0.3
	- number (m)	30.2	30.2	30.2	30.2

The 17,676,000 preference shares issued in 2002 had a right to a special dividend of £0.9909 per share in 2002, an annual coupon of 5.165% and a return on capital on a winding up of £0.01 per share.

The 12,523,000 preference shares issued in 2004 had a right to a special dividend of £0.9910 per share in 2004, an annual coupon of 5.84% and a return on capital on a winding up of £0.01 per share.

In 2020 and 2019 Provident Financial plc waived the right to receive the 5.165% dividend on the preference shares issued in 2002 and the 5.84% dividend on the preference shares issued in 2004. The amount paid in 2019 was therefore £nil (2019: £nil).

22 Share capital

		2020		2019	
		Authorised	Issued and fully paid	Authorised	Issued and fully paid
Ordinary shares of 25p each	**- £m**	99.8	71.5	99.8	71.5
	- number (m)	399.3	286.2	399.3	286.2

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

23 Share-based payments

Provident Financial plc operates five equity-settled share schemes: the Long Term Incentive Scheme (LTIS), the Restricted Share Plan (RSP), the Company Share option Plan Option (CSOP), employees' savings-related share option schemes typically referred to as Save As You Earn schemes (SAYE), and the Deferred Bonus Plan (DBP) (previously the Performance Share Plan (PSP)). Provident Financial plc also operates a cash-settled share incentive scheme, the Provident Financial Equity Plan (PFEP) for eligible employees based on a percentage of salary, no awards have been granted since 2018.

During 2019 and 2020, options have been granted under the SAYE scheme only.

(a) Equity-settled schemes
The charge to the statement of comprehensive income during the year was £0.5m (2019: £0.1m) for equity-settled schemes.

The assumptions to consider the appropriate fair values of options are outlined below:

23 Share-based payments (continued)

(a) Equity-settled schemes (continued)

	2020	2019
	SAYE	SAYE
Grant date	07-Oct-20	08-Oct-19
Share price at grant date (£)	2.19	3.87
Exercise price (£)	1.82	3.23
Shares awarded/under option (number)	650,843	493,135
Vesting period (years)	3 and 5	3 and 5
Expected volatility	68.5% to 76.0%	68.0% to 84.9%
Option life (years)	Up to 5	Up to 5
Expected life (years)	Up to 5	Up to 5
Risk-free rate	-0.01% to -0.06%	0.2% to 0.3%
Expected dividends expressed as a dividend yield	6.80%	3.00%
Fair value per award/option (£)	0.71 to 0.80	0.38 to 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.

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

	SAYE	
2020	Number	Weighted average exercise price £
Outstanding at 1 January	791,871	5.52
Granted	650,843	3.23
Lapsed	(463,349)	5.42
Exercised	(547)	6.35
Outstanding at 31 December	978,818	4.11
Exercisable at 31 December	-	14.18

	SAYE	
2019	Number	Weighted average exercise price £
Outstanding at 1 January	712,008	5.52
Granted	493,135	3.23
Lapsed	(412,763)	5.42
Exercised	(509)	6.35
Outstanding at 31 December	791,871	4.11
Exercisable at 31 December	1,882	14.18

Share options outstanding under the SAYE schemes at 31 December 2020 had exercise prices ranging from 182p to 1,707p (2019: 323p to 1,760p) and a weighted average remaining contractual life of 2.7 years (2019: 2.8 years).

23 Share-based payments (continued)

(b) Cash-settled schemes

Cash awards were previously granted under the PFEP to eligible employees that require the company to pay amounts linked to a combination of salary, financial performance and share price performance of Provident Financial plc. The credit to the statement of comprehensive income in 2020 was £89,000 (2019: credit of £12,000) and the company has a liability of £nil as at 31 December 2020 (2019: £89,000).

24 Related party transactions

Details of the transactions between the company and other group undertakings, which comprise management recharges and interest charges or credits on intra-group balances, along with any balances outstanding at 31 December are set out below:

	2020			2019		
	Management recharge £m	Interest charge £m	Outstanding balance £m	Management recharge £m	Interest charge £m	Outstanding balance £m
Ultimate parent undertaking	(0.1)	20.1	-	-	22.5	(393.2)
Intermediate holding company	-	-	(292.1)	-	-	-
Immediate parent undertaking	74.9	(14.2)	131.0	95.7	(12.6)	172.5
Other subsidiary of the ultimate parent undertaking	4.9	-	7.9	6.1	-	15.6
Total	79.7	5.9	(153.2)	101.8	9.9	(205.1)

The outstanding balance represents the gross intercompany balance receivable by/(payable to) the company.

In December 2020, a new group holding company, Provident Financial Holdings No.2 Limited (PFH2), was incorporated and the ultimate parent, Provident Financial plc, novated various loans to PFH2 which simplified the intercompany relationships across the group. As a result of this, revolving loan facilities of £329m have been provided to Provident Personal Credit Limited from PFH2 which will be reviewed every three months. On 3 February 2021, PFH2 was renamed Provident Financial Holdings Limited. The intercompany loans accrue interest linked to the monthly weighted average cost of funds of the ultimate parent plus a margin.

During the year, the company received collection and debt recovery services from Vanquis Bank Limited, a subsidiary of the ultimate parent undertaking. The company was charged £4.9m for these services in 2020 (2019: £6.1m).

During 2019, the company sold one tranche of charged off debt to a subsidiary of the ultimate parent undertaking, Vanquis Bank Limited, for £1.2m.

25 Contingent liabilities

(a) Challenge to self-employed status of UK home credit agents

It is understood from discussions with HMRC that they have commenced an industry wide review of the self-employed status of agents.

In July 2017, the group changed its home credit operating model in the UK from a self-employed agent model to an employed workforce to take control of all aspects of the customer relationship.

The group's discussions with HMRC, which are focusing on the period from when the FCA took over responsibility for the regulation of consumer credit in April 2014 to the change of operating model in July 2017, remain in the initial fact-finding stages. The group is working positively and collaboratively with HMRC and it is expected that the review could continue for at least another year.

Were the group to be unsuccessful in defending the historic self-employed position of agents, it may be required to pay additional taxes, in particular national insurance contributions, on the approximate £80m per annum commission it paid to agents in the UK for the years concerned. As discussions with HMRC remain in the preliminary stages and the group does not know the amounts of tax and national insurance contributions paid by agents through self-assessment which are available for offset, it is difficult to calculate an accurate liability should the group be unsuccessful in defending the position. HMRC has raised protective assessments which have all been appealed but these are purely a procedural matter to ensure that, in the event the review concludes that taxes are payable, HMRC can recover such amounts in respect of the oldest year that would otherwise drop out due to the lapse of statutory time limits.

The group has worked with HMRC over many years to manage employment status risk and it remains confident based on the advice received that agents were self-employed as a matter of law throughout their engagement by the home credit business.

(b) FCA investigation into home credit lending between February 2020 and February 2021

Provident Personal Credit was recently informed that the FCA has opened an enforcement investigation focusing on the consideration of affordability and sustainability of lending to customers, as well as the application of a FOS decision into the complaint handling process, in the period between February 2020 and February 2021.

The start of the investigation period relates to the FOS decision which was taken in February of last year. The appointment of investigators does not mean that the FCA has determined that rule breaches or any other contraventions have occurred. The FCA also continues to assess whether CCD is complying, and is likely to comply, with the standards it is expected to meet and the group's proposed approach to future lending as and when further details of such proposal are made available. CCD intends to work closely with the FCA in the coming months, including in relation to the investigation, which is unlikely to conclude until the end of 2022 at the earliest.

26 Reconciliation of loss after taxation to cash generated from operations

	Note	2020 £m	2019 £m
Loss after taxation		(124.7)	(44.2)
Adjusted for:			
- tax credit	5	(27.7)	(9.1)
- finance income	2	(14.2)	(12.6)
- finance costs	3	20.1	22.5
- share-based payment charge	23	0.4	0.1
- depreciation of property, plant and equipment	13	0.9	2.1
- profit on disposal of property plant and equipment	13	-	(0.2)
- depreciation of right of use assets	14	0.1	0.1
Changes in operating assets and liabilities:			
- amounts receivable from customers		110.1	43.5
- trade and other receivables		76.5	13.4
- trade and other payables		(131.0)	(10.0)
- provisions	20	88.4	-
Cash (used in)/generated from operations		(1.1)	5.6

27 Parent undertaking and controlling party

The immediate parent undertaking is Provident Financial Management Services Limited.

The ultimate parent undertaking and controlling party is Provident Financial 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 Provident Financial plc may be obtained from the Company Secretary, Provident Financial plc, No. 1 Godwin Street, Bradford, BD1 2SU.

28 Post balance sheet event

Scheme of arrangement
Provisions were recognised in CCD as at 31 December 2020, for a proposed Scheme of Arrangement which will provide remediation of £50m, plus estimated costs of delivering the settlement (£15m). The company has decided to pursue the Scheme, under Part 26 of the Companies Act 2006, in relation to potential redress claims arising from complaints based on historic home credit lending prior to 17 December 2020 (‘relevant claims’) and has worked collaboratively with the FCA to get to this point.

If approved, the Scheme will remediate all outstanding relevant claims, as well as new relevant claims received before the claims submission deadline in February 2022. The group will fund legitimate Scheme claims with £50m and will cover further Scheme-related costs estimated at approximately £15m, see note 20 for further detail.

Change in corporation tax rate
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 mainstream corporation tax rate of 25% to the extent they relate to temporary differences which are expected to reverse after 1 April 2023, gives rise to a tax credit of £7.6m.

28 Post balance sheet event (continued)

Operational review

Following the CCD operational review, and in response to evolving market and customer dynamics, the group has regrettably decided to withdraw from the home credit market entirely. The group intends to either place the business into a managed run-off or consider a disposal. It is anticipated that the cost to the group of placing it into managed run-off or disposing of CCD will be up to c.£100m which is not accrued in these financial statements. CCD began a collective consultation process for c.2,100 colleagues on 10 May 2021.